

KFS Client Update

Good morning. I hope this e-mail update finds everyone taking some time each day to enjoy this cooler weather and the changing leaves. Why? Because I'd rather you focus your short term energies on enjoying the beautiful outside versus looking at your portfolio values each day. By looking at your values daily, you are NOT going to change them - and - it is likely you will behave more emotionally and do something just as irrational as the current market swings.

Look, let's be frank. We know the markets are volatile right now and we know this is disconcerting to everyone...obviously. However, for as long as I can remember, we have promoted being long term stock market investors with time horizons of at least five years and preferably longer. Why? Because we know there are always short-term periods of irrational volatility that are beyond our control. In virtually every piece we write...we mention this simple fact. Invest for the long run...knowing short term dips occur...or don't invest at all. To date, I have been very proud of our clients and friends. You have asked excellent questions and the vast majority of you have remained fairly calm. Why? I believe it's because the vast majority of you are true long term investors...which makes it easier for us to do our jobs.

Over the next few months, our goals are very straight forward:

First, we are going to do everything we can to educate you about what's really happening on Wall Street. This means we are going to get you the right market data and the right commentary in a timely manner. To this end, we are going to send out regular updates every two weeks until we feel the markets have calmed down. In these updates we will provide our own commentary and/or we will point you towards outside articles that we think reinforce our message. Let me give you three examples...

1. This morning we will be sending out all our quarterly newsletters and your quarterly reports. This newsletter is longer than usual, but there are obviously a number of extenuating circumstances today that dictate a longer than normal message. Please read this newsletter from cover to cover...and call us if you have

- questions. We explain the current market and give all sorts of reasons (and data) as to why we believe this will be short lived and potentially profitable.
2. This morning, Warren Buffett wrote an Op-Ed piece for the NY Times. Go to www.nytimes.com and look up his article called “Be American. I am.” As long-term investors, he will give you plenty of reasons to dive into the market and buy now.
 3. On Monday, October 20th we will send out (via e-mail) Dr. Scott Below’s opinion piece called “Here be Dragons.” This piece ties in nicely with our current newsletter and explains why hedge funds “forced” selling has provided one of the best short term opportunities in years. We all know irrational short-term pricing exists. Right now, it exists on an epic scale, almost like shooting fish in a barrel. We’ll send out another update two weeks later on or around November 3rd.

Second, we are trying to do everything we can to make sure we encourage you to communicate with us regarding your questions and concerns. It is natural to fear the “unknown.” That’s why we want you to pick up the phone and/or log onto your computer and communicate with us. We have plenty of experience dealing with these types of issues and we have been through these types of dramatic dips before. Furthermore, we have done the market research which gives us excellent clues as to how this will play out. We believe if you use the same information we have at our disposal you’ll be less apt to react and more apt to find idle cash to invest. That said, Scott always refers to our money management approach as “evidence-based” investing. Why? Because all our investment advice is based on solid academic research...not faulty data. Frankly, we don’t like to see markets dip any more than you do, but we recognized why they occur and we use them as buying or rebalancing opportunities. Remember, we are here 24/7 to take your questions and/or calls. And we are happy to meet any time.

Third, over the next month or so, we will be proactively rebalancing all of our portfolios. Over the last few weeks, our managers have made significant changes to their individual holdings to take advantage of these fantastic buying opportunities. We will pro-actively rebalance portfolios, harvest “tax-losses” and position portfolios for the inevitable

market bounce-back. We did this in January with excellent results. We believe this current dip provides even better long term opportunities for our clients who remain focused on the long run. (Again, read our upcoming newsletter and read the NY Times article by Warren Buffett today).

Finally, we are going to refocus our efforts going forward and be more pro-active with our educational seminars. We believe this focus will give us an opportunity to reinforce our consistent long term message with our clients and the public on a more-timely basis. Over the past few years, we have focused most of our efforts on working with our current clients at the expense of doing more seminars. We are currently putting together a spring seminar schedule (which we will publish soon) and we are working on a new technology that allows people to watch our seminars and updates on-line. As educators, we look forward to getting back into the seminar swing.

Thank You:

As usual, I want to thank each of you for your continued confidence in our services. Our overall philosophy, which combines the best managers (and mutual funds) with research-driven asset allocation strategies, has provided excellent returns to all of us. As we go forward, we remain committed to continuing to refine and improve these proactive strategies. As always, our goal is to provide each of clients with the best possible mix of assets given their particular situation.

If you need anything or your goals or time horizons have changed, please do not hesitate to call or drop an e-mail to set up an appointment. We are here to serve your financial needs, whatever they may be. We thank you for your kind comments, your kind referrals and your feedback regarding this update.

Enjoy this wonderful fall weekend,

- Joe and the Gang at KFS