



Post Crisis Fundamental Investing

September 2010

Investment performance is ultimately evaluated based upon the success or failure over a discrete period of time. We encourage our investors to consider the longer-term for portfolio performance and to focus on operational results of businesses in the short and mid-term. Historically, the operational results of the companies we hold have been very closely correlated to the performance of our portfolios, whether it is short, mid or long-term. However, in the wake of the credit crisis and subsequent recession, global markets have been turbulent and sensitive to varying data points. Earlier in the year, markets surged and then retreated based upon information pertaining to sovereign credit profiles. More recently, markets have reacted dramatically in response to employment and manufacturing data. It is concerning that with each data point industry pundits are able to formulate diametrically contradicting conclusions. We believe this suggests, if nothing else, that the data is inconclusive and should not be taken as an absolute indicator. We further believe that it is crucial for investors to not only digest all of the information available, but also to distinguish between relevant events and market overreactions. Warren Buffett once suggested that when evaluating a business one should not bother to even monitor the market (stock) prices, so as to encourage analysis of the actual business and respective valuation absent the influence of often misleading market prices.

Similarly, the investments in our portfolios are all evaluated on an individual basis and monitored for operational results. It comes as no revelation to us that many of the holdings in our portfolios are forecasted to meet or exceed the peak earnings achieved in 2007. If we were told in late 2007 that our portfolio companies would have a temporary diminution in earnings in 2008-2009, yet regain peak profitability by 2010-2011 with substantially lower interest rates, we would have logically expected higher market prices. This is largely the case for the companies in the portfolios, yet many companies remain 30%-60% below the peak valuations seen in 2007. Further, in many cases the business prospects have improved for a variety of companies either through attrition of competition and/or product/geographic development. Thus, we remain steadfast in our conviction that the potential value of our portfolios is amongst the highest that we have had in the history of the firm.

On a capital allocation basis, we believe the opportunity set available for equity investments is far superior to that which is available in fixed income investments. Interest rates are extremely low, corporate balance sheet cash is at all time highs and existing businesses were able to survive one of the most treacherous periods in recent history. That said, there continue to be structural headwinds facing the U.S. economy and global economy at large. This will most likely impact markets unpredictably in the shorter-term, resulting in continued volatility. In anticipation of this, investors have flocked en masse to fixed income products, thereby driving yields down to levels that are less than average inflation over the past 50 years. As a result, investors have sold off equity allocations and equity markets now trade at a substantial discount to our evaluation of fair value.



We appreciate your continued confidence and would like to reiterate our conviction in the long-term prospects for the investments.

DISCLOSURES

Reference to our “Portfolios” includes the Kinetics Mutual Fund Family, comprised of Kinetics Paradigm Fund, Kinetics Small Cap Opportunities Fund, Kinetics Market Opportunities Fund, Kinetics Medical Fund, Kinetics Multi-Disciplinary Fund, Kinetics Global Fund, Kinetics Internet Fund, Kinetics Tactical Paradigm Fund and Kinetics Water Infrastructure Fund.

You should consider the investment objectives, risks, charges and expenses of the Funds carefully before investing. For a free copy of the Funds’ Prospectus, which contains risk, expense, strategy and other information, visit our website at www.kineticsfunds.com or call 1-800-930-3828. You should read the Prospectus carefully before you invest.

Past performance, where quoted, does not guarantee future results. You will be charged a redemption fee equal to 2% of the net amount of the redemption if you redeem or exchange your shares less than 30 days after you purchase them. As non-diversified Funds, the value of the shares may fluctuate more than shares invested in a broader range of companies.

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