

- Advisor Class A (KNPAX)
- Advisor Class C (KNPCX)
- No Load Class (WWNPX)
- Institutional Class (KNPYX)

- Portfolio Management Team  
Team Managed  
Peter Doyle,  
Chief Investment Strategist  
Paul Mampilly,  
Co-Portfolio Manager

### ➤ Advisor Class A

Inception Date 04/26/01  
CUSIP # 494613854  
Max Sales Charge 5.75%  
Front-end  
12b-1 Fee 0.25%  
♦Gross Expense Ratio **1.98%**  
\*Net Expense Ratio **1.89%**

### ➤ Advisor Class C

Inception Date 06/28/02  
CUSIP # 494613821  
12b-1 Fee 0.75%  
♦Gross Expense Ratio **2.48%**  
\*Net Expense Ratio **2.39%**

### ➤ No Load Class

CUSIP # 494613607  
♦Gross Expense Ratio **1.73%**  
\*Net Expense Ratio **1.64%**

### ➤ Institutional Class

Inception Date 05/27/05  
CUSIP # 494613797  
♦Gross Expense Ratio **1.68%**  
\*Net Expense Ratio **1.44%**

♦Gross expense ratios for No Load Class, Advisor Class A, Advisor Class C and the Institutional Class are reported as of 12/31/09 and referenced in the 12/31/09 respective annual report.

\*Net expense ratios listed for No Load Class, Advisor Class A, Advisor Class C and Institutional Class are stated as of 6/30/10 and may include a voluntary expense waiver from the Investment Adviser which may be terminated at any time, the application of directed brokerage credits, and/or the application of other waivers.

### ➤ Fund Facts

- Total Net Assets \$1.1 billion
- Minimum Purchase \$2,500

### ➤ Portfolio Statistics

- Weighted Average Market Cap. (\$mil): \$22,298
- Holdings in the Portfolios: 157

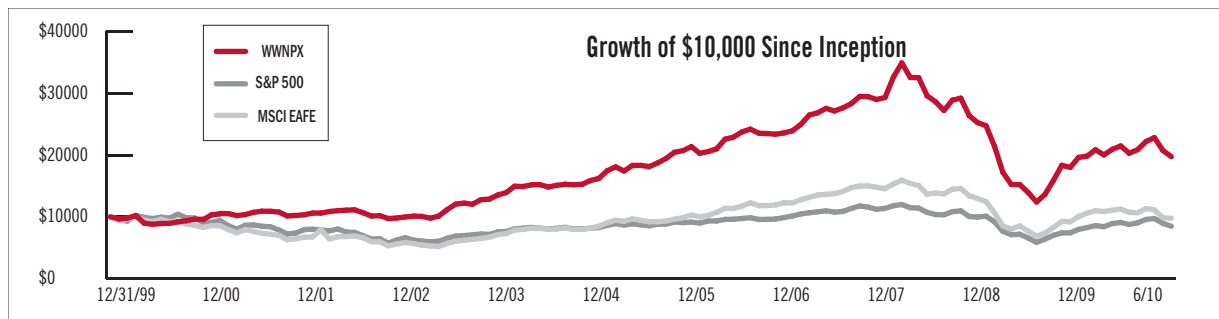


# The Paradigm Fund

as of 6/30/10

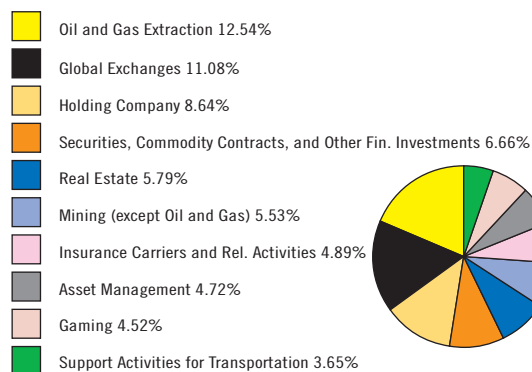
## Portfolio Strategy

In seeking long-term capital appreciation, the investment team focuses on common stocks that it believes to be undervalued at the time of purchase, relative to their economic worth. A fundamental principle is to regard our positions as representing fractional ownership in the underlying companies' assets, rather than simply holding stock certificates that are traded based on arcane technical criteria.



This chart illustrates the performance of a hypothetical \$10,000 investment made in No Load Class shares commencement of operations (12/31/99). It assumes reinvestment of capital gains and dividends. This chart is not intended to imply any future performance.

### Top 10 Sector Allocation<sup>†††</sup>



### Historic Total Return (No Load Class)

Data as of June 30, 2010

	Total Returns	S&P 500 Index	MSCI EAFE Index
2010 YTD	-8.03%	-6.65%	-13.23%
2009	41.02%	26.46%	31.78%
2008	-53.17%	-37.00%	-43.38%
2007	21.14%	5.49%	11.17%
2006	27.81%	15.79%	26.34%
2005	16.11%	4.91%	13.54%
2004	20.93%	10.88%	20.25%
2003	47.77%	28.68%	38.59%
2002	-4.62%	-22.10%	-15.94%
2001	2.02%	-11.89%	-21.44%
2000	4.00%	-9.10%	-14.17%



Kinetics Mutual Funds, Inc.  
We Do Our Research

### Top 10 Equity Holdings<sup>†</sup>

	Symbol	% of Total Net Assets
Hong Kong Exchange	388 HK	6.6%
Leucadia National Corp.	LUK	3.3%
Intercontinental Exchange, Inc.	ICE	3.0%
Brookfield Asset Management Inc. - Class A	BAM UA	2.9%
Canadian Oil Sands Trust	COS-U CN	2.9%
Wynn Resorts, Limited	WYNN	2.8%
Berkshire Hathaway Inc. - Class A	BRK/A	2.7%
Franco Nevada Corp.	FNV CN	2.6%
Suncor Energy, Inc.	SU	2.4%
Canadian Natural Resource Ltd.	CNQ	2.4%

Equity holdings are subject to change, and may not be indicative of actual market position due to the use of call and put options.

<sup>†</sup>As of 6/30/10, holdings are expressed as a percentage of total net investments and may vary over time.

### Quarterly Total Return (No Load Class)

Data as of June 30, 2010

	Total Returns	S&P 500 Index	MSCI EAFE Index <sup>††</sup>
Three Month <sup>**</sup>	-10.98%	-11.43%	-13.97%
One Year *	9.64%	14.43%	5.92%
Three Year*	-12.48%	-9.81%	-13.38%
Three Year **	-32.95%	-26.64%	-35.01%
Five Year*	0.30%	-0.79%	0.88%
Five Year**	1.49%	-3.91%	4.46%
Ten Year*	8.27%	-1.59%	0.15%
Ten Year**	121.36%	-14.79%	1.46%
Since Inception* <sup>^</sup>	6.69%	-1.55%	-0.24%
Since Inception** <sup>^</sup>	97.45%	-15.15%	-2.49%

\*Annualized \*\* Non-Annualized/ Cumulative

<sup>^</sup>The Paradigm Fund No Load Class inception date is 12/31/99. Performance data quoted represents past performance and does not guarantee future results. Figures include changes in principal value, reinvested dividends and capital gains distributions. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. Call 1-800-930-3828 or visit us at [www.kineticsfunds.com](http://www.kineticsfunds.com) for the most current performance data. Current performance may be lower or higher than the performance data quoted. Performance data does not reflect the deduction of the sales load or fee.

<sup>††</sup>One year, 3 year, 5 year, 10 year, since inception, and historical total returns (where applicable) are with dividends reinvested.

<sup>†††</sup>The Top 10 Sectors displayed represent a percentage of the net assets and excludes cash equivalents and other assets in excess



# The Paradigm Fund

as of 6/30/10



Kinetics Mutual Funds, Inc.

## Market Commentary

The Kinetics Paradigm Fund ("Fund") (No-Load Class) declined by 10.98% for the second quarter of 2010, compared with declines of 11.43% for the S&P 500 Index and 13.97% for the MSCI EAFE Index. If not for our comprehension that the markets can experience seemingly inexplicable short-term movements, we would be completely bewildered by current valuations. Thus, rather than getting into the minutia of the Fund, we will look at equity markets in general with specific reference to companies owned by the Fund.

During the past 10 years, the price of the S&P 500 has dropped by 20%, even as per-share earnings have risen by 45%. Moreover, this has occurred in an environment of declining interest rates. Today, Treasury yields have declined to a mere 3%, while the P/E ratio on the S&P 500 companies is only about 13.6x. Ordinarily, when interest rates decline, stock valuations rise, so marginal capital should have been attracted to stocks. Yet, it fled. What can be said about this? First, in terms of value available today, while it would take about 24 years to earn back one's principal investment in a 10-year U.S. Treasury – and 18 years in High Grade Corporate Bonds – it would require only 10 years to do so in stocks. Second, market valuations are even lower than they appear. On a simple equal-weighted basis, consensus earnings estimates for the S&P 500 Index for 2010 suggest a current P/E ratio of 13.6x. Of these 500 companies, 147, representing almost 40% of the market value of the index, have a P/E ratio of 10x or lower. That's an earnings yield of 10%.

Here are four companies that trade at approximately 1x book value:

Leucadia National	1.0x	Sears Holdings	0.8x
Berkshire Hathaway	1.3x	Loews Corp	0.8x

Each of these companies has produced rather outstanding long-term returns. For instance, while the S&P 500 Index book value per share during the decade since March 2000 has grown from \$298 to \$527 at an annualized rate of 5.8%, these companies with one exception have achieved double- or near-double-digit financial returns. If the economic and financial environments continue to be restrained, such that little or no external growth is available, such companies should still produce at least a 10% rate of return. First, the mere repurchase of shares at book value would serve to produce an internally generated per-share growth rate of 10%. Alternatively, if the environment for weaker companies is harsh, because of the absence of growth opportunities or access to external capital, then stronger companies with access to capital can more readily expand their market share or acquire it – in either case, conditions that weaken lesser competitors become fruitful for stronger competitors. Businesses do not succeed despite challenges, but because of challenges – because they cope.

Accordingly, we would suggest that there are now two levels of return opportunity being made available, and they are multiplicative. The first level is that companies such as those above, as well as other portfolio holdings, are better placed to prosper from this point forward than in the past for the very reason that investors' fears of the equity markets have lowered the clearing prices of all sorts of businesses and assets that they might acquire. This company-level opportunity for enhanced return on capital is magnified yet further by the opportunity for the individual investor to purchase shares of these companies, also at a discount – in this case at liquidation value. Such are the opportunities that have been created. The fear of bubbles and of equities, and the thirst for stability, has paradoxically created a return-on-capital opportunity in equities that is now in the double-digit range and on a relative historical basis superior to that offered in bonds. That prospective return on capital is only earned, though, on a compounded basis over an extended period of time – the results can be remarkable if husbanded in that fashion, but that compounding can be completely obscured by short-term fluctuations in the valuation multiples that investors pay for those earnings. The only reliable way to capture that return, for capital properly allocated to equities, is for the capital to remain invested.

We appreciate your confidence and believe you will be rewarded for it.

The Kinetics Investment Team

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***You should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. For a free copy of the fund's prospectus, which contains this and other information, visit our website at [www.kineticsfunds.com](http://www.kineticsfunds.com) or call 1-800-930-3828. You should read the prospectus carefully before you invest.***

These opinions are not intended to be a forecast of future events, or a guarantee of future results, or investment advice. The views expressed herein may change at any time subsequent to the date of issue hereof.

*Past performance does not guarantee future results. You will be charged a redemption fee equal to 2.00% of the net amount of the redemption if you redeem or exchange your shares 30 days or less after you purchase them. As a non-diversified fund, the value of its shares may fluctuate more than shares invested in a broader range of companies. Non-investment grade debt securities, i.e., junk bonds, are subject to greater credit risk, price volatility and risk of loss than investment grade securities. Options contain special risks including the imperfect correlation between the value of the option and the value of the underlying asset. In addition, investing in foreign securities involves more risk than just U.S. investments, including the risk of currency fluctuations, political and economic instability and differences in financial reporting standards. There may also be heightened risks investing in non-investment grade debt securities and the use of options. There are also risks associated with investing in small and medium sized companies. Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Fund pursues its investment objective by investing all of its investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. The MSCI EAFE is unmanaged and includes the reinvestment of dividends and does not reflect the payment of transaction costs or advisory fees associated with an investment in the Funds. The securities that comprise the MSCI EAFE may differ substantially from the securities in the Funds' portfolios. The Standard & Poor's 500 Index represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. The S&P 500 Index returns assume that dividends are reinvested. An investor cannot invest directly in an index.*

### Investment Products Offered:

- Are Not FDIC Insured
- May Lose Value
- Are Not Bank Guaranteed