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To: Bob Kargenian
Subject: TABR Monthly Update

TO: All clients and interested parties
FROM: Bob Kargenian

Stocks staged a strong rally in July, with virtually all major indexes up about 7%. The leader was the EAFE (foreign stocks), up 9.4%, followed by the S&P 500 (large stocks), up 7%, while the Russell 2000 (small stocks), S&P Midcap 400 (mid-sized) and Russell 3000 (broad market) were all up 6.9% for the month.

Interest rates were fairly quiet, with the 10-year Treasury moving from 2.95% to 2.90%, while the 30-year Treasury edged up from 3.90% to 3.97%. The Lipper Intermediate Government Fund Index gained 0.4% for the month, but the real story was in junk bonds, as the Lipper High Yield Fund Index surged 3.5% for the month and is now up 7.3% for the year.

Precious metals stocks languished, with the Lipper Gold Fund Index down -2.8%.

Eating Crow, But Not Really. . . .

Last month's summary was sent on July 2, and indicated factually that our stock market work was quite negative, the most since 2007/2008. The probabilities favored a negative outcome. Instead, July 2 was the low for the year thus far, and stocks as measured by the S&P 500 have rallied over 10% since then. Sorry, everybody, but the fire insurance didn't pay off. The house did not burn down. But, it could have, and almost certainly will sometime in our future. The chart below of the New York Composite, courtesy of Stockcharts.com, is a good illustration of the zig/zag type market we've been in since late April. It is not really the best type of environment for our stock market risk models.



So, if you are wondering why we barely made any money in July when stocks were up about 7%, it's because we were playing defense. If you were also wondering how we only lost less than 2% in the 2nd quarter when stocks were down over 11%, it's because we were playing defense. Recently, I came across a quote from John Maynard Keynes who said, "**Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.**" Never is this more true than on Wall Street. My interpretation of this is that on Wall Street, it's OK to lose 30% of your clients money, since everyone else did too, and you were doing the same things they were doing. Please know we don't believe this for a second. To succeed in managing money, our belief is you've got to be different. Do you honestly believe the top 15% of ANY profession are doing the same things as the bottom 85%?

I hope this does not come across as being defensive in any way. We seek to ensure our reporting of how your money is doing is as transparent as you will find in our industry. We try not to get too giddy when things are going well, or too down when things aren't behaving like we'd like them to. Even our "systems" will not look good at all times. But a common denominator is that we'll probably lag strong up markets but make it up in the down environments. Protecting capital is most important. The more you understand what to expect, the less you'll worry, and the better chance for success. An example of this "DIFFERENCE" is shown below, comparing the up, down and up moves thus far this year in the S&P 500 to the Hussman Strategic Growth Fund (HGSFX), one of our largest positions, and the performance of TABR's Moderate Risk account.

	S&P 500	HGSFX	TABR Moderate
Dec. 31 to April 23	9.16%	-1.01%	5.62%
April 23 to July 2	-16.0%	+6.87%	-4.46%
July 2 to August 4	10.23%	-3.47%	+1.31%

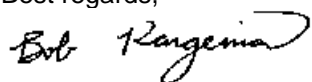
I should note that we do not compare TABR's Moderate account to the S&P 500, since the Moderate account includes 40% fixed income. The illustration is to show the volatility of returns in comparison with the stock market.

Where We Stand

On July 12, our tactical equity exposure was cut to 20%, but has since been moved back up to 60% on July 26 and 80% on August 3 (yesterday). There is a chance we could be 100% invested after next Monday. Needless to say, the evidence since early July has improved considerably. Could this be a fake out? Yes, it could. If the stock market peaks here and turns down in a big way quickly, we'll be not so thrilled, but we are simply playing the long term probabilities. We continue to maintain positions in real estate and gold mining stocks via mutual funds, and our high yield bond model turned bullish mid-month, so an overweight position was again established in corporate high yield bond funds and Loomis Sayles around mid-month. It is likely that as long as high yield bond funds continue to act well, and they are making new highs at this writing, stocks should do OK. The Presidential Cycle pattern continues to call for a decline into the September/October time period. That could still happen after further strength in August. Short term, stocks are overbought and up against resistance. A decisive break above the 1130 level on the S&P 500 could usher in a test of the April highs at or above the 1200 zone. We'll just have to see.

By the calendar, technically summer has barely begun. Yet, in just a few weeks, school will start. Yikes, where did it go? As always, feel free to communicate with us should you have any questions. Your confidence and trust is of utmost importance to all of us at TABR.

Best regards,



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