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To: Bob Kargenian
Subject: TABR Monthly Update

TO: All clients and interested parties
FROM: Bob Kargenian

With the 4th quarter now in the books, and 2010 as well, we take a moment to look back on what took place the last three months as well as the entire year (see below).

First, December was a strong month for all stock indexes, led by an 8% gain from the EAFE (foreign stocks) and the Russell 2000 (small stocks), up 7.9%. The SMALLEST gain was 6.6% from the S&P 400 Midcap Index. This month capped a strong quarter, led by the Russell 2000, up 16.3%, and the midcaps, up 13.5%. Large stocks, as measured by the S&P 500, lagged with a gain of 10.8%, as did the EAFE, up just 6.2%.

The big story in fixed income was that of rising yields, as the 10-year Treasury Note increased in yield from 2.51% to 3.3% for the quarter, while the 30-year Treasury Bond went from 3.68% to 4.36%. As a result, the Lipper Intermediate Government Bond Index lost -1.4% in December and -1.0% for the quarter. In contrast, high yield corporate bonds remained strong, gaining 2.0% in December and 3.5% for the quarter, as measured by the Lipper High Yield Fund Index.

Finally, precious metals stocks closed the year strong, gaining 5.7% in December and 14.6% for the quarter, based on the Lipper Gold Funds Index.

The Evidence

Very little has changed since our last update in mid-December. Trends are bullish, the Advance/Decline Line is at a new rally high, and at this writing, there is simply no evidence of any sustained selling pressure. In fact, the S&P 500 Index has not closed down for more than 3 days in a row since the middle of August. At the same time, the breadth divergences I mentioned in December regarding the number of new highs and the McClellan Summation Index continue to be present, and coupled with the most optimism in 3 years, suggest this is no time to be adding to one's risk.

January is a normal time for seers and strategists to put out their forecasts for the year ahead (and sometimes beyond). Pointedly, we think this is useless BS, and we continually attempt to educate clients to accept and embrace uncertainty. Here is just one reason why. A client of Ned Davis Research closely follows the predictions of Wall Street strategists. He says that strategists have predicted, **on average**, a gain in the S&P 500 of 11.3% per annum the last 10 years, with forecasts ranging from a 4% gain to a 19.7% gain. They've never forecast a down year. Yet, the actual return the last 10 years has been, on average, 1.7%, with three years of double-digit losses.

Therefore, it is not of comfort to us that almost everything we read is bullish for 2011. I've also certainly cited the record of the Presidential Cycle pattern, which shows there has not been a down year in the 3rd year of a President's term since the 1930s. The odds certainly seem to favor the bullish outcome, but as always, we will adjust our market exposure to stocks, bonds, real estate and gold according to our various risk models and the present evidence, not what someone thinks. The current data shown below from Value Line should give anyone pause about current valuations in the stock market.

The Median of Estimated PRICE-EARNINGS RATIOS of all stocks with earnings		
16.7		
26 Weeks Ago	Market Low 3-9-09	Market High 7-13-07
15.7	10.3	19.7

The Median of Estimated DIVIDEND YIELDS (next 12 months) of all dividend paying stocks under review		
1.9%		
26 Weeks Ago	Market Low 3-9-09	Market High 7-13-07
2.1%	4.0%	1.6%

The Estimated Median Price APPRECIATION POTENTIAL of all 1700 stocks in the hypothesized economic environment 3 to 5 years hence		
45%		
26 Weeks Ago	Market Low 3-9-09	Market High 7-13-07
70%	185%	35%

As you can see, in mid-July of 2007, the Appreciation Potential of all 1700 stocks in the Value Line database was just 35% for the following 3 to 5 years. What has transpired since then? Including dividends, the S&P 500 Index is still nearly 12% below where it stood on July 13, 2007 (1552). Only one major stock index, the S&P Midcap 400, has exceeded it's July 2007 high, and that thus far by less than 2%. To match the Appreciation Potential that was indicated 3 ½ years ago, stocks would have to rise about 50% from current levels in the next 18 months. That is certainly possible, but its not probable. My subjective take on things at the moment is that I sense a complacency not seen in 3 years, even a bit of greed. In certain feedback that we monitor, I wonder if investors have really learned anything from 2008.

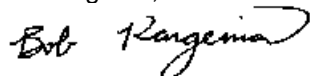
Performance

Below is how our real-time model portfolios performed during the first calendar year of 2010. The benchmarks used are the Vanguard Total Bond Index (+6.42%), the Vanguard Total Stock Market Index (+17.09%) and the Vanguard Total International Stock Index (+11.12%). Moderate portfolios have 40% devoted to bonds, with 45% to Total Stock and 15% to Total International, while Conservative portfolios have 60% in bonds, 30% in Total Stock and 10% in Total International. All returns noted are net of management fees and include reinvested dividends. Our tactical equity allocations averaged just under 72% exposure over the course of the year, meaning we took 28% less risk than a fully invested approach. Overall, our stock market risk models performed poorly, and along with positions in Leuthold Asset Allocation and Hussman Strategic Growth, this was the primary factor in our Moderate and Conservative accounts lagging their respective benchmarks. Bright marks were the performance of our four bond strategies, and our exposure in real estate and gold stocks. We'll have much detail about all of this in our quarterly print newsletter in the next few weeks.

	YTD Return	Benchmark
TABR Moderate Risk Account	+ 6.93%	+11.93%
TABR Conservative Account	+ 5.81%	+10.08%
TABR Bond Account	+ 8.67%	+ 6.42%

In sum, plenty of data suggest that stocks are over-valued, interest rates are too low and that long-term returns from current levels may well prove disappointing for passive investors. However, for investors who can tactically vary market exposure in response to changes in risk (which is our process), we think there will continue to be enough opportunity over a full market cycle to add value and keep our clients on the path to attaining their objectives.

Best regards,



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