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To: Bob Kargenian
Subject: TABR Monthly/Quarterly Update

TO: All clients and interested parties
FROM: Bob Kargenian

Most broad stock indexes were quiet in December, capping a very strong fourth quarter, reversing much of the damage inflicted during the third quarter, when stock indexes suffered losses ranging from -14% to -20%. The summary is below:

Market Scoreboard

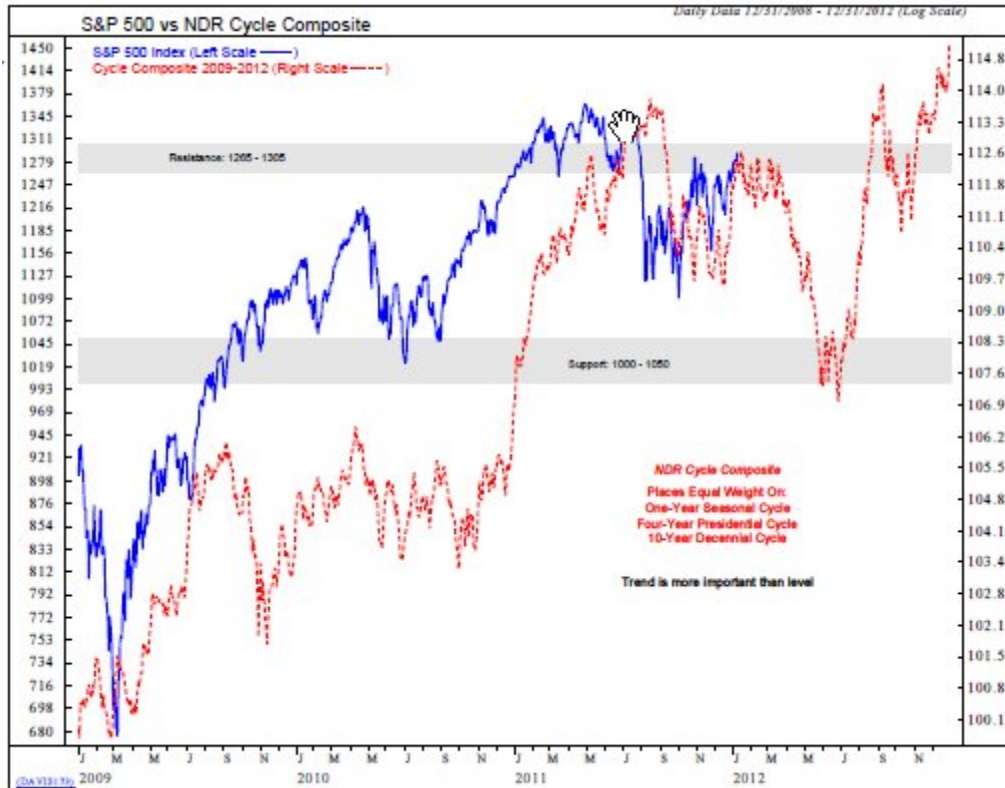
	December	4th Qtr		December	4th Qtr
S&P 500 (large stocks)	1.00%	11.80%	Lipper Interm Govt Index	0.20%	1.80%
S&P 400 (midcaps)	-0.40%	13.00%	Lipper High Yield Fund Index	2.30%	5.60%
Russell 2000 (small stocks)	0.70%	15.50%	Lipper Gold Fund Index	-13.20%	-5.70%
Russell 3000 (broad market)	0.80%	12.10%	Lipper Real Estate Index	4.30%	14.70%
EAFE (foreign stocks)	-1.00%	2.90%			

All numbers cited above and below are total return, with the exception of the EAFE. Interest rates fell in December, but were virtually unchanged for the quarter ending December 31. The 10-year Treasury Note went from 1.92% to 1.87% while the 30-year Treasury Bond fell in yield from 2.92% to 2.89%. Both figures are near 60-year lows. Below are the total returns for the full year ending December 31, 2011 for the above indexes, ranked best to worst:

Lipper Intermediate Govt Index	9.8%
Lipper Real Estate Index	7.6%
Lipper High Yield Fund Index	2.8%
S&P 500 Index	2.1%
Russell 3000	1.0%
S&P 400	-1.7%
Russell 2000	-4.2%
EAFE	-14.8%
Lipper Gold Fund Index	-20.9%

The Evidence

A number of our technical stock market risk models have turned positive since our last email update in mid-December, and the overall evidence is currently just north of neutral. A look at the cycle composite from Ned Davis Research suggests limited upside in the first quarter, with danger to follow. See the chart below.



Since the summer of 2010, the actual market has been following the cycles pretty closely, but that was not the case in the fall of 2009, when cycles called for a downturn, and stocks continued to move up. Cycles are not part of our methodology, but they can be helpful in framing the context of the current environment. Currently, the biggest risk for stocks in our view is whether or not we are about to enter a recession. At present, the data presented by John Hussman strongly implies recession risk, but I should note a well researched piece by Dwaine van Vuuren recently published with pretty rigorous data draws a very different conclusion. The outcome is certainly important, since a recession would likely result in a -20 to -30% drop in stocks. Better economic news, on the other hand, could lead to a potentially “decent” 2012.

Rather than BET one way or the other, we are OK with the uncertainty of not knowing, and are positioned in accordance with our models, with a bit of leeway towards a negative outcome at the moment. With the S&P 500 closing today at 1294, pretty much on the top of its 21-day moving average channel with 3% upper and lower bands, this is not a place where the probabilities favor strong additional gains. When they have taken place from such levels, they’ve been reversed rather quickly in a matter of weeks. At present, we are looking to increase our tactical exposure on weakness, rather than strength.

Where We Stand

Quite a bit has taken place since our December 16 update. First, our high yield bond tactical model turned bullish and we switched to an over-weight position in that area on December 23. One of the two models for Loomis Sayles Bond Fund also switched back to positive, so we went to a nearly fully invested position in that fund on December 28. Our real estate model, which tracks the IYR (Dow Jones Real Estate Index), flipped back to a BUY on January 6, so on January 9 we purchased positions in the IYR at 56.67 along with the PIMCO Real Estate Real Return Fund in smaller accounts. The model had turned negative on September 2 when we sold IYR positions at 54.48. Tactical equity allocations are between 39% and 44%, and as long as our stock market models remain the same or improve, we are looking to move exposure to the mid-50% range on weakness.

Performance

Below is the performance, net of management fees, of three real-time portfolios we are tracking. These represent a majority of the strategies we are using in client accounts, but not all. The differences are mainly attributed to risk (example—moderate allocation versus conservative allocation or aggressive) and account size. The numbers are for the one year period ended December 31, 2011.

Type of Account/Strategy	YTD	Benchmark
TABR Moderate Risk Account	- 4.08%	+1.28%*
TABR Conservative Risk Account	- 1.01%	+3.37%**
TABR Bond Account	+4.35%	+7.57%***
Vanguard Total Stock Index		+0.96%
Vanguard Total International Stock Index		-14.56%
Vanguard Total Bond Index		+7.57%

*consists of 45% Vanguard Total Stock Index, 15% Vanguard Total International Stock Index and 40% Vanguard Total Bond Index

**consists of 30% Vanguard Total Stock Index, 10% Vanguard Total International Stock Index and 60% Vanguard Total Bond Index

***Vanguard Total Bond Index

Returns shown are net of management fees, and include reinvested dividends

Despite taking substantially less risk than a fully-invested portfolio, you can see we suffered modest losses in 2011 except for our bond strategies. When stocks rebounded in the 4th quarter, our portfolio's did not. Sometimes, this is the price we pay for being different, as trends were hard to come by during the year. A much more detailed breakdown will be conveyed in our quarterly print newsletter, where you'll see our report card in all areas. Just know that we are always committed to preserving capital in poor environments and earning reasonable returns in good environments. At present, we consider the overall environment to be rather mixed. Here's to a more productive 2012.



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