

From: Bob Kargenian [mailto:bkargenian@tabr.net]
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To: Bob Kargenian
Subject: TABR Special Update

TO: All clients and interested parties
FROM: Bob Kargenian

A couple of years ago during the 2008 major decline, a client remarked that “the only time you send an interim report is when all hell is breaking loose.” At least it was something close to that. And of course, he was right. Human nature being what it is, clients don’t really worry about things when market trends are up. So, at the risk of over-communicating, here I am. I will be traveling to New York Sunday to visit with 7 clients in a two-day span, plus a dinner meeting, and since a few people actually think the world will end by then, I thought this might be my last missive. By the way, IF the world actually does end, just call Steve Medland. Steve will be here to take care of you.

In actuality, this is a perfect opportunity to remind all of you why you’ve hired us. Not everything we do is about investment performance---planning issues are very important. But remember, the R in TABR stands for Risk Management. Protecting capital in negative environments is critical, and the evidence emerging in the past few weeks is that we may be once again be entering such an environment. This doesn’t mean we can’t lose money. It means minimizing the losses until a better environment emerges. Trust me, we are not sitting on our bums.

On May 3, we sold our entire position in Fidelity Select Gold. On May 7, we sold about 87% of our position in high yield bond funds. On May 10, our tactical equity allocations were reduced to 80%, and again on May 18, allocations were reduced to 60%. After our weekly models update on Saturday, it is possible that by next Monday’s close, tactical equity allocations could be down to as little as 20%. In addition, either tomorrow (Friday) or Monday, we’ll be selling off about 43% of our position in Loomis Sayles Bond Fund. This is all in response to changes in our various risk models, from positive to negative.

The disciplines of our work eliminate emotions and personal opinions, which are the biggest enemies of successful investing. A couple of days ago, a client had called with some concerns about the current climate and remarked, “Bob, you don’t seem worried.” I’m not certain if worry is the correct word, but I do know this---I am very confident in our research, what is in our models, and I understand how they work, and we have a plan that we systematically follow, and in my view, we are better prepared than we were two years ago. Our models have worked in the past, and I expect them to work now.

To clarify for all of you current allocations, when I say tactical equity allocations are at 60%, that does not include real estate, gold, Leuthold or Hussman. Right now, and since Tuesday, Moderate Risk accounts have only 25.5% equity exposure in the ENTIRE account (this is out of a possible 60% maximum). Example—for a \$500,000 account, just \$127,500 is at risk in stock funds or real estate. If the rest of our stock models go negative, and our real estate model turns negative at some point, the lowest we’ll go is about 12% of the account. For reference, Conservative accounts currently have just 17% of total funds at risk in stocks (out of a maximum 40%), while Aggressive accounts have 36% (out of a maximum of 75%). So, we can’t tell you that the Dow is going to 6000. We don’t know that. But if it does, we’re quite confident we’ll have most of our capital intact.

TV & Internet Porn

I'll bet that got your attention. But I'm not referring to Sex and The City or www.penthouse.com. No, I'm referring to financial newsletter writers and CNBC and Fox News. "Sell all your stocks now." "Gold is going to \$3000." "The Dow is going to 5000." We've heard it all. Even amongst the professionals we follow who are quite credible, there is no uniformity. Today, I read three updates from respected research we receive. One said, "Fear is Here. No Time to Panic, But Time to Buy!" The next said "the majority of evidence still does not support a major decline." Then another—"the market's decline should, at some impending point, accelerate lower, with the Dow coming under 9000 over the next several weeks as Minor Wave 3 progresses." Do you see why we don't listen to people's opinions? Perhaps the one that does worry me the most is this---on the radio today, some guy said "not one economist is currently predicting a double-dip recession." Given the track record of economists, that comment is not a comforting thought, if in fact it is an accurate statement.

Friday/Monday

Thursday's closing level of -426 in the McClellan Oscillator, a measure of advances versus declines, was its lowest raw reading in history, eclipsing the -421 in October of 2008. Two days after THAT reading, stocks rallied 7% in one day, then continued to fall for several weeks. Nothing repeats exactly. Other environment indicators at that time were in a different, more negative position. Stocks are very oversold here, so expect sharp moves in both directions. Also, Friday is options expiration day. And, don't be surprised if there is massive government intervention both in Europe and the United States perhaps as early as Monday. Whatever happens, I don't expect today's close to be the low for the move, because extreme readings of this sort are almost always tested once or twice and tend to produce divergences. A close in the S&P 500 below 1050 would likely bring more negative implications.

I hope this is helpful to all of you. Have a great weekend, and do your best to leave the worrying to Steve and myself. That is what you pay us for.

Best regards,



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