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To: Bob Kargenian  
Subject: TABR Monthly Update

TO: All clients and interested parties  
FROM: Bob Kargenian

August brought memories of 2008 (not good ones), as stock indexes plunged sharply in the early part of the month, recovering later, but wiping out all year-to-date gains. The BEST return of major indexes was the S&P 500 (large companies), falling -5.4% for the month, with the worst being the EAFE (foreign stocks), down -9.3%. The Russell 2000( small stocks) was not far behind, dropping -8.7%. In the first 8 days of August, the Russell 2000 lost -18.3%.

Bond yields continued to drop, with probabilities of recession increasing, as the yield on the 10-year Treasury Note fell from 2.80% to 2.21%, and the 30-year Treasury Bond dropped from 4.13% to 3.59%. Surprisingly, the Lipper Intermediate Government Index gained just 0.7% for the month. Yields are at their lowest in 55 years. Coupled with weakness in stocks, the Lipper High Yield Fund Index fell -4.4% for the month, its worst monthly showing in 3 years. It has been nice that our high yield bond risk model has been in negative mode since June 17. Finally, the Lipper Gold Fund Index bucked the trend, with gold stocks gaining 6.3% for the month.

### The Evidence

On August 4, the S&P 500 closed at 1200.07. Today, September 19, it closed at 1204.09. On the surface, there has been little change in the past six weeks. That would be misleading. As the chart below depicts, showing only the this time period, in succession, there have been the following declines and rallies: -6.71%, +7.60%, -6.72%, +8.46%, -5.30%, and +5.35%.



So, what's next? It is clear there is support at the 1120 area, and there is considerable resistance at the 1220-1240 level. At some point, the market will break out of this range, and it is impossible to know which way, but as we've been writing, the probabilities favor a breakdown to new lows, which could then form an important bottom. According to data from John Hussman, there is near-certainty of an oncoming recession, and there is certainty of a default on Greece's debt--the only question is that of timing. That information, along with this week's meeting of the Federal Reserve Board, has nothing to do with our risk management models, but is nevertheless of interest to many of you. As for the Fed, it seems probable that they will announce some sort of monetary policy mechanism, but in our view, it will ultimately accomplish nothing. That doesn't mean markets won't react---it is just that with yields already at 55-year lows, lowering interest rates or attempting to manipulate the yield curve is going to do nothing to improve the employment situation. Until the structural problem of too much debt is dealt with, nothing will change. That is simply my opinion, but I think it is well grounded.

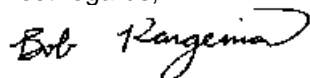
### **Where We Stand**

On August 29, we moved our tactical equity allocations to a maximum defensive position of about 28% invested. That has not changed. A couple of weeks ago, our risk model for real estate went negative after being positive since August 2009. The trade (for most larger accounts---small ones used ASRAX) in the IYR (Dow Jones Real Estate Index) worked quite well, with a buy around 37.75 and the sell at 54.48, for a gain of 44%, plus two years of dividends around 6%, for an approximate total gain of 57%. The only flaw was that we chose to be conservative and only allocated 2.5% to Moderate accounts. As with our research in gold stocks, we expect to increase this allocation during the next BUY cycle to 5%, so that we are making a bigger positive difference when we have an edge. If our model soon reverses to a BUY, we will not go to 5%, because the cycle will not really have ended.

Keep in mind that when we are substantially out of an asset, we want it to go down, even significantly. That is what creates profit opportunities. Elsewhere, our high yield bond risk model remains negative, and one of our two models for the Loomis Sayles Bond Fund remains negative. Finally, all of our stock market risk models are negative, and have been for several weeks.

All in all, we have minimal overall exposure, with the most volatile being our allocation to gold stocks via the Van Eck International Investors Fund. As a result, we should not experience much change in accounts, until our models change quite a bit. If stocks advance strongly, we will not make much money. If stocks fall sharply, we will not lose much money. We continue to feel it is an environment for defense, until better risk/reward conditions present themselves.

Best regards,



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