

October 29, 2010

TO: All clients and interested parties

FROM: Bob Kargenian

By the time you receive this, election results will have been tallied and markets will have reacted. Of relevance at this writing are several topics, so we'll address the Presidential Election Cycle, Gold, Tax Policy, and the recent focus on Dividends in the financial media, along with our usual summary of year-to-date performance.

The Election Cycle

As we enter 2011, it will be the third year of the Presidential Cycle, known as a pre-election year. Statistically, it is the strongest of the four years, with the post-election year being the weakest. See the results below.

President Elected	Election Year	S&P 500*
Herbert Hoover	1928	- 47.1%
Franklin Roosevelt	1932	41.4
Franklin Roosevelt	1936	- 5.5
Franklin Roosevelt	1940	19.4
Franklin Roosevelt	1944	0.0
Harry Truman	1948	16.5
Dwight Eisenhower	1952	26.4
Dwight Eisenhower	1956	8.5
John Kennedy	1960	18.9
Lyndon Johnson	1964	20.1
Richard Nixon	1968	10.8
Richard Nixon	1972	31.5
Jimmy Carter	1976	12.3
Ronald Reagan	1980	17.3
Ronald Reagan	1984	2.0
George Bush	1988	26.3
Bill Clinton	1992	34.1
Bill Clinton	1996	19.5
George W. Bush	2000	26.4
George W. Bush	2004	3.5
Barack Obama	2008	?

Source: Ned Davis Research

From 1940 to the present, there has not been a losing year. Should the two losing periods in the 1930s be ignored? Probably not. That would be like saying 2008 was just a bad dream in the

financial markets. Plus, the math geeks (I'm a bit in this camp) say that 20 instances is not statistically significant---generally one needs 30 or more occurrences. But, adding to this positive cycle tendency is the seasonal period we are about to enter.

Various market studies (Yale Hirsch's Stock Market Almanac, for example) have shown that since 1950, virtually the entire gain in the stock market has come in the time period from November 1 to April 30. Hence, the slogan you may have seen written about---Sell in May and Go Away. We now have 60 years of data on this, so there must be something to it, right? Perhaps, but I've confirmed with Ned Davis Research that this did not work from 1926 to 1950. What is so magical about 1950? I have no idea. Here in 2010, this strategy worked fine. On April 30, the S&P 500 closed at 1186.69, and here on the last day of October it sits at 1182, but this masks a -13% drop that took place into early July.

Yet, in 2009, being out of stocks during this six-month period, one would have missed a nearly 19% gain in the S&P 500 Index. Our experience has been that though there are cyclical and seasonal tendencies, it is best to follow the trend, sentiment and valuation of the market itself at a particular point in time, and only pay heed to the seasonal/cyclical trends when they are in agreement with the market environment.

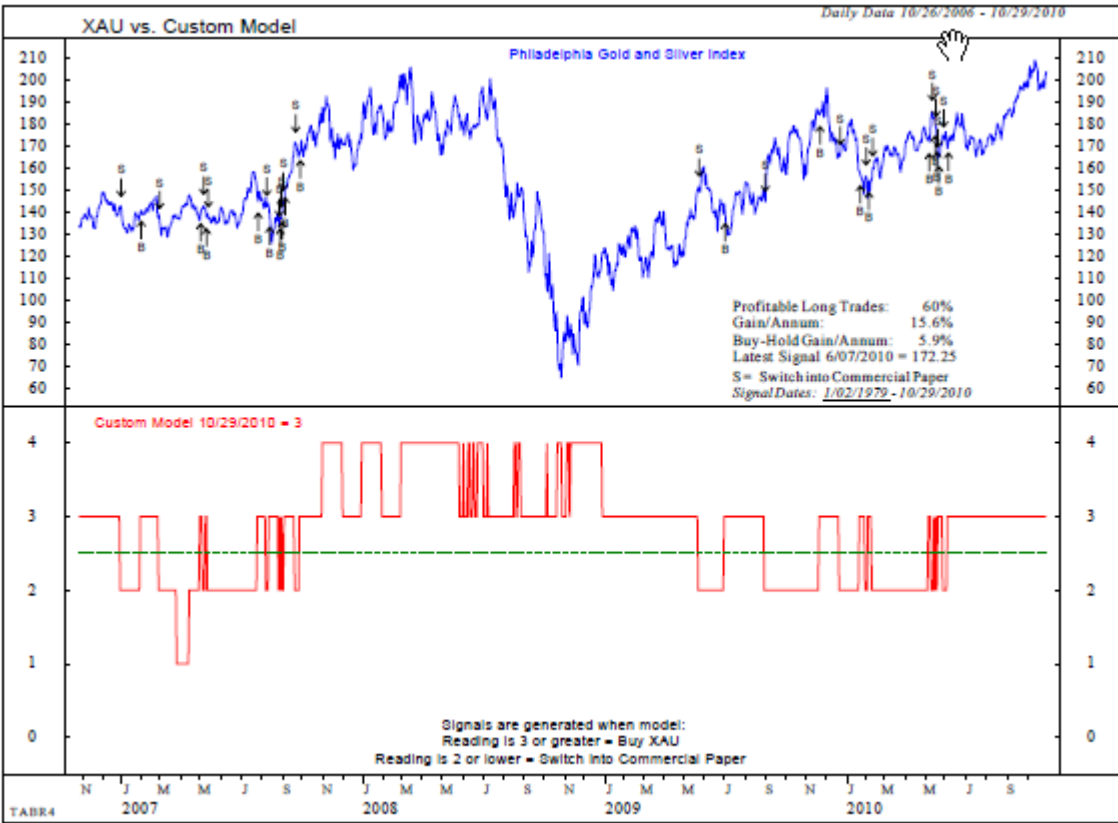
Going For Gold

The price of physical gold has been in a bull market since 1999, after bottoming out around \$250 per ounce, today sitting around \$1350. Prior to that, its previous high of \$850 in 1980 led to an approximate 20-year bear market. From the late 1980's to 2003, we used a quick slope system to dart in and out of gold stock mutual funds, with considerable success, I might add. Though today there are exchange-traded funds and a couple of mutual funds that would allow for such rapid trading, that methodology is no longer practical. Instead, we've gone to modeling approaches that focus more on intermediate term moves.

John Hussman, in his piece, **Going for the Gold**, written in October 1999, found that a combination of higher inflation, lower Treasury Bond yields, a NAPM Purchasing Managers Index below 50 and the Gold/XAU ratio above 4.0 yielded particularly strong rates of return in holding gold mining stocks. With the help of Ned Davis Research, we turned these four indicators into a trading model, shown in the chart below, taking the study back to 1979.

As you can see, compared to buying and holding the XAU Gold Mining Index during this time span, which returned 5.8% per annum, the model has compounded at 15.5%. On the face of it, that is outstanding for any asset class. But, there are two problems with it. First is the trading frequency, at least with the set of rules we created, and second, most important was the drawdown in 2008, which was some -65%. We lived through that, and its not acceptable, not even for a 5% allocation to a portfolio, let alone thinking about 10%.

Hussman is certainly onto something in finding the factors that drive gold prices and that of gold mining stocks. But, there's more to it than just the four indicators noted above. When to get out is just as important as when to get in, especially with an asset like gold stocks, which tend to exhibit about 2.5 times the volatility of the S&P 500 Index.



© Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

For a number of years, we've been tracking the K-Ratio, which is a valuation indicator for gold stocks developed by **Jay Kaepfel**, and expanded upon by our friend, **Nelson Freeburg**. The K-Ratio is simply the Barron's Gold Mining Index (GMI) divided by the price of gold. The lower the ratio, the cheaper gold stocks are. Freeburg took the concept and developed a buy and sell signal methodology, creating long term and short term signals.

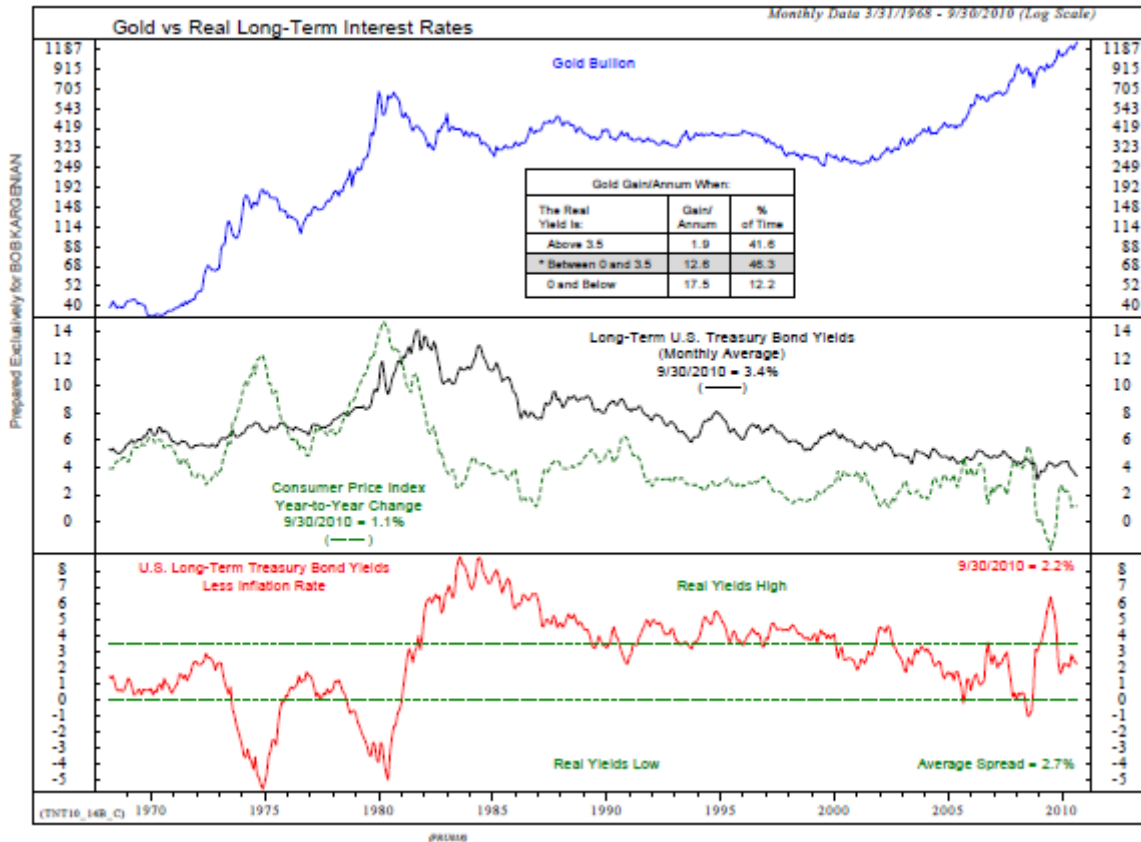
During the 34-year period, the Barron's Gold Mining Index has risen from 208 to 1184, which is a 5.27% compound return. In contrast, had you taken each of the previous 12 signals and held for one year, then exiting and going to cash, one would have compounded at 14.28%, not counting interest while in cash. Importantly, the biggest loss was -18% after 9 months on 1 trade and -12.2% on one trade after one year. Currently, we are five months into the latest long term signal registered in late May, and the GMI is up over 20% since the BUY. In our research, we've found considerable value in the long term signals, and their history is shown in the table below.

K Ratio Long Term Signals Only

Date	Ratio	Barron's GMI	Percentage Gain/Loss			
			3 months	6 months	9 months	1year
9/3/1976	1.94	208.82	40.20%	45.30%	24%	42%
3/3/1978	1.61	295.24	1.56	24.8	1.57	20.67
1/12/1979	1.48	323.31	3.68	16.13	31.49	87.5
10/26/1979	1.08	404.59	66.2	49.2	111.1	185.3
9/20/1985	1.68	537.41	-6.73	0.36	-14.5	1.79
7/25/1986	1.19	416.96	20.5	36.7	131.5	115.09
4/24/1992	1.73	583.51	3.52	-10.75	-17.6	9.54
11/3/1995	1.74	665.51	35.4	25.54	8.04	-1.44
12/26/1997	1.34	390.76	6.66	-8.32	-1.75	-12.22
5/7/2004	1.4	531.61	3.18	27.02	15.84	10.55
5/6/2005	1.38	587.73	13	31.56	77.69	96.08
11/14/2008	0.75	562.92	45.8	61.01	85.6	120.04
5/28/2010	0.98	1184.33	2.31	20.5*		

*As of 10/28/10

One of the best indicators in this area to watch, according to Ned Davis Research, is REAL INTEREST RATES. This involves calculating the nominal interest rate minus the inflation rate. See the chart below. Anything below the upper bracket has indicated a bullish condition.



Currently, the longer term outlook for gold appears favorable based on real interest rates and valuations. Shorter term, it is another story. Excessively bullish sentiment has pushed the situation into a high risk zone. Since September 30, we've cut our allocation to gold stocks by 50%, taking partial profits on our allocation. It seems everyone KNOWS the Fed is going to print

money and cause inflation and devalue the U.S. Dollar. Unfortunately, we've learned from the past IF everyone knows it, it is not worth knowing.

Tax Policy

You'd have to be living in a bear cave to not know that if Congress does not act by December 31, the Bush tax cuts from 2001 and 2003 will expire. This is how tax rates would change, by income level and tax bracket.

2010 tax rates

Couples filing jointly

Up to \$16,750	10%
\$16,751 to \$68,000	15
\$68,001 to \$137,300	25
\$137,301 to \$209,250	28
\$209,251 to \$373,650	33
Above \$373,650	35

Individuals

Up to \$8,375	10%
\$8,376 to \$34,000	15
\$34,001 to \$82,400	25
\$82,401 to \$171,850	28
\$171,851 to \$373,650	33
Above \$373,650	35

2011 tax rates if cuts are not extended

Up to \$58,200	15%
\$58,201 to \$140,600	28
\$140,601 to \$214,250	31
\$214,251 to \$382,650	36
Above \$382,650	39.6

Up to \$34,850	15%
\$34,851 to \$84,350	28
\$84,351 to \$176,000	31
\$176,001 to \$382,650	36
Above \$382,650	39.6

Given that Congress has known for several years that the estate tax was going to drop to zero for 2010, and they've done absolutely nothing about it, does not bode well for the above. Raising taxes in the current economic environment will not help the economy. So, don't get your hopes up, no matter what happens on November 2. Washington has a very poor track record, on both sides of the aisle. You'll not see us delve into politics. That is not our job. We have equally wonderful Democratic and Republican clients and friends. In my view, both parties are incompetent. For the record, I'm independent and have been since I can remember registering. Hey, I've voted for both Gray Davis and Arnold (yuck, and double yuck). When I was 11, I WOULD have voted for Hubert Humphrey. I just liked the guy.

In a perfect world, there would be no political parties, and everyone would vote for the best person who would do the right thing for their country, state or city. Fat chance. That's like thinking my 49ers will win the Super Bowl this year. Like I said, fat chance!

Dividend Investing---All The Rage?

With money market yields effectively at zero, bank CDs at about 0.50% and the 10-year Treasury Note at 2.60%, the financial media has been asking more and more lately, "what does one do for income?" Many stories I've read recently have been focusing on investing in dividend-paying common stocks, especially ones that have a consistent record of growing their dividends. Part of the thought process here is that you need to keep up with inflation over time, and fixed income is not likely to do that in an environment that is likely to see significant inflation.

Dividends have typically accounted for about 40% of the total return of the S&P 500 Index over time, so I would acknowledge they are quite important, but our bottom line view is the total return

is the most important thing to focus on, and it doesn't really matter how you get there. Currently, the dividend yield on the S&P 500 Index is about 1.85%. According to Dorsey Wright Technical Research, out of the stocks in the S&P 500 with history going back to the beginning of the decade, there are 102 stocks with a current dividend of 3% or greater. But, of those 102 stocks, only 66 of them have posted a gain since 12/31/1999, exclusive of dividends.

Let me present two examples to show that this is not an easy methodology to rely on. I've not examined either companies financials, but I suspect that most of us, even without a finance degree, would think that both General Electric and McDonald's were solid American franchises that may be around forever.

On March 31, 2003, GE sold for \$25.50 and paid dividends of 77 cents per share, yielding 3.01%. By 2008, they had raised their dividend to 1.24 per share and the stock traded at \$40 in November 2007. It proceeded to drop to \$6.66 in March 2009, a drop of -83%, and has since recovered to \$16, but the dividend has been slashed to 48 cents. Though the dividend was never eliminated (unlike many major bank stocks), the stock is still selling -37% below its value of over seven years ago.

In contrast, wouldn't we all want McDonald's, in perfect hindsight? Also on March 31, 2003, the stock sold for \$14.46 and paid dividends of 40 cents per share, yielding about 2.76%. The stock peaked in November 2007 at 57.18, fell to only \$50.86 in March 2009 and today sits at \$77. Not only is the stock price up over 400%, but the dividend has steadily increased each year, now at \$2.44 per share, which is about a 500% increase over the seven year period.

There are other positive and negative examples, such as Johnson & Johnson (positive) and Pfizer (negative). If one could only find the formula to find the future McDonald's and avoid the future GE's. Unfortunately, it is not that easy.

2010 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 9 months ended September 30, 2010.

Type of Account/Strategy	YTD	Benchmark
TABR Moderate Risk Account	+3.37%	+ 5.91%*
TABR Conservative Risk Account	+4.37%	+6.56**
TABR Bond Account	+7.93%	+7.88%***
Vanguard Total Stock Index		+ 4.87%
Vanguard Total International Stock Index		+ 3.75%
Vanguard Total Bond Index		+ 7.88%
*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

The average invested exposure of our tactical equity allocations during the first nine months was 69%. Our stock market risk models, which had performed well through June 30, had a terrible quarter, thanks to the up/down/up sequence that markets took, no trends lasting long enough to really latch onto. In sum, not the best of environments for our mostly trend-following approaches. At this writing, tactical equity exposure is at 70%, about to be increased to 85%. Though I feel the upside is limited by valuation and bullish sentiment concerns, no matter our opinion, this is a constructive stance. It doesn't guarantee, however, a positive result. Maybe Bernanke and Company will produce a Treat instead of a Trick. Like Halloween candy, though, the Treats don't last very long. Importantly, have a wonderful Thanksgiving with your loved ones.

Best regards,



Bob Kargenian, CMT
President

TABR Capital Management, LLC ("TABR") is an SEC registered investment advisor with its principal place of business in the state of California. TABR and its representatives are in compliance with the current notice filing and registration requirements imposed upon registered investment advisors by those states in which TABR maintains clients. TABR may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements.

This newsletter is limited to the dissemination of general information pertaining to our investment advisory/management services. Any subsequent, direct communication by TABR with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of TABR, please contact TABR or refer to the Investment Advisor Disclosure web site (www.adviserinfo.sec.gov).

The TABR Model Portfolios are allocated in a range of investments according to TABR's proprietary investment strategies. TABR's proprietary investment strategies are allocated amongst individual stocks, bonds, mutual funds, gold and other instruments with a view towards income and/or capital appreciation depending on the specific allocation employed by each Model Portfolio. TABR tracks the performance of each Model Portfolio in an actual account that is charged TABR's investment management fees in the exact manner as would an actual client account. Therefore the performance shown is net of TABR's investment management fees.

Comparison of the TABR Model Portfolios to the Vanguard Total Stock Index Fund, the Vanguard Total International Stock Fund and the Vanguard Total Bond Index Fund is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the TABR Model Portfolios due to varying degrees of diversification and/or other factors.

Past performance of the TABR Model Portfolios may not be indicative of future results and the performance of a specific individual client account may vary substantially from the composite results above in part because client accounts may be allocated among several portfolios. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable.

For additional information about TABR, including fees and services, send for our disclosure statement as set forth on Form ADV from us using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

A list of all recommendations made by TABR within the immediately preceding one year is available upon request at no charge.