----- Original Message -----
From: Bob Kargenian
To: Bob Kargenian
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Subject: TABR Monthly Update

TO: All clients and interested parties
FROM: Bob Kargenian

No mincing words here--stocks fell hard across the board in November, the worst being a 7.2% drop in the Russell 2000(small stocks). The best showing was the EAFE(international), still down 4%. In between was the S&P 500(large stocks), down 4.9% and the Russell 3000(broad market), down 5.2%. On November 26, with just four days left in the month, many indexes were down 9% or more for the month, but rallied over 5% in the last four days.

The conventional wisdom is that when interest rates fall, stocks go up. That didn't happen in 2001 and its not happening now. In November, the yield on the 10-year Treasury Note fell from 4.47% to 3.97%. The 30-year T-Bond yield fell from 4.75% to 4.4%, and three-month T-Bill yields fell from 3.84% to 3.07%. For a few days, the yield on the 2-year note fell below 3%. All of this helped the Lipper Intermediate Government Index gain 3% for the month. In contrast, reflecting concerns about equities, the Lipper High Yield Fund Index fell 2.6% for the month. Elsewhere, gold mining stocks got hammered, falling 8.6%.

The Evidence
Some of the work we follow is now positive, but in other areas it is quite negative. Seasonally, we are in the best part of the favorable six-month time span from November to April. According to Ned Davis Research, there have been 23 "down" Novembers in the past 65 years, and in those 23 cases, December was up 21 times. Pretty good odds. The NY Bullish Percent, one measure of supply and demand we follow, turned up into a bullish column of X's on Dec. 5. It bottomed at 34% and has now risen to 46%. Importantly, when the S&P 500 made an almost identical closing low on November 26 at its August 16 level, the Bullish Percent made a higher low, implying fewer stocks were participating to the downside.

In addition, the NY High Low Index nearly hit 10% for the second time in four months, which is a rare, washed out condition. According to our friend Harold Parker at Dorsey Wright Money Management, this normally has quite bullish implications for at least the next three months, although I should note the condition took place in August and resulted in a modest 1.92% loss in the Dow Industrials(after three months).

On the negative side(see below), none of our intermediate risk models have confirmed the recent rally, and the data from Lowry's Reports on their own measures of demand and supply have suggested that the rally off the November 26 bottom is even weaker than the rally that began off the August 16 bottom. At the 1407 level on the S&P 500, it was down 10% from its high at 1565. According to Ned Davis Research, when markets correct 10%, there is a 50% probability they will go on to correct at least 15%, which would be down to the 1330 level. My educated guess is we are going to eventually take out the 1400 level on the S&P 500 and go down 15-20% from the highs. A normal bear market. I just cannot fathom that with all the evidence pointing to a recession and after a five-year bull market, stocks will only go down 10%. As always, we'll see, and we'll adjust according to our models, not our opinions.

Where We Stand
At the moment, only one of our four stock market risk models is positive. Back on November 27, we adjusted our exposure up a bit from 25% to 31%, and with the rally, this rose to about 38-40% through yesterday, when we again cut it back to about 31%(before today's big drop). So, we are

near our minimum equity exposure, and I don't see much changing in the near term. Believe me, it is no fun to only have 30% exposure when markets go up 3%, but it is very heartening to have that 30% when they go down 3%(like today). This is why we remove the emotions from the decisions--one has to stick with their discipline.

In bonds, since November 9, our emphasis with bond allocations continues with about 80% in intermediate governments for the tactical portion of accounts, with the other 20% in high yield. And in gold, our SELL of about 65% of the position in Oppenheimer Gold is looking pretty good, with the fund down 12% since then(I know--we should have sold it all--but that wouldn't have been following the total discipline).

No guarantees, but I expect we will protect a majority of gains for the remainder of the month. This has been an OK year--not fantastic, but certainly nothing to complain about. Not to be too sentimental, but most of us have many blessings to be thankful for. Some of us are struggling with different issues--health, debts, etc. But I have to tell you--I could not imagine a more difficult holiday season than that which my friends, Roger & Gaylene Eidsane of Placentia, are facing. When my son, Adam, was 5, he started playing Pony League baseball. I helped out as a coach, and his first three years, we were with Roger's team with his son, Brian. In the last few years, we've not been on the same team, but Brian and Adam have played in the same league. Brian has always had the most infectious smile and just loved baseball. Well, a couple of months ago, Brian, just 13, passed away from leukemia. So, lately, if I'm having a rough day--I think of Roger, and Brian. And I hope that I will always think of them, and be thankful. A heartfelt thanks to all of you, with a wish for a Merry Christmas and terrific New Year.

Best regards,

Bob Kargenian

Bob Kargenian, CMT
President

TABR Capital Management, LLC
Phone 714-704-9180

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