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TO: All clients and interested parties

FROM: Bob Kargenian

This quarter, I'm focusing on a wide range of topics, including real estate and the role of your home in retirement, investor behavior(yes, again!), some stock market research we've finished on our stock screens and a look at a gold mining stock indicator we've tested. Also included is our usual commentary on the performance of accounts, and an important announcement on **how to get rid of the majority of the mail related to your account(s) that clogs up your mailbox, including prospectuses, annual reports and proxy voting.** For those of you who've voiced your concern about this area, we're pretty certain we've found the solution.

### **The Role of Your Home in Retirement**

A couple of years ago, I was on my way home from the San Francisco International Airport when I saw this advertisement plastered on the side of the wall, as you take one of those moving sidewalks to your gate. It was from Charles Schwab, and it read "**Your \$1 million home is not a Retirement Plan.**"

Since that was at what appears to be the top of the real estate market, it probably fell on deaf ears. Perhaps, though, after the last 18 months, some investors are beginning to learn the truth of that statement. And mind you, this doesn't even begin to cover the additional topic of purchasing property to rent or to "flip."

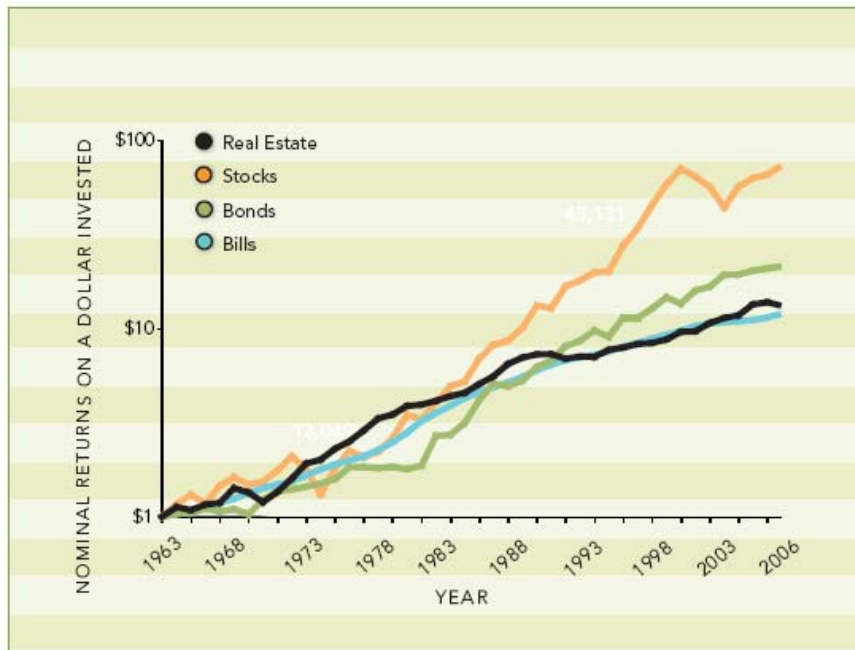
In any case, the Wall Street Journal published a great article in early March entitled "Why Your Home Isn't the Investment You Think It Is." I thought so much of the article that I felt everyone in our database could benefit from it, so it is included as a reprint with this mailing.

Call us old school, but here's our philosophy when it comes to purchasing a home:

1. Put down as much as possible(20% or more)
2. Lock in the lowest fixed rate on a 15 year or 30 year loan
3. Pay extra principal every month
4. Make sure its paid off before you retire

This would apply to those purchasing a second home, not for investment purposes, but rather with the intent of using it for part of the year(i.e., a vacation home).

As for investing in residential real estate for the purposes of rental property and such, the evidence doesn't much support it as a great strategy. Take a look at the chart below, excerpted from a February 2007 report from the **Fidelity Research Institute**. It shows that since 1963, a dollar invested in residential real estate has had only slightly better returns than low-risk Treasury Bills over this long period.



**Exhibit 5**  
**Long-Term Asset and**  
**Real Estate Indices**  
 Q4-1963 to Q3-2006

Source: Global Financial Data and Winans International

According to **W. Van Harlow**, Managing Director of the Institute and author of the report, “over this more than forty-year time period, **real** compound returns to stocks outpaced realty, averaging 5.95% versus returns of just 1.35% to real estate after adjusting for inflation. Even the highest appreciating regions of the country, the Northeast and West Coast, only realized real returns of 2.35% and 2.49%, respectfully, and underperformed the returns on bonds at 2.74%.”

As a matter of disclosure, we have a number of clients who make their living in real estate, as well as a number who have investments in rental properties. We're not out to change anyone's ways. Our role as a fiduciary for clients' monies is to put the clients' interests first. One of the ways we do that is to base investment decisions on facts, or the truth, if you will. Another way is to put our own money where our mouth is, which we've done for some 15 years now. We don't own investment property, but we do own our own home, and we do invest all of our own capital in the exact same funds and stocks that all clients own, and we use the exact same strategies to manage our own money(as well as TABR's staff) as we use to manage all client capital.

Given the above historical returns over the long term, and given that today, with a portfolio of equity and fixed income funds, one could liquidate an entire portfolio ranging

from several hundred thousand dollars to multiple millions in a few hours with little or no cost and have the cash in hand in three business days, the advantages over investing in real estate are pretty compelling. Oops—I blew it—I used the term “long term.” Many investors are only concerned with the “short term.” And that, my friends, is the problem. See the next section.

### **Investor Behavior(again)**

In the past three years via this forum, I’ve featured a number of pieces on investor behavior, and how harmful it is to investor returns. I doubt we’ll ever stop talking about this subject, because it is so important, and investors need to be reminded, over and over.

To that end, I attended a financial advisor conference a few weeks ago in Las Vegas. The keynote speaker was Nick Murray, who is considered one of the best in the industry in thinking, speaking and writing about this topic. What follows is a summary of his message.

According to Lipper(a mutual fund research organization), from 1985 to 2004(20 years), the average return of the average equity fund was 10.7% compounded annually. According to Dalbar (another research firm), the **ACTUAL** return received by the average equity investor during this same time span was 3.7% compounded annually.

The entire shortfall must be attributed to bad behavior. Real people underperform their own investments by a sickening margin. The problem is not intellectual, so it must be emotional and/or behavioral. Americans cannot stop destroying themselves with their investments. The mistakes to which investors are prone are not unique to them. They are common to everyone.

Much of this is focused on only looking at the short term(also termed recency bias), chasing performance, buying what’s hot, not paying enough attention to risk, and having no plan or disciplined process. I’ve often thought that we(and others in the industry) may be doing clients a disservice by sending out quarterly performance reports. Here we are preaching about the importance of looking at things over a full bull and bear market cycle, which usually entails four to five years, and then we are sending out a report showing how you did over the past 3 months, 6 months, 9 months or one year? Is that hypocritical?

I want to emphasize that we have nothing to hide, and that our reporting is about as transparent as it can get. We’ve found that the long-term spreadsheets we introduced last year, which go back to 1998 in a majority of cases, have been quite helpful in discussions with clients. Why? They’re more meaningful. They show how we’ve done in good markets and bad markets. With all due respect, how we’ve done in the past year or two(let alone 3 or 6 months) isn’t very relevant, and that statement is true whether or not our accounts were up 10% and the benchmark was up 5%, or if our accounts were up 5% and the benchmark was up 10%(as an example).

Ultimately, there are three values and three principles which are key to a successful investing process. They are:

1. Faith
2. Patience(the most un-American of values, as Murray says)
3. Discipline
4. Asset Allocation(% in equities and the % in fixed income)
5. Disciplined Diversification
6. Rebalancing

All of the above is in place with our investment management process. Great behavioral advice is worth multiples of its cost. Among other things, that is what we're aiming to provide to clients over time.

### **The Mail Problem**

Waste. Waste of money, waste of trees, waste of paper. I'm sure most of you have even more colorful adjectives to describe the volume of mail you receive from your accounts. I'm not referring to your monthly statement or quarterly confirmations. Most everyone prefers those items in paper form, though a few have opted for electronic delivery(which is available, by the way).

No, I'm talking about the prospectuses from mutual fund companies, along with the obligatory annual and semi-annual reports, many of which are in 8 ½ by 11 packages. Then, there are the dreaded proxies. The proxies affect 46 clients, who are participants in our Wrap Fee program, where we own shares in 60 individual companies. The prospectus/annual report "problem" affects ALL clients.

I'm pretty sure that most of you realize that it is by government regulation that you must receive all of this documentation. I also know that most of you throw this stuff away, as you have put your trust in us to take care of your money. But the mail, believe me, is a nuisance. Thanks to the nudging of a long-time client in Arizona, we think we've found a solution to dealing with a majority of the volume. You must, however, have internet access and a valid email address to benefit. I estimate that over 90% of our clients have or use email, but I just wanted to note that without email, this solution will not work.

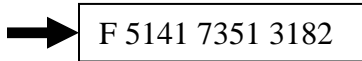
First, the solution moves almost everything from printed regular mail delivery to electronic delivery. At that point, you can read it, delete it, vote, not vote, or do whatever you wish. You'll still get some mail, because some of the firms are not yet participating in this service, but if you implement the steps I'm going to outline below, it should reduce drastically what you are currently receiving.

First, you'll need to repeat this process once, for each account you maintain with Fidelity. After you've enrolled for each account, you'll not need to do it again for other companies. When you receive a prospectus in the mail, there is usually a cover sheet enclosed which shows the registration of the account(i.e., Bob Kargenian IRA or Kargenian Family Trust). In addition, there is a reference to your Fidelity account

number in the lower left quadrant of the sheet, and standard language in the upper right quadrant, which reads as follows:

“To receive investor communications including proxy material via the Internet, simply go to the website below and follow the instructions. If/When information is available electronically, you will be sent an email notification.”

[www.investordelivery.com](http://www.investordelivery.com)



As shown above, there is a series of numbers enclosed in a box next to an arrow. This is called the control number, and after entering the site above, you enter this data, without spaces and with the letter in the area provided. After hitting the submit button, you are then prompted to enter an email address and create a short password. Once you submit this information, you will get a confirmation that you've enrolled, and will later receive an email notification to that effect. That is all you have to do (for non-Fidelity information).

For those of you in the Wrap account with proxies, the process is just slightly different. On your proxy voting card, you will see a similar control number enclosed in a box. In this case, you'll need to go to [www.proxyvote.com](http://www.proxyvote.com) and follow the instructions. You'll need to enter the number, which will then get you to the voting section. Once you have voted and hit the final submission button, at the end, the screen will have a section on enrolling for electronic delivery. You'll need to click on that, and then enter your email address and a password, and then you'll receive confirmation as noted above.

You do not need to do this more than once—you just need to vote one proxy and enroll at the end, and that should do it for all future proxies. The caveat is this may take several months to kick in. I enrolled several of my own accounts two weeks ago, and I'm still getting proxies, so I suspect there is a cutoff date in this process. Also, realize that proxies and annual reports are usually sent just once per year, and if you've received a rash of them in the past two months as I have, you may not see an immediate benefit for awhile.

There is an additional step related to the delivery of these documents for Fidelity-only mutual funds (example, Fidelity Cash Reserves, Fidelity Select Sector Funds). The above process at [investordelivery.com](http://investordelivery.com) only applies to non-Fidelity funds, such as Loomis Sayles Bond, Pro Funds or FundX Upgrader as an example.

This additional step involves the following. You must go to [Fidelity.com](http://Fidelity.com) and register. If you've never done this, go to Login and then New User Registration. You'll then be asked to enter the Social Security number, account number, birthdate and zip code (yes, if you have accounts with different Social Security numbers, such as your spouse, you'll need to do this more than once).

You'll then be required to create a PIN, with a security question. Once done, you'll need to log back in with your SS #(or name you've created) and PIN, and you'll be asked to register an email address. At that point, a User Agreement for real-time quotes will appear. You'll need to scroll down several pages, hitting Continue. At the end, you will check the box entitled "Non-Professional Subscriber" and then enter your signature. After submitting, you'll want to hit the prompt for Portfolio Summary, which should lead you to a screen where you'll want to click on Statements/Records.

At that point, a screen will appear where you can select "sign up to stop receiving paper statements." By clicking on that, another screen will appear with a box with three rows labeled Quarterly/Monthly Statements, Trade Confirmations, and Prospectuses, Financial Reports and Other Documents. Next to each box is a column with the choices of either U.S. mail delivery or to View Online. You would then change each box to your choice, and then you'll be prompted to enter your email address. Then hit the Next button.

If you have chosen to View Online in any of the three categories, an email delivery agreement will then appear, and you must then hit the I Agree button at the bottom. Finally, a screen will appear indicating that your changes were successful, and you're done.

I feel like I've just written the user's manual, but if any of you have problems with this process or would like us to take care of it for you, just call our office and talk to any of us and we'll help you get it done. The few minutes invested will be well worth it in the long run.

### **Gold Stock Research**

Over the years, I've found some of the best ideas for models from reading all kinds of different publications. One such source is the weekly commentary from **John Hussman**, manager of the Hussman Strategic Growth Fund(which, for disclosure purposes, we own in virtually every actively managed account we run).

Back in 2005, Hussman cited some data using the Gold/XAU ratio, which is the price of physical gold divided by the price of the XAU Gold Mining Index, a cap-weighted index consisting of gold mining stocks. Since 1974, when the ratio has been greater than 5 to 1(about 15% of the time), the index has followed with annualized gains of 89%. When the ratio has been greater than 4 to 1, the index followed with annualized gains of 27%. On the negative side, when the ratio has been less than 3 to 1, the XAU has declined at an annualized rate of 36%.

This is called mode analysis. To make it more useful, I went back in our data and identified the times when the ratio has been greater than 5 to 1, then calculated what happened six months later and one year later. I eliminated overlapping situations to avoid double counting. I should note that our database used weekly data, which is a bit different than Hussman. The results are shown in the table below.

	Gold/XAU 5:1 Ratio Signals				
Date	XAU	6 months	Change	1 year	Change
7/27/1979	59.04	104.1	76.32114	132.23	123.9668
3/5/1982	66.47	86.6	30.28434	133.59	100.9779
5/2/1986	66.51	80.32	20.76379	129.3	94.40686
11/6/1987	88.66	94.21	6.259869	93.58	5.549289
11/20/1992	66.95	110.52	65.07842	127.61	90.60493
8/28/1998	51.41	63.26	23.04999	66.89	30.11087
4/21/2000	55.71	43.39	-22.1145	52.04	-6.58769
7/26/2002	55.73	82.2	47.49686	84.27	51.2112
4/29/2005	83.51	106.8	27.88888	158.11	89.33062
3/14/2007	129.65	open			
		Avg Gain	30.55%	Avg Gain	64.39%
		Best Gain	76%	Best Gain	123%
		Worst Gain	-22%	Worst Gain	-6.60%

Overlapping trades were eliminated so as not to double count trades.

I consider this to be a valuation indicator. When the ratio is above 4 and 5 to 1, gold stocks are cheap in comparison to the physical metal. Likewise, when the ratio is below 4 and 3 to 1, gold stocks are expensive relative to the metal. Back on March 14, using a one day lag with daily data, the ratio spiked above 5 to 1. As I write this, the XAU is above the 141 level, so it has already gained nearly 9% since the signal.

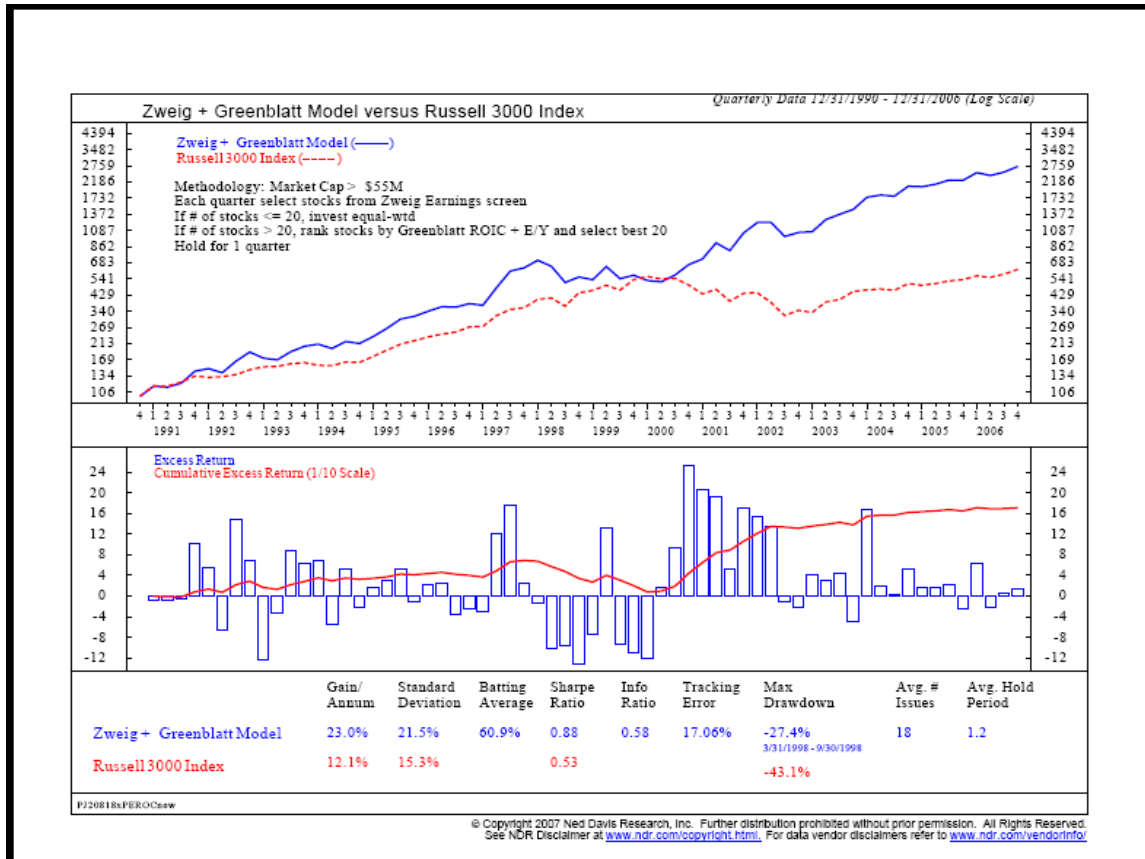
All but one trade in the past produced a profit, and the lone loss was a mere -6.5%. Five of the one-year gains were 89% or greater. I will be the first to tell you that statistically, nine trades doesn't render an indicator valid. I'll also add that currently, sentiment on gold is way too optimistic. But I wouldn't bet against this indicator—eventually, value will win out, and as shown, the possibility for substantial gains has been there in the past. Our accounts have been about 80% invested (example—moderate risk accounts have 5% allocated to gold, with 4% at the moment) to gold funds since early September, and we expect to increase this to a fully invested position on any decent weakness over the next few months.

### **Stock Screen Research—Zweig**

In the October 2006 letter devoted to our Wrap accounts which use three different quantitative screens to pick stocks, I'd mentioned we were in the process of conducting our own backtest of the criteria used to select stocks, based on the work of Marty Zweig, as interpreted by the technical staff at AAI (American Association of Individual Investors).

I won't reiterate all of what I wrote, but suffice to say Zweig has had the best record of some 50 methodologies AAI has been monitoring since 1998, which had piqued my interest. Their results, however, are flawed and misleading, as they cannot be replicated in the real world. Plus, 8 years of data, no matter how good the strategy, isn't enough.

With the help of **Ned Davis Research**(we are a professional subscriber), we were able to complete what you see below. We were able to begin the data in 1988, accessing the S&P/Compustat Point in Time database. The results are from 1990 through 2006—the lag is explained by the fact that several of the factors in the screen require a 3-year lookback period(such as 3 year earnings growth or 3 year sales growth).



There are some 17 components in the initial screening process. We had to relax a couple of the criteria, because there weren't enough stocks passing in our first run to make an analysis statistically valid. And, since we only want to own 20 stocks from each screen(Value Line and Greenblatt included), we had to come up with an additional filter to get down to that number each quarter. In some cases, there were not 20 stocks passing the screen in certain quarters, so the results for those quarters assume an equal-weighting for that number of stocks. If more than 20 stocks pass, we apply our secondary filter and buy only the top 20.

As shown in the chart above, the model has compounded at 23% per year for the last 16 years, compared to the benchmark Russell 3000 at 12%. Maximum drawdown has been -28%. There is not room in this letter to show the annual returns year-by-year, but there was only one losing year out of the 16, in 1998 at -12%. The strategy was way out of sync in 1998 and 1999, as it gained just 2.7% in 1999. In those two years, broad stock market indexes were up about 24% each year.

In contrast, during the 2000-2002 bear market when stock indexes fell over 40%, the strategy earned 16% in 2000, 57% in 2001 and 0.6% in 2002. Please note these numbers are all before management fees, and do not assume that past performance will equal future results.

The disparity in the five year span from 1998-2002 is a reminder that no strategy, even the best ones, work in all environments. That is why we are using three different screens(Value Line, Greenblatt and Zweig) instead of just one, and why for stock market exposure, we use four different risk models instead of just one.

The last five weeks have been strong, so don't read anything into this, but through May 8, our TABR Wrap Model account is up 7.2% ytd, net of fees, versus the Vanguard Total Stock Index which is up 7.3%. So, we're matching the market with 23% less risk, as we've been invested an average of 77% thus far in 2007. That is a good combination, but I expect the outperformance shown in backtesting to show up over time. As noted above, short term periods do not show the whole story.

### **Performance**

Below is the performance, net of management fees, of five 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 first quarter, through March 31, 2007.

<b>Type of Account/Strategy</b>	<b>YTD</b>	<b>Benchmark</b>
TABR IRA(Moderate Risk)	+1.52%	+1.82%*
TABR Stock Wrap Account	+2.70%	+1.35%**
TABR OEX Relative Strength	+2.74%	- 1.09%(S&P 100)
TABR D.A.L.I. Account	+1.63%	+1.82%*
TABR Passive Allocation	+2.01%	+1.82%*
Vanguard Total Stock Index		+ 1.35%
Vanguard Total International Stock Index		+ 4.27%
Vanguard Total Bond Index		+ 1.44%

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

\*\*Vanguard Total Stock Index

**Returns shown are net of management fees**

### **TABR News**

We are still in the midst of work on our website, and specifically, the way client information appears. We are even contemplating a change to the format, but we will seek client feedback prior to that type of a change.

On a separate note, Steve Medland's wife, Kim, delivered their baby girl on Friday, April 6. Baby Audrey is keeping Mom and Dad up every couple of hours with her feeding

needs. We've noticed since then that strange noises resembling lullaby's are emanating from Steve's office as he works on retirement planning spreadsheets.

Finally, thanks to the many of you who have been referring friends and family recently. We are now serving over 260 households nationwide, with over \$154 million under management, and it is all because of your trust and confidence in our team.

Best regards,

Bob Kargenian, CMT  
President/Principal

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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 show 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.