

From: Bob Kargenian
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Subject: TABR Interim Report

TO: All clients and interested parties
FROM: Bob Kargenian

Given the environment right now, I think the risk of over-communicating with all of you is pretty low, so here goes. Monday's decline of 8.8% in the S&P 500 ranks as the second worst one-day percentage drop in its history, surpassed only by the Crash of 1987 (down about 22% that day). Now the good news. TABR's Moderate Risk account was down 2.17% for the day (for balanced sake, I should add that we could also be up only 3% if stocks were to go up 8% here). There's no boasting here--this is the worst three months of my 26 year career--I don't count 1987 because frankly, I didn't know what the heck I was doing back then. But with all that's happened since June 30, and with stocks down 24.7% for the year as measured by a 75%/25% mix of the Vanguard Total Stock Index and Vanguard Total International Index, we've managed to keep losses in our Moderate Risk account to just over 12% thus far. Conservative accounts are down a bit less, while Aggressive accounts are down a bit more.

There are a few things we can do better, and we are in the process of tweaking some things, but wholesale changes to our processes, especially at this juncture, would be more than likely, harmful. One cannot eliminate the risk of investing in the stock market, but we definitely try to minimize the downside. Knowing a bit about market history can be quite helpful when it comes to expectations. Over the past 100 years, the average bear market has tended to last 12-18 months and decline 30%. This bear market will be 12 months old in October (next month), and has already declined 29% based on the same mix referred to above of the Vanguard stock funds. In addition, remember that despite all of today's gloom, every bear market is followed by a bull market, which on average have lasted over four years.

As Alex Green stated today in his Oxford Club commentary, "Yes, today's circumstances are unprecedented. But what has been happening to stocks lately is as old as the market itself."

Too Late To SELL, Too Early To Buy

A common question recently from a number of clients has been "Why can't we move to something safe, and get back in when things are better?" This ignores the fact that we've been playing defense for the better part of a year. It's also an all or nothing bet that stocks will continue lower from here. More importantly, it's an abandonment of discipline, which in our experience, has almost always led to poor results. This is why we are being very careful here with changes in regards to risk tolerance. Inevitably, the general public wants to dump stocks en masse after a 30% decline, when history shows most declines are pretty much over. Yes--there is certainly the possibility that stocks will continue lower from here. Markets often do what we least expect, and it is why we mostly stay away from forecasting. We just follow the evidence, and right now, we would need to see more positive tape action before adding to exposure.

I should add that the month of October has often marked the bottom of many bear markets, including most recently October 2002. Yesterday's VIX reading (a measure of volatility) hit 46.7, the highest reading since the 2002 bear market bottom (see chart below courtesy of StockCharts.com). That doesn't guarantee a bottom, but it's encouraging, as is the price action of homebuilding stocks relative to the market (see ratio chart below, also courtesy of Stockcharts.com). Just as everyone over-believed the housing story in mid-2005, an equal if not greater level of pessimism has been present on the downside.

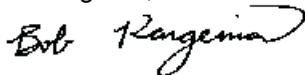
With all of the terrible news coming out every day, it may be hard to believe that housing is bottoming here. But I would say this—watch this chart, and ignore the media and all the BS from your friends. When this three-year downtrend is broken, better times will likely lie ahead for housing stocks.



Since Steve and I cannot possibly have over 200 individual conversations with clients in a short time span, email is the best way to quickly communicate our thinking. But we also recognize not all clients use email, so this will also be sent out via regular mail. If you have questions or concerns, don't hesitate to call us or email us. Please don't think--"Aw, they're too busy, I won't bother them." These are the times for why you pay us. One of us will get back to you as soon as is possible.

In that regard, please know that we will continue to manage your funds with the disciplined, unemotional and conservative approach we've used in various forms since 1988. We take this responsibility very seriously. But occasionally, even the best strategies we've developed will have to endure some rocky times in the market cycle--it is part of the process. Most of all, though, we have the utmost in confidence in our work, and **thank you for your continued support and trust in us.**

Best regards,



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