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**From:** [Bob Kargenian](#)

**To:** [Bob Kargenian](#)

**Sent:** Friday, October 05, 2007 4:55 PM

**Subject:** TABR Monthly Update

TO: All clients and interested parties  
FROM: Bob Kargenian

The month of September was quite strong for almost all of the major stock indexes, capping a respectable 3rd quarter, in which gains ranged from +3.77% for the NASDAQ to +2% for the S&P 500(large companies), to a loss for the Russell 2000(small stocks) of -3.1%. For the MONTH, the leading index was the EAFE(foreign equities), up 5.2%, followed by the NASDAQ(+4.05%), the S&P 500(+3.7%) and the Russell 3000(broad market), up 3.6%. As you can deduce, the Russell 2000 lagged in September as well, up just 1.7%.

The above numbers mask the internals that went on, reminding me of the saying, "If you don't like today's weather, wait a few days." From July 19 to August 16, the Dow Industrials dropped from 14,000 to 12,520(intraday). Today, October 5, the Dow closed at 14,066, regaining the entire loss in just 51 calendar days.

On the fixed income front, interest rates were fairly quiet in September, but dropped sharply during the quarter. The 10-year Treasury Note gained 4 basis points in yield for the month to 4.57%, but for the quarter, dropped from 5.03%. The 30-year Bond was unchanged for the month at 4.83%, but was down from 5.12% on June 30. Finally, three-month T-Bill yields dropped to 3.7% for the month, from 3.99%, and way down from 4.67% on June 30. The Fed cut the Discount Rate for a second time on September 18, and also lowered the Fed Funds rate for the first time in several years, dropping it from 5.25% to 4.75%. As you've all been reading, the Fed is desperately trying to avoid a recession and lessen the impact of the weakening housing and mortgage markets that are affecting parts of the country.

With the U.S. Dollar falling to 15 year lows, gold and gold mining stocks took off, with the Lipper Gold Fund Index rising 18.3% for the quarter, and 21% for the month of September(no misprint). The XAU Gold Index has gained over 36% since its bottom on August 16.

### **The Evidence**

In the past seven weeks, the character of the stock market has changed significantly, going from quite bearish to pretty bullish. As reported here, the NY Bullish Percent turned up on August 22 into a column of X's, and has now risen to 59%. All six short term indicators(10 Week Avg., 30 Wk Avg and High/Low) are in X's. Unlike most instances in the past, there was no retest of the mid-August low. This is a great example of not letting your fears, thoughts or an "agenda" get in the way of market analysis. Believe it or not, many stock indexes are at all-time highs.

On the side of concerns, excessive optimism has returned to the sentiment area, suggesting flat returns from current levels, or even a pullback. The advance/decline line has not confirmed the recent highs, and that is a condition that typically takes place at major tops. On the positive side, the stock market has advanced in 23 of the past 27 fourth quarters, so the odds are pretty good that on December 31, the S&P 500 will be above 1526, where it stood on September 28(keep in mind it has already gained 2% in the first 5 days of October).

### **Where We Stand**

On September 19, we increased our equity allocations to 75%, as the third of our four stock market risk models turned positive. Just two days later, our fixed income allocations changed,

with our high yield bond model turning positive, reversing its June 28 SELL. In the tactical portion of our fixed income allocations, accounts have approximately 80% weighted to high yield corporates and the remaining 20% in intermediate government funds. During the time from June 28 to September 21 when we had about 80% weighted to intermediate governments, yields on the 10-year Treasury Note fell from 5.11% to 4.62%.

At this time, there is no sign of any deterioration in our models, so I'm not anticipating any major changes for several weeks. Nor does it appear that our fourth stock model will turn positive soon. Stocks are overbought and overbelieved for now, but that does not mean they must go down. Confidence seems to have returned to the corporate bond market as a result of the rebound in stocks, and that has been a positive combination in the past. When the evidence begins to weaken, it should eventually show up in our models.

Here's hoping nothing SPOOKS the market before Halloween. Meanwhile, enjoy the month-- beautiful fall weather in many places, baseball playoffs, football in full gear and hockey just getting started. Well, you know where my head is other than following the markets. . . hopefully my Angels will show what their made of tonight(or not!).

Best regards,



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