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From: Bob Kargenian [mailto:bkargenian@tabr.net]

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To: bkargenian@tabr.net

Subject: TABR Monthly Update

TO: All clients and interested parties

FROM: Bob Kargenian

Domestic and foreign stocks continued strong in August, extending their gains since the March 9 bottom to nearly six months. The leading index for the month was the EAFE (foreign stocks), up 5.2%, followed by the S&P Midcap 400, up 4.4%. Both the S&P 500 (large stocks) and the Russell 3000 (broad market) were up 3.6%, while the Russell 2000 (small stocks), lagged, gaining 2.9%.

Interest rates continued lower, with the yield on the 10-year Treasury Note falling from 3.5 to 3.4%, and the 30-year Treasury Bond dropping from 4.31% to 4.18%. For the month, the Lipper Intermediate Government Index gained 1%, while high yield bonds continued strong, with the Lipper High Yield Fund Index up 1.5%.

Precious Metals were quiet, as the Lipper Gold Fund Index lost -0.1%.

The Evidence

The biggest pullback from any peak in price since the March 9 bottom has been just over 7%, which took place from early June to early July. The stock market is overbought by many measures and in need of further consolidation, but thus far, all pullbacks have been quite mild. That could change as we enter what is normally a poor seasonal period in September and October, but it does not have to.

Virtually all trend type components continue in a positive mode, including the NY Bullish Percent, which stands at 75.3% after reaching a peak at 78%. The peak in new highs has been 177 on August 3 with the NY Composite at 6565, while the NY Summation Index peaked at 5280 on August 13 with the NY Composite at 6604. The NY Composite has made a slightly higher high at 6722 on August 27, so there are very minor divergences in place. In addition, sentiment has gone from raging pessimism in March to near-excessive optimism at present.

Bottom line--a correction of 7-10% may be in the cards the next couple of months, but the probabilities suggest higher price highs are ahead of us. It would be quite rare for an important market top to be forming without MAJOR divergences in the NY Bullish Percent, advance/decline line, stocks hitting new highs and the NY Summation Index first forming. And, a quick reminder why one cannot use seasonality alone as an investment tool---remember all the media hype about SELL in May and Go Away?

This study shows that if you are only in the market from November 1 to April 30 and out from May 1 to October 31, since 1950, you would capture virtually all market gains with 50% less risk. Guess what--since April 30, the S&P 500 Index is up 16.4%. The point is--using seasonality without consideration of the current risk environment is a recipe for foolhardiness.

Where We Stand

Since early August, equity allocations have been nearly fully invested for the first time in several years. In addition, we've established an approximate 2% position in Moderate Risk and

other portfolios in real estate, using the IYR (Dow Jones Real Estate Index ETF) in larger accounts, and the Alpine Select Real Estate Income Fund in smaller accounts. And, last week on the sudden extreme strength in precious metals shares, we reduced positions in Van Eck by 50%, as this position has more than doubled since early November. We now have two different real estate risk models in use, along with two different precious metals models.

Fixed income positions continue fully invested in Loomis Sayles Bond, PIMCO GNMA and the respective over-weight positions in high yield corporate bond funds since mid-March. These areas continue to make new highs for the year, which is a positive sign.

That's it for now. School has pretty much started everywhere in the country, or will on Tuesday for those such as my son, Adam, who begins his freshman year at the brand new Yorba Linda High School. For those of you who've already been through the high school years with your kids, you may be on my short call list! And, if I'm fortunate enough to be here 10 years from now, I'll get to do it again with our 4 1/2 year old Caroline, who has started Pre-K. This will all make me 52 in November, going on whatever. Please know that Steve, Mary, Sylvia and myself really enjoy serving you and hope we'll be here a long, long time.

Best wishes,



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