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From: Bob Kargenian [mailto:bkargenian@tabr.net]
Sent: Tuesday, February 10, 2009 10:37 AM
To: bkargenian@tabr.net
Subject: FW: TABR Monthly Update

TO: All clients and interested parties
FROM: Bob Kargenian

After an encouraging start, January turned into the worst month ever for U.S. stocks. The drubbing was led by the Russell 2000 (small stocks), down -11.1%. Close by was the S&P 500 (large stocks) and Russell 3000 (broad market), both down -8.4%, while the S&P Midcap 400 (mid caps) lost -7.3%. International equities fared no better, with the EAFE down -9.9%.

Interest rates rose sharply from their depressed levels, with the 10-year Treasury Note jumping from 2.24% to 2.84%, while the 30-year Treasury Bond moved from 2.69% to 3.60%. Despite this, the Lipper Intermediate Govt Bond Index lost just -0.1% for the month. Meanwhile, there was a resurgence in corporate bonds, as the Lipper High Yield Fund Index gained 4.7%. Finally, the Lipper Gold Fund Index gained 0.2%, but prices were much more volatile than the closing number would indicate.

The Evidence
Though the S&P 500 fell nearly 14% from January 6 to January 20, it has rebounded almost 8% since then. Stocks seem in an indecision pattern, ranging from 800 to 935 on the S&P 500 and from 8000 to 9000 on the Dow Jones Industrials. Many technical analysts argue that stocks MUST make a new low before heading higher, while others argue we've likely seen the low on November 20. Our stance is much like the illiterate, apathetic child--we don't know and we don't care. Guessing and opinions are not part of our investment process, because they don't work.

As Dan Sullivan from The Chartist recently said, "The pundits are predicting doom and gloom, but it is always this way in the throes of a bear market; and it is also a good indication that we are a lot closer to the bottom."

I've previously stated that it is likely the stock market is in a bottoming process that began last October/November, and could last anywhere from 6 to 9 months. Nothing has altered that belief. A few of you who've called recently have stated something like "I can't see economic conditions getting any better for many months, and in fact, they're going to get worse." I don't disagree with that notion, but it has nothing to do with how stocks and bonds will perform.

A great example is the January Barometer. No doubt you've now heard that because the month of January was down, 2009 will be down. Past history only suggests those odds are only about 50/50. That is not a record I would bet on. As it virtually always does, the market will tell us by its own action.

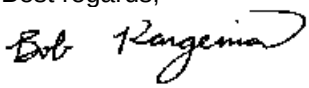
Where We Stand
We remain in a relatively defensive posture with respect to equity allocations, at about 35%. Our longer term stock market risk models remain quite negative, and you won't see our equity exposure up in the 60-75% range or higher until they turn positive. That is likely weeks away, if

not months. On January 26, we sold substantial positions in our high yield corporate bond funds, reducing exposure to mostly our core levels. This reverses the BUY we acted upon on December 24. This was a very favorable period for this sector of the bond market.

Instead of moving this capital to intermediate government funds, as is normal, the money went to cash for the time being. Thus far, high yield funds have continued to act well, ignoring our model's SELL signal. Should conditions continue to improve enough for a fresh BUY, money will be re-allocated back in favor of this area. There is no change in our gold stock or real estate positions. Our position in Van Eck (gold stocks) is up over 60% since its purchase in mid-November, which probably means it is due for a correction.

Our printed quarterly newsletter is now due, so look for that in your mailboxes in the next two weeks. In the meantime, may you all have a special Valentine's Day this Saturday. As many of you know, that day is extra special in our household, with our little princess Caroline celebrating birthday # 4. We'll also keep you posted on Steve's wife, Kim, who is expecting their second child (a BOY) in approximately six weeks.

Best regards,



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