500 N. State College Blvd., Suite 1320, Orange, CA 92868
Office (714) 704-9180 | Toll Free (800) 220-8219 | Fax (714) 937-1886 | www.tabr.net

December 3, 2014

TO: All clients and interested parties
FROM: Bob Kargenian

In the last quarterly letter, we featured a section on analyzing one's Social Security benefits and the various claiming strategies that are available to individuals. Did you know there are over 8000 different permutations of this benefit? That is as bad as the tax code. I don't think we'll find a person who can say "I'm from the government, and I'm here to simplify your life!"

Though this topic is not as relevant for our clients in their 30s and 40s, it certainly begins to resonate when you reach your 50s and 60s. Ironically, in one of the publications we subscribe to, I came across a handy reference tool called the Baby Boomer's Guide to Social Security, and liked it enough to enclose a copy.

Among other things, it covers how spousal benefits are calculated, how divorce affects Social Security benefits, how widowhood affects Social Security benefits, and how working and pension income affect benefits. I think you'll find it quite helpful.

Also included in this issue is the long-term research on our high yield bond strategy, which is a big component of our bond allocations and all-bond accounts. While always following the discipline of our models, we continue to hope for a substantial decline in high yield bond prices during the next couple of years. Finally, along with the usual recap of the performance of TABR's various strategies, we've included a section on our recent experience in the area of solar panels for your home, in hopes that it may benefit some of you who may be considering this process to save money on your electric bill.

The TABR Bond Account and Bond Strategies

If you think predicting the direction of the stock market is difficult (and it is), forecasting the trend of interest rates is no easier. At the beginning of 2014, almost every "expert" was opining that interest rates had only one way to go---up. But, in fact, the 10-year Treasury yield has dropped from 3% down to 2.22%, and longer-term yields have dropped as well.

Fortunately, the method we use to manage our bond allocations does not rely on predictions, but rather follows price trends, and is adaptive. This is why we've stated repeatedly that we're not as worried about rising rates as others are, because we have a disciplined way to deal with them.

First, a bit of context and history. Prior to the end of 2008 and 2009, we were using almost exclusively high yield bond funds with our timing models for bond allocations, though we did own some individual GNMA bonds in accounts when yields were fairly decent. Though the Loomis Sayles Bond Fund is not purely a high yield corporate fund, it tends to act like one, and we've been using it in accounts since 2004 along with high yield funds such as PIMCO High Yield, Blackrock, Prudential and others.

After the substantial drop in corporate bond prices in 2008, we tightened up our risk model for the Loomis Sayles Fund, diversifying it into several iterations, and added conservative exposure with PIMCO GNMA and the Hussman Strategic Total Return Fund. The latter fund was eliminated from portfolios after we decided it was not prudent to own a bond fund that was investing in precious metals shares, and replaced it with the Sierra Strategic Income Fund, run by principals in Santa Monica,CA, that we have known for many years and use similar models to the ones we use.

As it stands today, our bond allocations are currently about 70-75% in high yield funds (including Loomis Sayles), with the other 25-30% split between GNMA and Sierra. We established a real-time all bond account in the summer of 2007 and below is its record since then, along with a comparison to the Vanguard Bond Fund Index.

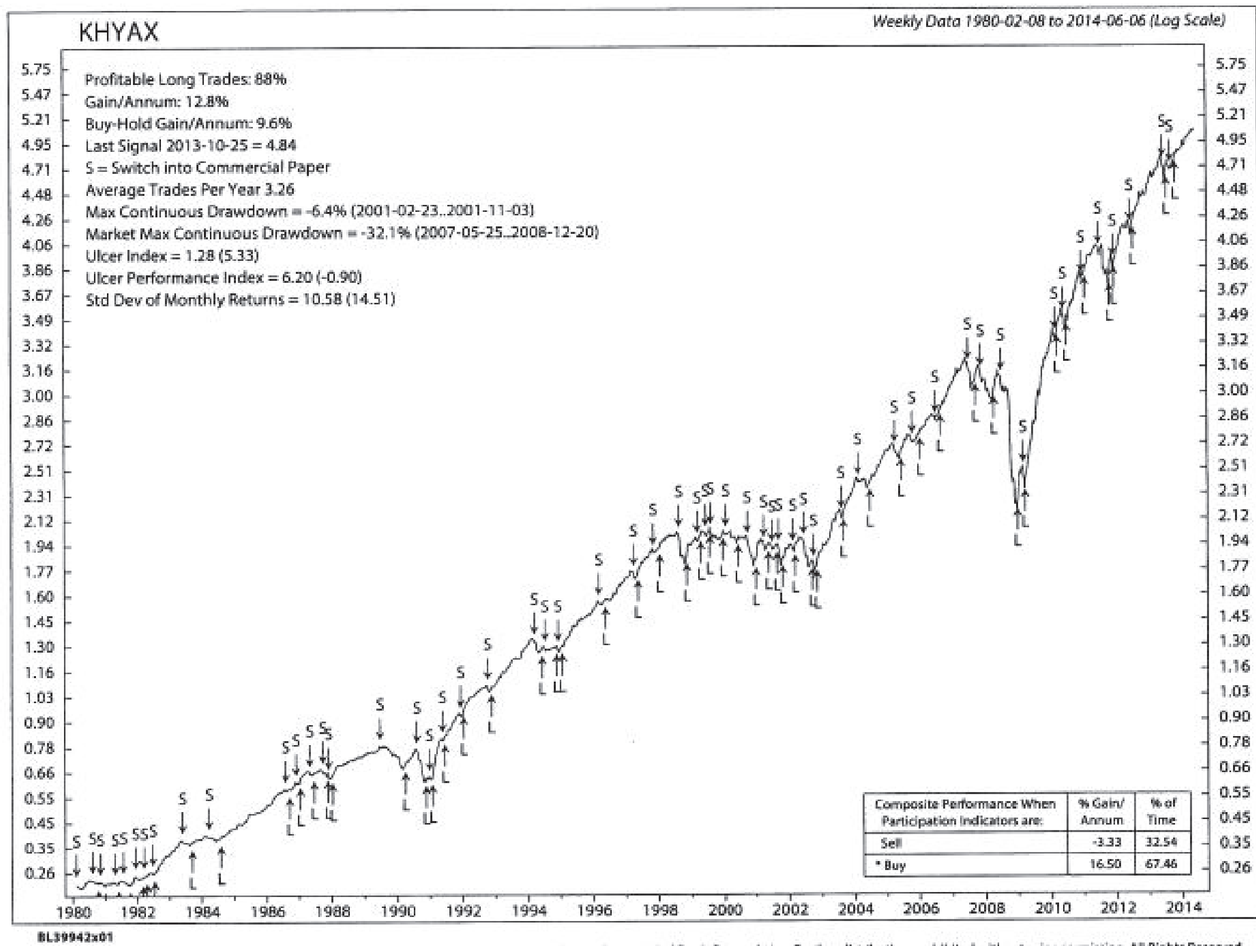
Performance of TABR All-Bond Account in Real Time since 2008

Year	TABR Bond	Vanguard Total Bond Index
2008	-11.73	5.05
2009	36.52	5.92
2010	8.67	6.42
2011	4.35	7.56
2012	7.34	4.05
2013	-0.46	-2.27
2014*	3.96	5.65
compound return	**6.2**	**4.6**

* thru 11-28

I have been trading corporate high yield funds since 1988 using a trend-following mathematical formula designed to capture and maximize gains, while minimizing the downside. From 1988 to 2003, we used daily price data for these signals, and in 2004 switched to weekly price data in order to reduce the number of trades. Since 2004, we've been using the same exact formula on all high yield funds (PIMCO, Blackrock, Prudential, Principal, etc). To give investors a proper context of the history of this approach, we applied this work to the DWS High Income Fund (symbol KYHAX) in the chart below, since the fund has been in existence since 1980.

You can see that the model has been effective in two very distinct ways---it has substantially beaten the approach of simply buying and holding the fund, and it has also significantly reduced the risk of owning the fund.



Composite Performance When Participation Indicators are:	% Gain/ Annum	% of Time
Sell	-3.33	32.54
* Buy	16.50	67.46

The strategy tested is simply owning the fund when the model is on a BUY signal, and moving to cash when the model is on a SELL signal. Had you simply purchased and held the fund, the annual compound return since February of 1980 has been 9.6%, but when using the model it grows to 12.8%. Importantly, the worst drawdown the fund has ever suffered took place during the 2008-09 period, when the fund fell over -32%. Our model reduced this loss to less than -7%. That is a terrific combination. We use a similar approach with the Loomis Sayles Bond Fund and PIMCO GNMA, with simply different formulas.

For even more detail, including the realistic inclusion of a management fee, below is the year-by-year history of the strategy, net of fees, including a 5-year rolling compound return.

Date	Equity Line	Mgt Fee	Net	5 yr rolling returns	KHYAX (Buy and Hold)
12/31/1981	24.04	(0.75)	23.29		12.87
12/31/1982	34.3	(0.75)	33.54		37.60
12/30/1983	21.4	(0.75)	20.69		17.96
12/28/1984	14.8	(0.75)	14.02		10.76
12/27/1985	22.3	(0.75)	21.51	22.40	22.26
12/26/1986	17.4	(0.75)	16.60	21.10	17.88
12/31/1987	1.6	(0.75)	0.81	14.50	4.58
12/30/1988	12.9	(0.75)	12.14	12.80	15.24
12/29/1989	9.2	(0.75)	8.45	11.70	(0.90)
12/28/1990	10.9	(0.75)	10.15	9.50	(13.40)
12/27/1991	40.4	(0.75)	39.61	13.50	45.63
12/31/1992	11.7	(0.75)	10.98	15.70	17.96
12/31/1993	20.1	(0.75)	19.32	17.20	20.07
12/30/1994	1.2	(0.75)	0.47	15.40	(1.55)
12/29/1995	16.7	(0.75)	15.93	16.60	18.23
12/27/1996	12.0	(0.75)	11.28	11.40	13.21
12/26/1997	9.4	(0.75)	8.68	10.90	10.99
12/31/1998	8.8	(0.75)	8.01	8.80	1.28
12/31/1999	0.9	(0.75)	0.17	8.70	4.50
12/29/2000	1.6	(0.75)	0.88	5.70	(9.41)
12/28/2001	4.6	(0.75)	3.87	4.30	4.32
12/27/2002	3.4	(0.75)	2.62	3.10	(1.13)
12/26/2003	22.6	(0.75)	21.83	5.60	25.04
12/31/2004	12.0	(0.75)	11.29	9.80	12.60
12/30/2005	3.7	(0.75)	2.94	10.20	4.05
12/29/2006	7.0	(0.75)	6.21	10.70	10.54
12/28/2007	4.8	(0.75)	4.05	11.00	0.83
12/26/2008	2.8	(0.75)	2.06	7.20	(26.67)
12/31/2009	52.0	(0.75)	51.25	11.90	47.01
12/31/2010	9.9	(0.75)	9.18	13.20	14.41
12/30/2011	6.1	(0.75)	5.40	13.10	3.98
12/28/2012	13.0	(0.75)	12.23	14.80	15.33
12/27/2013	4.1	(0.75)	3.34	15.10	7.03

First, note that the fund itself has had only 6 losing years in its 33-year history prior to 2014, but two of those years had double-digit losses and a third was close at nearly -10%. In contrast, our model has never lost money in a calendar year yet. That does not mean it won't, or can't. It simply shows the effectiveness of the model over a very long period of time, using a management fee that is 50% greater than the one we have been using in real time (0.50% annually).

Client Question---I keep hearing that bond funds will lose a lot of money when interest rates rise, and I see we have a lot of money in bond funds (*45% in Moderate accounts and 60% in Conservative accounts).* I'm worried.

It is a mathematical fact that bond funds will lose money when interest rates rise, but the size of the losses are dependent on how fast rates increase, and the type of bond funds (or bonds) one owns. As shown above, if one owns corporate high yield funds (also known as junk bond funds), investors

adhering to a passive strategy of just buying and holding should be prepared to lose over -30% of their money at some point. High yield bonds are highly correlated with the performance of the stock market, so when stocks eventually decline by 30% or more sometime in the future, it will be no surprise that high yield funds drop by 20% or more.

This will inflict significant pain on passive investors, yet will be great opportunity for tactical investors who use approaches similar to TABR's. In contrast, investors in intermediate term government bond funds will not suffer as greatly when rates increase, but they will suffer.

One example to illustrate this would be to look at the PIMCO Total Return Fund (PTTRX) during the 2013 jump in rates, when the yield on the 10-year Treasury Note rose from 1.63% on May 5 to 2.98% on September 5 (a 1.35% increase in yield in four months). During that period, PTTRX lost -6.4% of its value (including dividends). For the full year as yields rose from 1.84% to 3.03%, the fund lost -1.96%. Is that so terrible?

Investors need to be reminded that bonds are in a portfolio to provide income and stability, especially in comparison with the stock market. It's also imperative that investors understand the approach being used with bonds. A passive approach to bond investing is at significantly greater risk of losing large amounts of money in comparison to a tactical approach such as TABR's. This is true of the stock market as well.

As far as where interest rates are going---everyone seems convinced that there is no direction but up. Our position is we have no idea, and it won't matter regarding the success of our bond portfolios. Our models will take us in the right direction. Personally, I feel that rates are going to stay lower for much longer than people think, but we are certainly HOPING for higher rates, because they will present us and our clients with better opportunities to earn higher returns.

At present, the current yield on the 10-year Treasury Note is 2.22%, and the average yield in the high yield bond market is around 5.5%. These are not terrific starting points for returns looking out the next five years, but we also need to remember we have been dealing with effectively 0% money market yields for over five years now.

Solar Panels / Solar Energy For Your Home

To our knowledge, we're aware of a limited number of clients and friends who have gone the route of installing solar electricity in their homes. No doubt some consumers are motivated by "going green," but I believe the primary driver for most is a desire to save money on one's power bill.

We are in the midst of doing this at our home in Yorba Linda, and I thought I would share what I know at this point in that it might help someone contemplating this process. Please know this is not the end all in analysis, as there are a lot of factors, and a lot of companies vying for your business, but hopefully this will give you a general overview.

I first attended an education seminar presented by Southern California Edison. A few things came out of that meeting. I learned that if one's monthly bill was running about $225 or less, you're really not a candidate to consider this since the savings would be minimal if at all. It also became apparent it was like learning a new language, with all the terms being unfamiliar, such as power inverters and PPAs (power purchase agreements). There are differences between leasing and buying, as well as paying everything up front versus putting nothing down.

Accordingly, about 3 of every 4 new installations today are choosing some type of lease/PPA as opposed to buying up front. When confronted with a choice of putting out perhaps $20,000 to $40,000

upfront, and a breakeven period of maybe five to 10 years, depending on the size of one's house and the size of the system installed, it is an easier sell to consumers to be told something like this---put no money down and begin to immediately save $200 per month for the next 20 years (again, the figures vary with each home).

It is recommended that you get at least 3 bids/proposals; and I agree with that, but will say it is not simple to try and make an apples to apples comparison. For instance, Solar City will tell you that all of their installations are done by their employees, and will make it sound like this is a big selling point in comparison to the competition, almost all of whom use sub-contractors to install the residential photovoltaic systems. Meanwhile, the competitors will answer that objection by indicating they are not experts in installation, so they choose to hire professionals who do that every day, and that is why they sub-contract the work. And, you're left wondering, which is better?

Before I began the proposal process, I was aware that Solar City was the biggest provider in the industry, but really had no idea who the other providers were and where to start. TABR partner Steve Medland installed solar in his home back in May 2013 using Solar City and has been pleased, so they were one of the three companies I felt I should talk with. In addition, a few close friends of ours were in the middle of this as well; and one of them had interviewed 7 different companies before hiring one.

I wasn't about to go through 7 meetings; so I asked our friend for his top 3, including of course the one he hired. They were Solar City, Sungevity, and Sun Pro; and that's who I decided to get proposals from. The first meeting I had was with Solar City, and their sales person came out to the house and proceeded to spend nearly two and a half hours. He was very thorough, stressing the backing of the company, their financial condition and partners and much more. I was impressed, but it was almost too much information.

With Sungevity, the initial consultation is done over the phone combined with the Internet. The call lasted about one hour, and during the time on the phone, I could always hear a number of voices in the background. Near the end of the call, I could hear what sounded like a lot of cheering in the background; and the sales person told me someone in the office had just landed a new contract. It made me feel like I was dealing with a boiler room penny stockbroker, and pretty much decided right there I was not about to do business with Sungevity.

The final meeting was with Sun Pro; which was the company our friends had hired, with several other mutual friends just recently hiring them as well.   I knew nothing about Sun Pro prior to the meeting, but learned from a variety of sources on the Internet that they apparently manufacture the best and most efficient solar panels in the industry (at least for now).

Our friend who has been working with them for about 1 year, had good things to say about their customer service and this seemed apparent when their sales manager came to our house. It was almost as if they were familiar with us, and we were already comfortable with them. For those of you who run and work in small businesses, I'm sure you can relate. When you receive a referral from a satisfied client, you want to make that client look and feel good, and you definitely want to give their friends an exceptional customer service experience.

In the end, we decided to hire Sun Pro, and it wasn't because there was a clear edge over Solar City. I'm comfortable in recommending both companies, but I think the intangible for me was the more personal touch I felt with Sun Pro.

Here are a few other things to contemplate. The agreements with these companies are typically for 20 years, whether you are purchasing the power up front or "leasing" it over time. The premise of these

deals is that electricity rates are likely to increase over time at rates estimated of about 5% annually. That is not a given—it is an assumption. For those who have monthly electric bills in the $350-400 and up monthly range, a large portion of this bill is from what is called Tier 3 and Tier 4 rates, which are currently running at the cost of $0.28 per kilowatt hour (kWh) and $0.32 cents. In contrast, the lower Tier 1 and Tier 2 levels are at $0.15 and $0.19.

In our latest monthly bill ending November 19, 76% of our usage was billed at the higher Tier 3 and Tier 4 rates. If you purchase the power all up front as Steve did, you will typically lock in the rate at about $0.16 kWh, and the longer you stay in your home, the more you will save over time, but there is a break-even period one must calculate before you recoup the funds you paid out upfront. In Steve's case, he estimates it at about five years. Obviously, the shorter the time to break even, the better.

For those who choose the no down payment option, you are saving money from the first month on, but the amount of savings over time is less versus the up front option. All three companies had a plan where you start out at about $0.165 kWh, and this escalates at the rate of 2.5% annually (so keep in mind, your monthly payments will increase over time). When you do the math, you will find that at the end of 20 years, you will be paying about $0.25 kWh, but you'll note that is still below today's rate of Tier 3. There is no way to know where Tier 3 rates will be in 20 years, but it would seem plausible they will be higher than they are today.

With the no down payment option, one can also choose to lock in the rate; and that is what we chose to do, at $0.19 kWh. Though our monthly payment will be higher for about 9 years in comparison to the escalating clause option, I prefer the certainty of knowing what my fixed costs are---much like I prefer fixed rate mortgages over variable rate loans.

An obvious question is what happens if you sell your home during the term of the agreement? It's important you know the worst case scenario, since many of us will not necessarily stay in our home for 20 years. The agreements can be transferred to the home owner, but they need to agree to take over the agreement. You would think this wouldn't be an issue if you could show a prospective buyer of your home that you have locked in rates at $0.19 kWh when a large majority of their bill is at rates much higher.

That is the assumption, anyway. But, what if the buyer refused? Then, you need to understand you are on the hook for the remainder of the agreement. It is like buying a car and using financing with a car loan. If there are 3 years remaining on your loan and your car gets totaled, you still have to pay off the loan.

All in all, our monthly payments are scheduled to be about $296; and with our average monthly electric bill averaging between $450 and $500, I'm going in this process with the hope of saving about $200 per month initially, and more over time. At present, our system has not been installed, as we are awaiting approval from the city. Even after installation, I'm told the system may not be hooked up to the grid for at least another month; and the typical installation appears to be taking about 3 months, give or take.

Hopefully, by next December we will have about 10 months under our belt to compare and will report back with an update. We have a lot of smart clients, and no doubt some of you have superior knowledge in this area than what I have presented here, so if I have missed something critical or there are some glaring inaccuracies in what I have conveyed, please let me know so I can correct it and pass it along.

Performance of TABR Bond, TABR Fully-Invested PBA & TABR Tactical

Below is the performance, net of management fees, of TABR's five different portfolios at present. 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 nine-month period ending September 30, 2014 as well as the peak-to-peak cycle from September 2007 to September 2014.

Type of Account/Strategy	YTD	Benchmark	09/07 to 09/14^	MaxDD
TABR Tactical Moderate	+1.01%	+ 4.55%*	+ 0.79%	-25.06%
TABR Tactical Conservative	+1.45%	+ 4.48**	n/a	
TABR Tactical Bond	+3.75%	+ 4.06***	+6.23%	-19.73
TABR Dividend Stock	n/a	+ 10.39****	n/a	
TABR Fully Invested PBA	+3.11%	+ 4.69	n/a	
Vanguard Total Stock	+6.85		+6.30	-55.38
Vanguard Total IntlStock	-0.06		- 0.40	-60.60
Vanguard Total Bond	+4.06		+4.80	-5.36

*consists of 40% Vanguard Total Stock Index, 15% Vanguard Total International Stock Index and 45% Vanguard Total Bond Index
**consists of 30% Vanguard Total Stock Index, 10% Vanguard Total International Stock Index and 60% Vanguard Total Bond Index
***Vanguard Total Bond Index
****Vanguard S&P 500 Index Fund from 10/14/14 to 11/28/14
^ denotes annualized returns and actual period is 9/30/2007 to 09/30/2014
MaxDD stands for maximum drawdown, the worst loss from peak to trough in the period noted
Returns shown are net of management fees, and include reinvested dividends

During the third quarter, our portfolios retreated a bit, both on an absolute basis, and relative to the fully invested benchmarks we note above. Though large company stocks as measured by the S&P 500 managed about a 1% gain, there was significant deterioration in small stocks (-7.3% for the Russell 2000), mid cap stocks (-4.1% for the S&P Midcap 400), international equities along with high yield corporate bonds (about a -1.4% loss for the Lipper High Yield Fund Index).

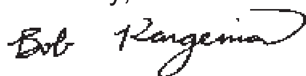
In other words, diversification wasn't helpful during this period, but that's not likely to be the case over the long term. Entering the third quarter, three of our five core equity holdings were in small and mid cap funds based on our relative strength rankings. One of those funds, Southern Sun Small Cap (SSSFX) was sold on October 3 due to a drop in its performance ranks, and replaced with Hotchkis & Wiley Value Opportunities (HWAAX). We'd originally purchased SSSFX on May 29, 2012 and it gained 57% during the period, versus a 45% gain for the blended Vanguard benchmarks we use.

A follow-up note to last quarter's newsletter which introduced TABR's new Dividend Stock strategy---we established a fully-invested position in the midst of the Dow's 500-point panic decline on October 15. In hindsight, it was about a perfect entry, as stocks have rebounded sharply in the six weeks since. From the close on October 14 to November 28, the Vanguard S&P 500 Index fund gained 10.39% while the TABR Dividend account was up 6.35%. As new accounts are opened and paperwork arrives at different times, we are being patient with regards to phasing in money, as stock market sentiment

indicators are once again showing excessive optimism, similar to their condition in mid-September prior to the near -10% drop in the S&P 500 Index in about four weeks.

As always, all of us at TABR are continually grateful for the trust and confidence you express in us daily. Wishing you Happy Hanukkah, a Merry Christmas and a Happy New Year.

Sincerely,



Bob Kargenian, CMT
President

TABR Capital Management, LLC ("TABR") is an SEC registered investment advisor with its principal place of business in the state of California. TABR and its representatives are in compliance with the current notice filing and registration requirements imposed upon registered investment advisors by those states in which TABR maintains clients. TABR may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements.

This newsletter is limited to the dissemination of general information pertaining to our investment advisory/management services. Any subsequent, direct communication by TABR with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of TABR, please contact TABR or refer to the Investment Advisor Disclosure web site (www.adviserinfo.sec.gov.).

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 shown 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.

The TABR Dividend Strategy presented herein represents back-tested performance results. TABR did not offer the Dividend Strategy as an investment strategy for actual client accounts until September/October 2014. Back-tested performance results are provided solely for informational purposes and are not to be considered investment advice. These figures are hypothetical, prepared with the benefit of hindsight, and have inherent limitations as to their use and relevance. For example, they ignore certain factors such as trade timing, security liquidity, and the fact that economic and market conditions in the future may differ significantly from those in the past. Back-tested performance results reflect prices that are fully adjusted for dividends and other such distributions. The strategy may involve above average portfolio turnover which could negatively impact upon the net after-tax gain experienced by an individual client. Past performance is no indication or guarantee of future results and there can be no assurance the strategy will achieve results similar to those depicted herein.

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.

A list of all recommendations made by TABR within the immediately preceding one year is available upon request at no charge. The sample client experiences described herein are included for illustrative purposes and there can be no assurance that TABR will be able to achieve similar results in comparable situations. No portion of this writing is to be interpreted as a testimonial or endorsement of TABR's investment advisory services and it is not known whether the clients referenced approve of TABR or its services.