

The point I really want to make is that the inflation v. deflation story is the single biggest investment story right now and being on the right side of that trade will effectively secure your investment returns for years to come.

Niels C. Jensen

The government is printing lots of money and borrowing even more; that's not the basis for a sound currency.

Jim Rogers

I am 100% sure that the US will go into hyperinflation.

Marc Faber

The Fed is much more worried about when will this thing turn around, will we have deflation, and if so what can we do about it?

Alice Rivlin

We have a structural problem in that deflation has the potential to get some very real traction going forward.

John Mauldin

Composite / Index	Q2 %	YTD %
Regan Macro Absolute Return*	+ 5.95	+ 3.89
Regan Aggressive Return*	+ 5.13	+ 0.07
Regan Managed Futures*	+ 9.20	+ 6.40
HFRX Absolute Return Index	- 2.07	- 2.59
HFRX Macro Index	- 5.47	- 6.06
Dow Jones Industrial Average	+ 11.0	- 3.75
S & P 500	+ 15.25	+ 1.75
NASDAQ	+ 20.0	+ 16.35
Balanced Composite (60% Wilshire 5000 & 40% Lehman Aggregate Bond)	+ 10.77	+ 3.83
Gold	+ 1.96	+ 7.44
Commodity (DJ AIG)	+ 11.60	+ 4.50
Vanguard Treasury Money Market Fund	+ 0.04	+ 0.14
Oil	+ 40.75	+ 56.75

Performance numbers for the Regan Aggressive, Absolute Return, and Managed Futures composites are back tested with best efforts internally by Regan Investments and not audited by outside parties. Past performance should not be regarded as an indication of future returns. Share values in the accounts will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original investment. All other performance numbers for listed indices, managers, and stocks are not verified by Regan Investments. They are taken from public sources and Regan Investments does not claim any responsibility for their accuracy. For a complete list of our sources, or a detailed explanation on how we calculate our internal numbers please contact Regan Investments directly.

* Net of Fees

Market Review

Similar to last quarter, Q2 was all about volatility. Early this year we added to our equity positions, but we are now limiting our exposure again. With the strong rally the indices have seen in the last three months (+30%), it is likely we are beginning to see a market correction.

Our cover page has several quotes about inflation and deflation. As you will read, we have our opinion as to which will prevail, and we share Jensen's view that investors who get it right will secure their future investment returns.

THE ECONOMY

In our last newsletter, we discussed potential headwinds and tailwinds that we see going forward. One of the areas we discussed was the role of the consumer. As shown in the chart to the right, the consumer has gone from saving nothing at the end of 2008, to saving nearly 5% as of January, and nearly 7% as of June.

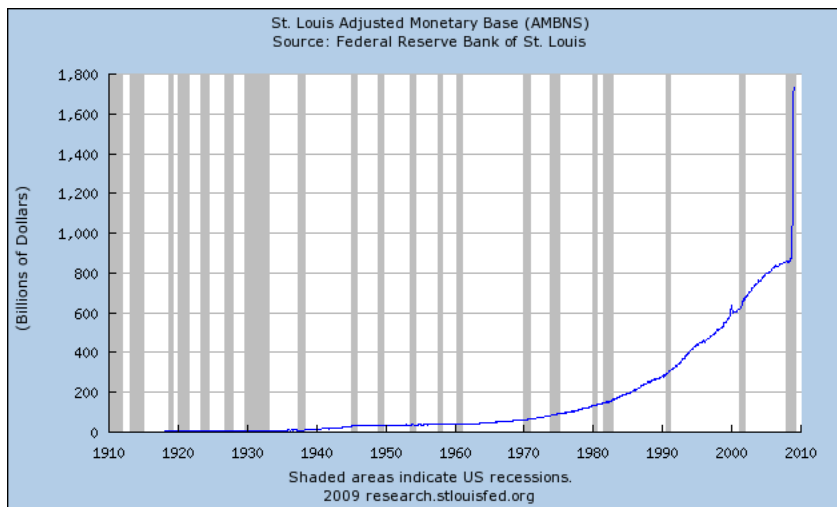
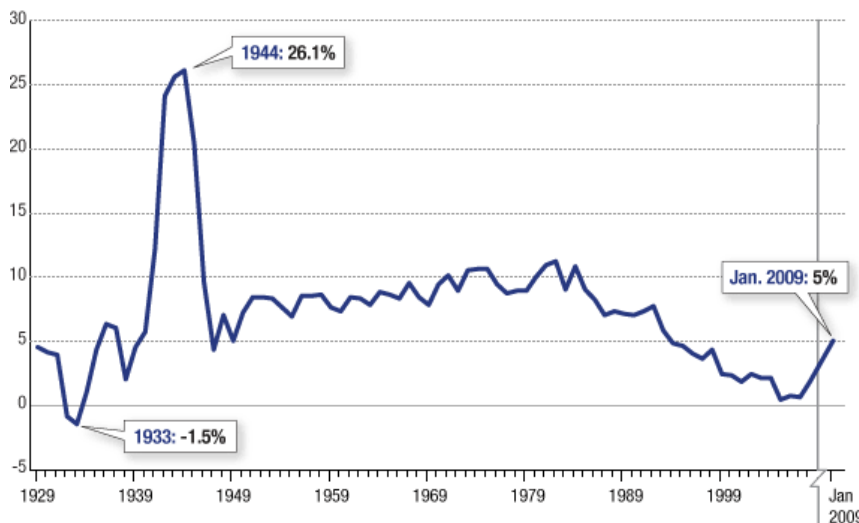
Is this positive? Yes and no. While it certainly is good that consumers are taking on less debt, our economy is over 70% consumer driven. If this fuel dries up, the engine will definitely slow down. On the other hand, if we are to ever avoid the perils of debt destruction, we will have to learn to live within our means and start saving.

Other consumer-related issues include option ARM resets, lack of available credit, and the shortfall of government stimulus. All in all, progress will be limited until balance sheets have been restored.

The monetary base continues to expand monumentally as the Federal Reserve primes the pump (see second chart at right). After a short-term period of deflation, we think these policies will promote higher rates of inflation.

To protect against deflationary forces, we have positioned our accounts in high quality, short-term corporate bonds yielding between 5-6% per year. Our timing in purchasing these bonds worked out great as most have appreciated considerably. If another wave of selling occurs in these types of bonds, we will look to buy more.

Further, our gold-related positions will help protect against both deflation and inflation going forward. Gold does well in deflationary times (1930s) and inflationary times (1970s).



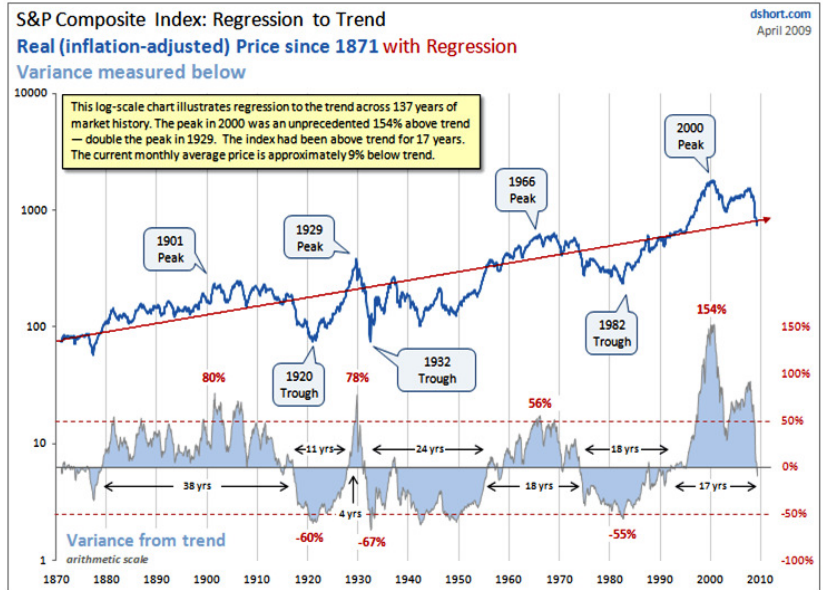
Market Review, Cont'd.

Stocks — The market has already rallied over 30% this quarter and our opinion is that investors should start lightening up to protect their gains. We feel that stock returns will be threatened by a decrease in corporate earnings. Realistically, any recovery to earnings will probably only amount to 50-60% of the highs in 2006-2007. P/E ratios will most likely contract due to higher taxes, interest rates, and poor investor sentiment.

With the Dow at 8500, we estimate a 35% chance of a decline below 7500, a 25% chance of a rise above 9,500 and a 40% chance of a move somewhere in between. If we are correct in our assumptions, it will pay to be cautious.

As the chart to the right shows, the S&P 500 has just dipped below the mean when looking at the real (inflation adjusted) price since 1871. While this time might be different, it is very likely that we will see a trough similar to 1920, 1932, and 1982.

As we've stated many times in the past, asset allocation accounts for nearly 90% of portfolio performance and needs to be viewed in both a strategic (longer-term) sense and a tactical (shorter-term) sense. We continue to favor defensive sectors such as health care and consumer non-durables (McDonalds, Wal-Mart, General Mills, etc).



Bonds — Since February, long-term interest rates have moved up from 2 1/2% to 3 3/4% on the 10 year Government bond, and prices have declined by 20%. If these interest rates move higher, annual deficits will increase to very high levels creating more rollover risk.

Mortgage refinancing has slowed considerably in the last month and a lot of people missed the chance to lower their monthly payments. This will hurt consumer spending and will cause many more homeowners to ultimately lose their homes.

We continue to believe that the liquidation of debt in the private sector will stall any serious attempts for recovery over the next several years. Debt is now over 350% of GDP (see chart). Government debt to GDP is only 60% but we think this will exceed 100% in the next 5 years.

Investment is key to any recovery, and the combination of debt liquidation, higher taxes, and banks frightened to lend will force the government into a much larger role for better or for worse.



Market Review, Con't.

Commodities — The commodity sector has benefited from inflationary concerns and hopes that the global recovery will pick up steam in late 2009 or early 2010. As it is with all markets, allocation in the commodity space was key over the last quarter, as the chart to the right highlights.

We are mixed on commodities as we think there is decent value in some areas like natural gas, but we also feel that the major areas such as oil and the industrial metals have significant downside. We agree that over the next 50 years demand will increase as China and India improve living standards. But, 50 years is a long time, and the demand part of the equation looks to favor necessity (food) over prosperity (industrial metals) for the next 10 years. In the interim, we buy the idea that in the next several years the commodity sector will have pockets of great value, especially if inflation picks up. We will continue to look for value in this asset class.

Gold — In what feels like a stealth run to the upside, gold continues to have people shaking their heads. If it weren't for huge run-ups in other commodities, gold's year-to-date advance of 8% would be viewed more favorably. In Q2, with the dollar down over 6%, dramatically increased government spending, and fear still prevalent within the markets, gold's measly 2% gain seems pretty bearish. However, seasonal forces are historically weak through the Summer as Indian buying usually picks up in the Fall. In addition, China has continued rhetoric that favors increased gold reserves as their bond investments look more at risk to a weak US dollar.

At \$930 per ounce, we expect gold to be relatively flat with a downside to roughly \$875. The speculative blow-off stage for gold looks within sight as central banks are a lock to spend and print money to offset economic weakness. We continue to think gold stocks look particularly good for the next several years.

In the same time-frame, we think the US dollar could rally over the next 3-6 months and then begin a 3-5 year descent. This would cause gold, stocks, and commodities to run higher.

Hyper Inflation or Death Spiral Deflation? — We are on the side that thinks deflation will be prevalent over the near term but ultimately inflation will heat up. US spending could very easily spiral out of control. With foreigners holding most of our debt and an increasingly negative goodwill towards the US on a global scale, it would take less than one would think for things to get out of control. Use Citigroup or AIG as an example. Very few thought the stock prices of these former behemoths could reach near penny stock status; yet they did, and they did so quickly. The chart to the right shows how fast hyper inflation consumed Germany as it took unforeseen amounts of Marks to buy the same ounce of gold.

Our job is to be on the lookout for such abnormalities, and invest accordingly. As the last year has proved, all outcomes are possible.

COMMODITY	3 MONTH PERFORMANCE
Crude Oil	+ 41%
Natural Gas	+ 3%
Gold	+ 2%
Silver	+ 17%
Corn	- 12%
Soybeans	+ 25%
Cocoa	- 5%
Sugar	+ 36%

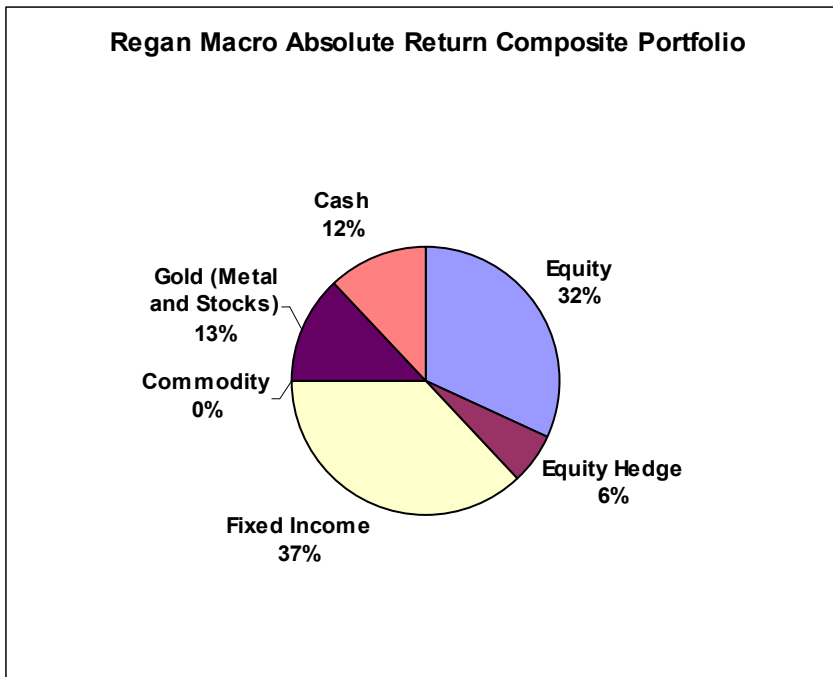
Date:	German Marks needed to buy one ounce of gold
Jan 1919.....	170.00
Sept 1919.....	499.00
Jan 1920.....	1,340.00
Sept 1920.....	1,201.00
Jan 1921.....	1,349.00
Sept 1921.....	2,175.00
Jan 1922.....	3,976.00
Sept 1922.....	30,381.00
Jan 1923.....	372,477.00
Sept 1923.....	269,439,000.00
Oct 2, 1923.....	6,631,749,000.00
Oct 9, 1923.....	24,868,950,000.00
Oct 16, 1923.....	84,969,072,000.00
Oct 23, 1923.....	1,160,552,882,000.00
Oct 30, 1923.....	1,347,070,000,000.00
Nov 5, 1923.....	8,700,000,000,000.00
Nov 30, 1923.....	87,000,000,000,000.00

Our Portfolio

Most of the quarter was spent managing our weightings in various asset classes. We began the year with roughly 30% in equities and maintained those levels until recently.

As the current rally has worn on, the internal numbers of the market have weakened, and we have begun reducing our exposure to our current level of 20% (Equity - 2XEquity Hedge).

We bought a position in General Mills which has done well for us. We may look to buy more going forward. Other than that, our buying was limited to inverse ETFs to hedge our stock exposure.



We sold major positions in Berkshire Hathaway and Marsh and McLennan. We think both will perform similar to the overall market and used our sales to capture some tax losses. Also, after nearly doubling our money, we sold our position in JP Morgan.

On the fixed income side, we shortened our duration by selling major positions in the Loomis Bond Fund and by buying short individual bonds of Medtronic and United Health Care. In addition, we bought a core position for all of our accounts in a 1-3 year corporate bond ETF that yields roughly 4%.

We hedged our commodity positions by buying an inverse position in the basic materials sector. The materials sector will perform very poorly if deflationary forces and global contraction continues. After nice gains in our energy related stocks, we may look to sell this position in the near future.

Asset Class	Change from last quarter
Stock (Net)	- 10 %
Bonds	+ 4 %
Commodity	- 3%
Gold	No Change
Cash	No Change

We are fairly comfortable with our gold holdings at the moment but would look to add more if a pullback takes the metal below \$900 per ounce. As we have mentioned in previous newsletters, we continue to favor the mining stocks over the metal, but would add to both at the right price.

Seasons

Most long-time client's will remember the analogy of the *Seasons* that Robert Sr. utilized several years ago. This idea was based loosely on Nikolai Kontradiev's long-term economic cycles shown below:

SPRING	SUMMER	AUTUMN	WINTER
Expansion	Recession	Plateau	Depression
Mild Inflation	Strong Inflation	Disinflation	Deflation
Paper Assets	Tangibles, Gold	Paper Assets	Tangibles, Gold
Rising Profits	Stagnant Profits	Rising Profits	Falling Profits
Rising stocks	Stagnant Stocks	Stock Mania	Falling Stocks
Peacetime	Peak Wars	Peacetime	Trough Wars
	Peak in Rates		Rates Trough
	Rising Debt	Rising Debt	Debt Collapse
Tech. Innovation		Tech. Innovation	
	Commodities Boom	Commodities Fall	
Real Est. Rises	Real Est. Rises	Real Est. Booms	Real Est. Crashes

According to Kontradiev, similarly to the business cycle, the modern world economy cycles between periods of growth and contraction in predictable periods ranging from 40-60 years each.

While we are not necessarily suggesting the existence of a super cycle of economic and geo political activity, we do believe in a more cohesive set of periodic economic events that might not be defined in a number of years but rather, a number of characteristics. While these characteristics will probably not be identical in any given period, they will look similar. It is obvious from the seasons above that the current environment is most closely aligned with Winter. In fact, the Autumn season should look very familiar as well, considering its completion was in the not too distant past.

What are we to make of these seasons? We would be the first to suggest the difficulty in accurately predicting an investment strategy for the next 40-60 years. Recognizing how assets react to various macro economic conditions and utilizing a strategy for investment survival that is both fluid and free of emotion is a good first step.

Secondly, we can use the seasons as guides to help steer our investment selection. If we are truly in a Winter period, long-term debt, financial stocks, and real estate should be underweighted. Gold, commodities, defensive stocks, and short bonds are the most appealing and should be over-weighted.

The above asset class recommendations should look familiar to readers of this newsletter because they are exactly the recommendations we have made throughout this newsletter. While we do not have the space in this report, if you would like a more detailed discussion of the Seasons, or any other aspect of this report, please do not hesitate to contact us directly.

We appreciate all of your continued faith and support in us, and we hope you are having a wonderful summer!

Robert Sr., Robert Jr., Erle, and Cynthia