



Dunn Warren Investment Advisors, LLC

The Portfolio Reporter

James Cornehlisen, CFA
6143 S. Willow Dr. Ste.102
Greenwood Village, CO 80111
Phone: 877-491-7514
www.dunnwarren.com

September 2011

Risk Intensifies

“We will come back big-time on employment when residential construction comes back. And we (US Housing Market) way over-produced in houses. I mean we were forming a million or 1.2 million households and we were building close to two million residential units.”

Warren Buffett - Bloomberg - July 8, 2011

Unfortunately, we are not seeing an improvement in housing. Consequently, employment is weak. While home sales and mortgages have been down since the peak in 2007, they have still not reached a bottom. In the last month housing starts, what the government calls new homes sold, declined month over month. More importantly they are down to 604,000 from 614,000 in July of 2010.

Second, mortgage applications for new mortgages (not re-financings) declined last week by 7% from the year before. To put Warren Buffett’s comments in perspective, he thinks the US is now only producing about 500,000 to 600,000 houses. The current rate of production is not keeping up with population growth. Therefore, Warren Buffett believes that home construction, once it resumes building one million units, will help pull the employment picture higher in the years to come.

In our August issue of “The Portfolio Reporter” we stated, “If the economy were to do any of the following: a. slow down further, and/or outright decline, b. exhibit a prolonged economic decline or c. the depth of the economic decline persists, then we would invoke plan B”. We are currently seeing both a and b. First, the poor housing numbers, unemployment claims and lower consumer confidence pushed our economic market indicator below zero. Second, the length of decline has been significant. Depending on the economic indicator, the slowdown ranges from 3 to 7 months. This increases the risk of further market declines. Consequently, this invokes us to implement plan B, which is to increase the use of inverse funds to 45% of the stock holdings and sell the economic sensitive holdings and replace them with less economic sensitive investments including utilities, healthcare and consumer staples. For variable annuity portfolios that do not have inverse funds, we are using more bond funds, and using utilities, healthcare and consumer staples where available.

Timing is significant, but difficult to achieve. We would certainly love to be able to time the market, but we can’t. However, we do want to be receptive to the risk and rewards in the market. In this case we see greater risk than reward in the market and consequently are trying to reduce that risk. This may mean that the market improves on any given day when we decline or vice versa.

What is important is that we believe growth comes by minimizing the downside. We are currently seeing a great risk in the economy. The risk of a further decline in the market does not warrant us taking a chance for potential returns in the market at this time.

Please feel free to pass "The Portfolio Reporter" to interested friends and family members. For more information about your investments, please contact your financial professional.

(Continued on p. 2)

The opinions expressed here are based on the author's views and should not be construed as financial advice. Model results do not represent actual trading and may not reflect the impact that material economic and market factors might have on the advisor's decision-making if the advisor were actually managing a client's money. Past performance is no guarantee of future performance. There can be no assurance that a client's investment objective will be achieved or that a client will not lose a portion or all of his or her investment. Please contact Dunn Warren directly for a list of the recommendations provided over the last year. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.

MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, September 15th at 11 a.m. Mountain Time (1 p.m. EST).

Phone Number: 866-740-1260

Access Code: 4682824

To view slides on the internet during the call, go to www.readytalk.com and enter 4682824 under "Join a Meeting".