



# Dunn Warren Investment Advisors, LLC

## The Portfolio Reporter

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## Year in Review

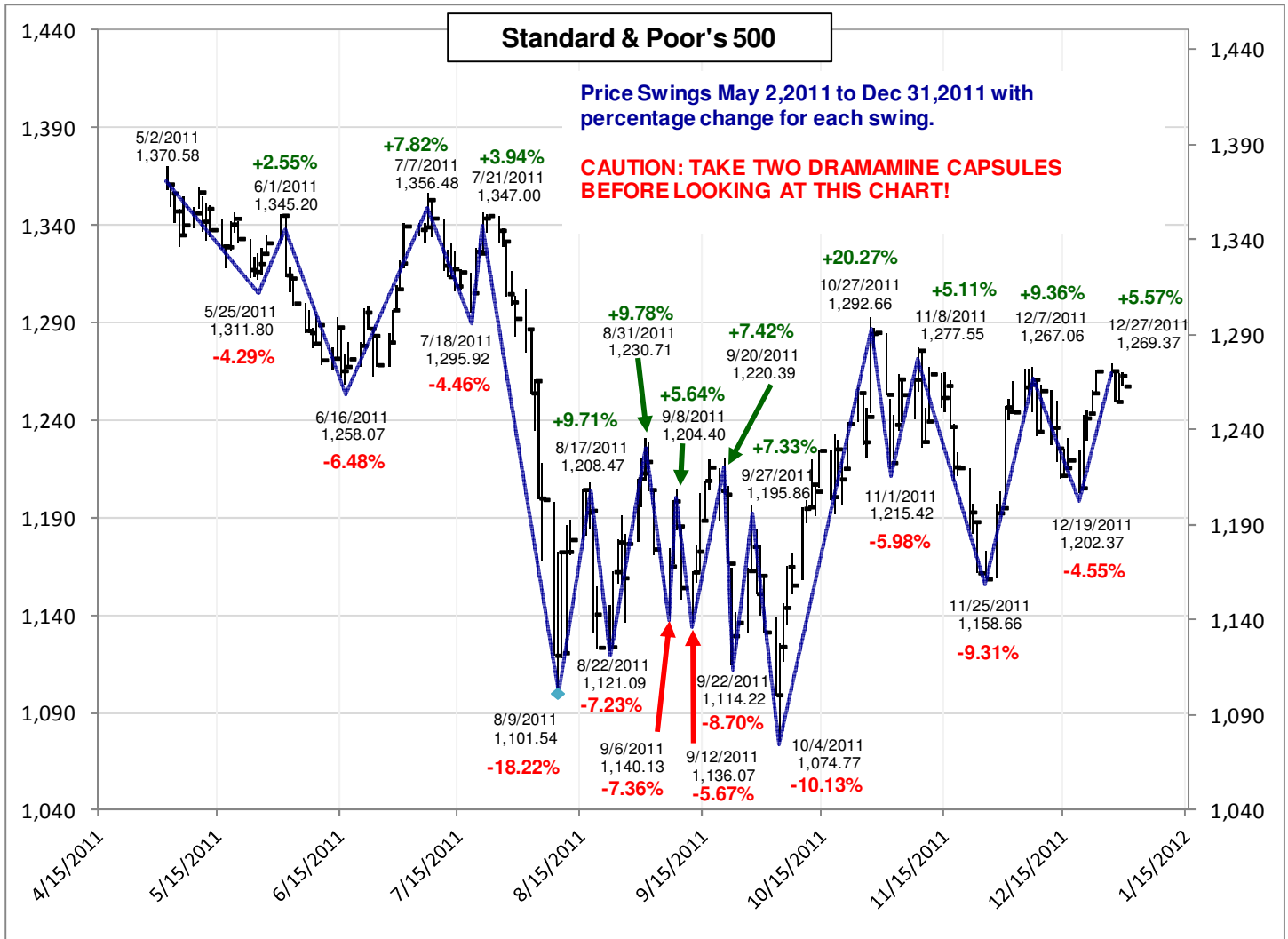
The year came to a close with the portfolios managed by Dunn Warren declining, while the S&P 500 returned 2.1% and the Dow Jones was up 5.6%. This deviates from the 9 year return of 134% for our Aggressive ETF Model, 49% for Growth (since 1/1/2003), 85% for Moderate, 69% for Conservative, 22% for Income (since 1/1/2006) while the S&P 500 increased 70% and the Dow Jones Index increased 47% during that same time period. See the returns below.

Returns as of 12/31/2011	DW Aggressive	DW Growth <sup>(1)</sup>	S&P 500 (with Div)	DW Moderate	DW Conservative	DW Income <sup>(3)</sup>	Benchmark <sup>(2)</sup>
1 Mo.	-0.3%	-0.5%	1.0%	-0.4%	-0.5%	0.0%	1.2%
3 Mo.	-4.6%	-4.3%	11.8%	-2.4%	-2.5%	-0.8%	7.0%
YTD	-19.8%	-18.9%	2.1%	-13.1%	-11.4%	-8.3%	4.9%
12 Mo.	-19.8%	-18.9%	2.1%	-13.1%	-11.4%	-8.3%	4.9%
3 Year Annualized	2.0%	1.7%	14.0%	0.5%	0.9%	1.1%	10.6%
5 Year Annualized	3.4%	3.3%	-0.3%	2.9%	2.3%	2.0%	2.6%
Since Inception 1/1/2003 <sup>(1,3)</sup>	134.0%	49.2%	70.6%	85.8%	69.2%	22.2%	58.6%
Annualized Since Inception	9.8%	5.1%	6.1%	7.1%	6.0%	3.0%	5.3%
<b>Annual Returns</b>							
2003	37.6%	NA	28.7%	19.6%	17.2%	NA	17.2%
2004	10.2%	5.3%	10.9%	9.2%	9.2%	NA	7.1%
2005	25.3%	16.7%	4.9%	13.7%	11.8%	NA	1.4%
2006	13.7%	11.6%	15.8%	10.5%	8.4%	10.2%	9.7%
2007	16.3%	12.2%	5.5%	11.4%	4.5%	4.6%	5.8%
2008	-15.6%	-11.9%	-37.0%	-7.5%	-5.6%	2.1%	-20.7%
2009	23.3%	22.0%	26.4%	13.1%	11.4%	7.8%	15.8%
2010	7.2%	6.3%	15.1%	3.0%	3.9%	4.5%	11.0%
2011	-19.8%	-18.9%	2.1%	-13.1%	-11.4%	-8.3%	4.9%

Notes: <sup>(1)</sup>Growth Model started 1/1/04, <sup>(2)</sup>Benchmark is 55% S&P 500 (with Div) and 45% iShares Barclays Aggregate Bond (AGG), <sup>(3)</sup>Income Model Started April 2005

2011 was a difficult year marked by the first rating downgrade for US Treasuries, to one of the worst Tsunami's in the history of Japan, to the ongoing fight to keep European countries from defaulting on debt. This led to nine declines of 5% or more and nine increases of 5% or more in the S&P 500 from May 2 to the end of the year. The table on page 2 from thechartstore.com labels the whipsaws the S&P 500 endured.

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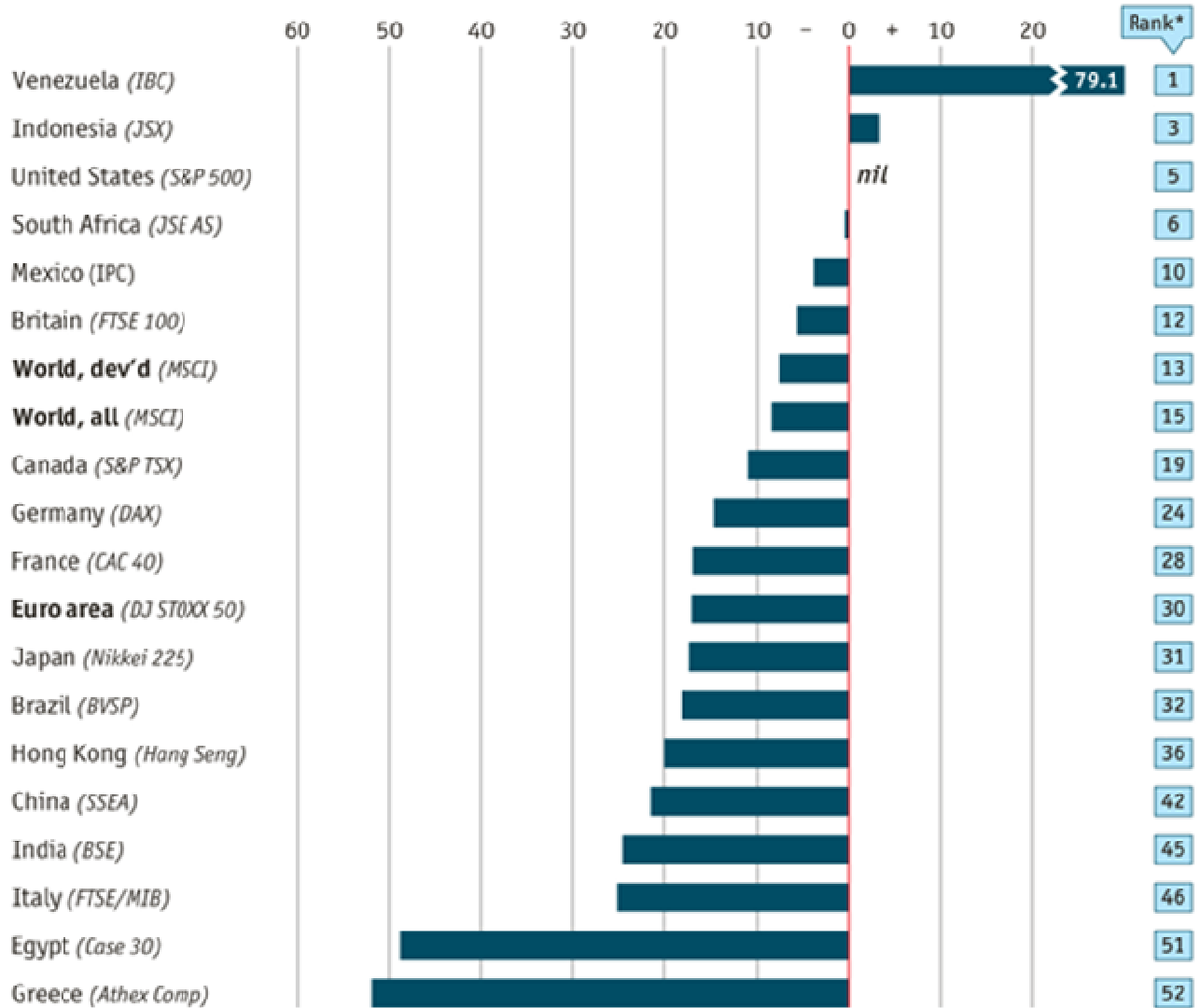


Additionally, International markets saw worse declines. The Table on the next page from Economist.com shows declines ranging from -5% to -25%, excluding Egypt and Greece which saw greater than 40% drops. Investors experienced a whipsaw.

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**Stockmarkets**

% change December 31st 2010 to December 30th 2011, local-currency terms



Source: Thomson Reuters

\*Out of 52 stockmarket indices

Portfolio threatening events bearing down on the world stock markets included the US budget debate, Greek debt default and fragile US economy. Economic growth is minimized as excess cash is diverted to paying down debt. When you owe more debt than you can appropriately pay off, you are upside down. CNBC reports that Greece debt per capita (if every individual were to pay their own share of government debt), then each resident of Greece would owe \$53,984. Ireland residents would owe \$566,756 and US citizens would owe \$48,258. This compares to the average income of \$32,000, \$46,200, and \$41,800 for the three countries respectively. (Source: [http://www.cnbc.com/id/30308959/The World s Biggest Debtor Nations?slide=2](http://www.cnbc.com/id/30308959/The_World_s_Biggest_Debtor_Nations?slide=2) and <http://siakhenn.tripod.com/capita.html>). To pay off debt, it would take a Greek citizen 1.6 years, an Irish citizen 12.2 years, and a U.S. citizen 1.2 years. This does not account for any living expenses we need to survive. Maybe if we just ate Ramen noodles for a year we could pay down this debt.

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To comfort stock markets, the US and European governments took massive action. The U.S. Federal Reserve printed \$600 billion dollars and purchased U.S. Government bonds to keep interest rates low. The Bank of England printed \$312 to purchase Gilts, United Kingdom bonds. And the European Central Bank printed \$643 billion to extend 3-year loans to over 500 banks. Printing this amount of money tends to increase inflation. Inflation in the U.S. increased 3.4% ([www.usinflationcalculator.com](http://www.usinflationcalculator.com)) through the end of November 2011. Gasoline prices had a higher increase to \$3.25 from \$3.00 or a 9% increase (<http://advisorperspectives.com/dshort/updates/Gasoline-Update.php>). But the ramifications from the governments' actions are yet to be realized. Only time will show the details. Banks were the primary beneficiaries of the government assistance. Weaning financial institutions from public assistance will not be easy.

As we speak with clients, advisors, and individuals, there is a foreboding level of anxiety. However, our country has faced worse. We have dealt with war, extreme deflation and inflation, as well as a depression. And our country has become stronger at each turn.

Innovations and ideas have improved our standard of living. Advances with computers and mobile phones have made it easier to do things now compared with just 10 years ago. While economic advancement is not a smooth line, we have seen improvements. Human ingenuity drives growth. Certainly America's best days lie ahead.

However, our current situation of paying down debt and high valuations has impeded the value of investments in the last 12 years. The S&P 500 closed out the year 2011 at 1257.60 and it first hit this same level in 1999. Since 1999, the S&P 500 has hit this same number 6 times. There have been both positive and negative years but overall it is at the same level as in 1999. We expect a fragile economy to continue but this does not tell us whether the stock market will rise or fall, only that potential risks lie ahead.

Our focus remains the same. We rely on a three-step process to make our investment decisions:

1. Measure Risk – assess the level of risk of an investment based on the historical loss experienced by the investment
2. Risk Reward Matrix – monitor and analyze the Economic Market Indicator (EMI) and the risk/reward matrix to determine the appropriate portfolio composition
3. Relative strength –compare the investment's strength over the last 6-12 months relative to all the other investment options available to us.

Last February, based on our Risk Reward Matrix, we started positioning for a fragile economy. Gross Domestic Product (GDP) declined from 3.94% in Quarter 1 2010 to 0.36% in Quarter 1 2011. Manufacturing was disrupted by the earthquake and tsunami in Japan. Bickering in Congress caused uncertainty for consumers and manufacturers in the United States. And Europe saw concerns about debt which caused the economies to contract in Spain, Italy and Greece. As the stock market advanced we took the contrarian opinion to position the portfolio for increased risk to the downside.

The good news was that we were ahead of the decline in August when the S&P 500 declined 18.2% (see the graph from [thechartstore.com](http://thechartstore.com) on page 2). Our portfolios declined less through the third week in August. There is a less pleasant conclusion to the year. Returns that we provided for the full year were below the S&P 500. We made at least one decision that hampered returns for the year. We purchased more inverse funds that increase (decrease) when the market decreases (increases) in the third week of August. We made this move because our economic market indicator (EMI), part of our 3-step methodology, had declined which indicates a fragile economy that increases the risk of investing. We certainly did not anticipate the vigor in

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which the stock market would perceive the attempts by the United States and European governments to quell the debt crisis. We still believe that the risk to the economy and by extension to stock prices is high. Having these inverse funds will benefit the portfolio by reducing risk from a fragile economy if and when it is realized in the prices of stocks.

Overtime we need to grow the value of your portfolio at an acceptable rate. We grow portfolios through a full market cycle, which is peak to peak or trough to trough (and does not necessarily correspond to a calendar year). We look to buy underpriced investments when values are reasonable and the economy provides a wind at our backs. Since our current economic environment does not offer these conditions, we are trying to reduce potential risk to the portfolios.

*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.*

*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, January 19th 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](http://www.readytalk.com) and enter 4682824 under "Join a Meeting".**