

The Portfolio Reporter

A Newsletter Provided by Dunn Warren Investment Advisors

August, 2006

The downturn in the market could last longer and be more severe than we may want. Believe me, I am just as anxious as you to have a favorable market environment. Unfortunately, the market environment is **very** unfavorable.

Fundamental, technical (using charts of price action to complete analysis), and stock market action all point to a particularly difficult environment. Fundamentally, companies have reduced earnings expectations for 2006. For example UPS, Intel, and 3M lowered what they expected to generate in cash for shareholders for 2006. Second, large institutions are more willing to take money out of the stock market and put it in cash. Last, when institutions do invest, they are shunning technology and consumer-oriented companies for companies that provide necessities, like supermarkets, drugs, and healthcare. Whenever large investors are not willing to take more risk than this, it reduces market opportunities for all investors.

Despite the losses in the market, as represented by the S&P 500, DOW, and NASDAQ (off 1.1%, 3.9%, and 10.8% respectively), there have been a couple of days with strong performance. Two recent days saw the Dow increase by 217 and 212 points or 1.9%. However, as the article “Mythbusting: Defense Can Be Investors’ Best Offense”, Investors Business Daily, July 20, 2006 states, “missing the worst days boost(s) returns more than catching the best days.” When the Dow had recent strong days, it took only a few days to give those returns back—and then some. For example, Strategic Advisory Services looked at the S&P 500 from 1984 until 1998 and found the best annual returns were had by those investors who missed the 10 worst days. Okay, that assumes you know when those days are

Exchange Traded Fund Market Performance - As of Aug. 31, 2006		
	1 Month % change	12 Month % change
S&P 500	0.6	3.6
S&P 500 Growth	0.2	-0.7
S&P 500 Value	1.0	8.0
S&P 400 Mid-Cap Growth	-3.6	1.8
S&P 400 Mid-Cap Value	-2.2	3.8
S&P 600 Small-Cap Growth	-3.6	2.2
S&P 600 Small-Cap Value	-3.3	3.2

going to be—a difficult premise to say the least. The second-best returns were from those who missed the 10 best & worst days. The third best returns were for those investors that buy & hold.

We continue to position the portfolio in a conservative manner. This means limiting broad market exposure and selecting those areas with growth potential such as international, healthcare, and energy services. The majority of the portfolios are in short duration bonds, preferably with inflation protection—bonds that have a payout if inflation increases. Last, we are using inverse funds if they are available. These funds increase in value when the market declines.

More important, when fundamentals, technical indicators, and stock market action are poor, returns are historically poor. This is not to say the market won’t go up or have strong days; it is simply that the current market environment just does not suggest taking that risk at this time.

Please feel free to pass the “Portfolio Reporter” to interested friends and family members.

The opinions expressed here are based on the author’s views and should not be construed as financial advice. For more information about your investments, please contact your financial professional.