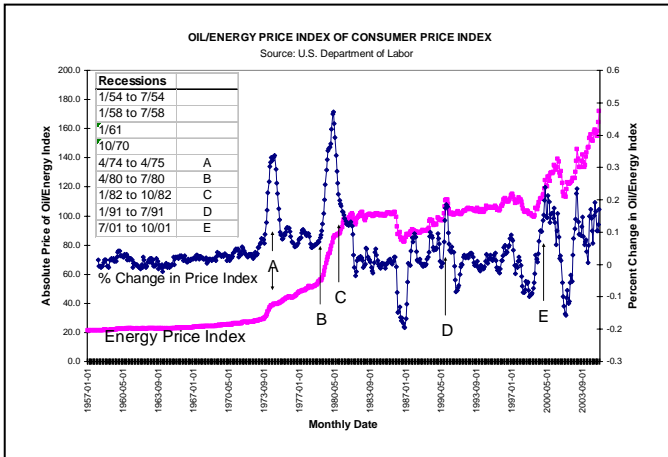


# The Portfolio Monthly

A Newsletter Provided Dunn Capital Management, LLC

June, 2005



Oil prices have been a concern for investors for the better part of nine months, yet consumers have only begun to slow their spending, as retail sales at big discount stores moderate. But, are higher oil prices worth getting worked up over?

Yes and No. Higher oil prices historically lead to a recession. See our chart above. We have plotted the absolute price of oil/energy (left axis) and the percent change (right axis). Notice the spike in oil prices for points A, B, C, D, and E, which represent the last five recessions.

However, there is more to it than that. Oil prices escalate when demand outstrips supply, and demand rises when economic growth necessitates more oil. Therefore, *early* in an economic rebound oil prices seem to have a smaller impact.

In an article from Bloomberg dated April 25, 2005, Anirvan Banerji, Director of Research at the Economic Cycle Research Institute, states that “investors in the U.S. stock market may be overestimating the impact of record oil prices, even though higher fuel costs have helped trigger the last five economic recessions ... people don’t understand that how potent an oil shock can be is dependent on the stage of the business cycle ... it all depends on what the economy was predisposed to do in the first place.”

## Exchange Traded Fund Market Performance - As of May 31, 2005

	1 Month % change	12 Month % change
S&P 500	3.2	5.9
S&P 500 Growth	3.2	2.4
S&P 500 Value	3.2	9.4
S&P 400 Mid-Cap Growth	6.1	10.8
S&P 400 Mid-Cap Value	5.9	14.3
S&P 600 Small-Cap Growth	7.2	15.1
S&P 600 Small-Cap Value	6.0	14.0

The economy is growing, as measured by our proprietary model, but it has slowed from its growth a year ago. Looking at the individual components of the model, manufacturing, industrial orders, consumer confidence, and bond spreads on riskier corporate debt point to a slowing economy, while employment, hours worked, and job growth keep the economy growing.

What does all this mean for the stock market? Economic growth presents little upside, and valuations are extended to the point we see little appreciation of multiples paid on each dollar of earnings. Nevertheless we have seen investors willing to increase risk especially as demonstrated by money flowing into stocks of technology and growth companies. Consequently, we believe that cautiously increasing equity exposure at this time could provide potential returns.

*All numerical data has been provided by Barclays Global Investors, unless indicated otherwise.*

*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.*