

The Portfolio Reporter

A Newsletter Provided by Dunn Warren Investment Advisors

June, 2006

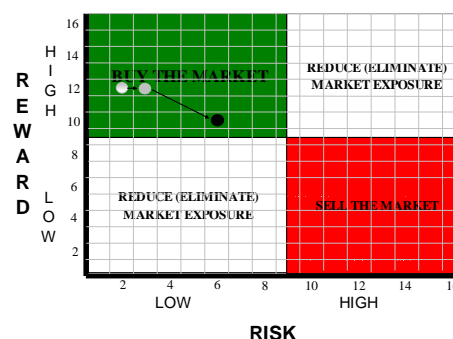
To rebalance or not rebalance - that is the question. Do we stem losses and protect capital or do we let the market ride out the emotional weakness.

The purpose of the Newsletter is to provide our thought process, let you know what we are doing in your behalf, and provide you with the implication of that decision.

The dramatic drop in May was the result of emotional weakness in the face of the government continuing to raise interest rates, the war in Iraq, and the nuclear build up in Iran. Just call it uncertainty. Further evidence of this uncertainty is that the economy remains strong, albeit weakening from higher interest rates and higher energy prices (see the high reward ranking on this page). However, this high reward ranking may not be enough. The market in itself can be a leading indicator of slower earnings and economic growth.

To measure the severity of the correction, we are monitoring two things. First: Are large institutions (mutual funds and pension funds) taking cash out of the market? Second: Are investors choosing more stable companies (healthcare, General Electric and Proctor & Gamble, etc) over more growth companies, for example like Yahoo and Google. Yes, on both counts, large institutions are pulling cash out of the market and are investing in more stable companies.

Seeing this correction, we are choosing to rebalance the portfolios to moderate further losses. This recent market correction did away with the significant gains year-to-date. Consequently, we are no longer in a capital growth mode but in **preservation mode**. It is more important to heed the existing risk of higher interests rates and higher oil prices as they impact consumers.



The risk of course is that the market returns with a vengeance and we lose out on this appreciation. Most likely we would not lose out on **all** of this appreciation, but a portion of the advance.

The benefit, however, outweighs the cost. The advantage is that protecting the portfolio is the right decision in the face of higher valuations, oil prices, and interest rates. These forces are driving higher risk with large institutions taking cash out of the market and investing in more stable companies, which could ultimately lead to a much greater correction in the market. This market risk is just not worth taking at this time. Even if there is a likely bounce, there is no indication at this time that it would be sustainable.

Therefore, rebalancing to preserve capital is the better strategy at this time.

One administrative note: Our new email address is jcornehlsen@dunnwarren.com

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