

The Portfolio Reporter

A Newsletter Provided by Dunn Warren Investment Advisors

March, 2006

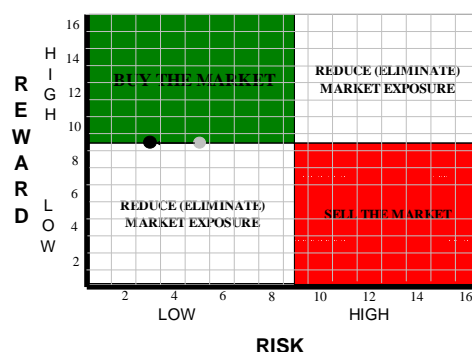
As I was contemplating what I would write this month, I heard a report on National Public Radio about decision making. The report referenced a study published in this month's *Science*. The radio report and the study indicated that **people make better decisions if they stop thinking about the pros and cons for a while and let the unconscious mind do some of the work.** Hearing that, I knew what I had to write.

We use the Risk/Reward matrix because we know that investing is a big decision, and despite my being in the hot seat each day, it is not made any easier by the daily repetition. However, I have found that it is best to determine what factors really matter and do away with all the other froth. The Risk/Reward Matrix simplifies the decision-making process and helps us focus on those factors that matter most.

We consolidated all the economic numbers out there to 16 economic variables that have led historically in a market downturn and four market indicators that historically have warned of an impending demand weakness. Put together in a graphical depiction, the Risk/Reward matrix makes it easier to make decisions and let the "unconscious" mind do its work. When viewed together these **current** economic and market indicators give us the probability of whether the market is likely to be up, down, or sideways.

As the Risk/Reward matrix is indicating (as seen on this page) we are seeing a slight improvement in the aggregate position. In other words, there appears to be slightly higher reward with slightly lower risk. However, this is offset by a flat yield curve and rising interest rates, both part of the reward component, which indicate a weakening economic and market environment.

Consequently, our current portfolio position has us in international markets, including Japan, South Korea, Europe (specifically Austria), and



Latin America. In the U.S. we have a small allocation to small-cap investments (those companies with market valuations that are less than \$2 billion), which can continue to grow because their small and unique positions allow them to grow despite the direction of the economy. Last, we have a slight hedge against a downward market move. Depending on what product you own and what risk profile you chose, this hedge encompasses inverse funds (funds that increase/decrease when the stock market decreases/increase), gold, or inflation-protected bonds (bonds that increase in value when inflation rises.)

As we leave you, allow your unconscious to mull that over and enjoy some skiing, golf, or March Madness – *Go UCONN!*

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.