

The Portfolio Reporter

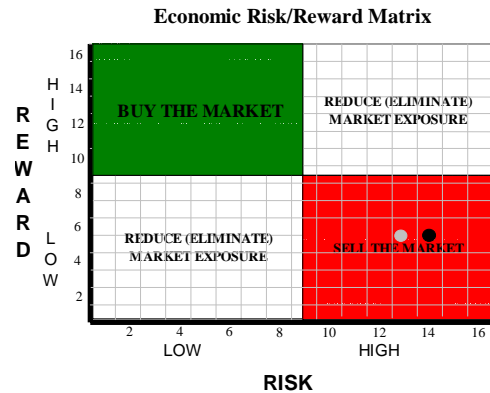
A Newsletter Provided by Dunn Capital Management, LLC

November, 2005

Permeating last month's earnings reports is the statement that costs are rising and consequently cutting earnings estimates. Specifically, JP Morgan downgraded Procter and Gamble, citing "concerns of higher raw material costs." Goodyear tire has announced a 30% cutback due to increasing raw material and transportation costs, which comes on the heels of Cooper Tire sighting similar reasons for a cut in production. The question is, Is the rise of material cost just the "excuse du jour" for missing earnings, or is it really having an impact that will pervade the entire economy?

The greatest risk to the economy, and consequently the stock market, is that increased costs are passed through to the consumer. Companies are seeing raw material and transportation costs rising. To date, companies have chosen to absorb more of the cost, which is reducing companies' margins. Margins are the percentage of each dollar of sales a company keeps after it pays employees, transportation, raw materials, and taxes.

Most of you are now familiar with our Risk/Reward Matrix (seen on this page). Currently, we see very little reward for the increased risk. When the economy is at risk, inflation and interest rates are increasing, which reduces the reward potential on the risk/reward matrix. Additionally we see the risk component of the risk/reward matrix increasing, as valuations (the price investors are willing to pay for a share of stock as measured by a dollar of earnings) are stretched, companies making new highs are declining, and large pension funds and mutual funds are pulling money out of the market, making the opportunity to make money in the stock market more difficult. This is not to say that it is impossible, it just means that the



odds are against us and that it would be better for us to take cover rather than ride out the storm. Ask those individuals in the path of hurricane Wilma if it is worth staying put or heading for cover; more are for heading for cover.

As it has for those individuals in the wake of hurricanes, this year has been difficult for the market. If you did not have exposure to oil or international securities you are probably losing money this year. For those who have a more conservative portfolio, it is even more difficult. Year-to-date the Lehman Aggregate bond index is down about 1%. This not only makes for a difficult investing environment, it emphasizes the importance of protecting investments when the market environment is difficult. Consequently, we continue to hold investments in oil, utilities, and international markets such as Europe, Austria, Asia, South Korea, Japan, Latin America, and Brazil.

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.