

The Portfolio Reporter

A Newsletter Provided by Dunn Warren Investment Advisors

August 2007

By now, news of the stock market's downturn is widespread. For the week ending July 27, the NASDAQ declined 4.7%, the S&P 500 plunged 4.9%, and the Dow was down 4.2%. The fact of the matter is that the market more than likely climbed too far too fast and fell due to its own weight.

There are numerous risks in investing, and as we discussed last month, there is no benefit in neglecting the possibilities of inflation, increasing interest rates, stagnating or crashing housing markets, sub-prime lending, and corporations defaulting on loans.

Bill Gross the portfolio manager of the largest bond mutual fund (PIMCO Total Return) cites, "That growing lack of confidence — more so than the defaults of two Bear Stearns hedge funds and the threat of more to come — has frozen future lending and backed up the market for high-yield new issues such that it resembles a constipated owl: Absolutely nothing is moving."

No one can say that any of the above risks will not materialize, and we could see a further decline in the market. Judging by the past six declines, we are probably in for a further three- to four-percent decline. **But the benefits seem to outweigh the downside risk.**

Consequently, we are using this downturn to dynamically manage our accounts and to take advantage of the market resetting itself. We are searching out those opportunities that are no longer overvalued and investing in those products that are a good value after the recent decline.

Specifically, we have increased our investment in technology across the board in all the models we manage. These investments include telecommunications and the Internet. In Security Benefit we have just added up to 25%. In AXA Equitable we added 15%. The Exchange Trade Funds model is now 5% invested in the S&P global telecommunications index.

Since the upturn in the market beginning in March of 2003, there have been six declines in the S&P 500 of five percent or more. However none of them have declined more than ten percent. The best news, however, is that after each successive downturn of 6% to 9%, the market subsequently increased 9% to 21%.

In previous Portfolio Reporters (go to www.dunnwarren.com and click on "Market Research and Insight" for past editions), I have stated that the overall performance of the market at this stage of the cycle should be driven by the performance of the economy and earnings. While there is no guarantee that this can prevent the market from correcting more than 10%, it is comforting to know that the economy and earnings are currently doing their part to sustain the market. In contrast to Bill Gross, S&P's chief economist David Wyss said, "We're not seeing much sign of subprime issues spreading to the rest of the economy; the rest of the economy is continuing to chug along at a pretty good pace. The spillover effect so far — the collateral damage — has been pretty limited."

I agree, and therefore I look at this downturn as an opportunity to go shopping for investments at a discount.

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.

MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, August 16. We will have *one* time for this call:

11 a.m. Mountain Time (1 p.m. Eastern time)

Phone number: 866-740-1260

Access Code: 4682824

To access slides on the Internet during the call, go to www.readytalk.com and enter Access Code 4682824 in "Participant Login".

We look forward to speaking with you on the 16th.