



# Dunn Warren Investment Advisors, LLC

## *The Portfolio Reporter*

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## **Another Day, Another Crisis...**

Crises have dominated the global economy for the past several years. Subprime mortgages were commonly mentioned in the news during 2008. The collapse of several Wall Street firms was noteworthy in 2009. A global recession led to problems in almost every country in the world, and different crises afflicted different nations. In the past year, we have seen food riots in Mexico, anti-government riots in Thailand, and now riots are occurring in Greece to protest cuts in government spending.

Europe is the latest crisis and many analysts are questioning whether or not the Euro will survive. Greece required a significant bailout to meet its debt obligations. Shortly after that, Fitch, one of the government recognized credit rating agencies, downgraded Spain's debt.

Fitch noted that attempts to reign in government debt would probably slow economic growth in the country. If Fitch is correct and debt reduction leads to slower economic growth, then as debt becomes a problem for more and more countries, it seems possible that slow economic growth will become normal around the world. Lower growth could lead to still more problems, such as higher unemployment and lower housing prices, and all too often an economic problem becomes a crisis before it is corrected. If our assessment is correct, then we will be making investment decisions over the next several years in an atmosphere of continuing crises.

We believe that we are well positioned to respond to the markets in this environment. We will do so largely by ignoring the news and following our investment discipline. As an example, the big question about the survivability of the Euro remains unanswered. From our investing perspective, it doesn't seem to matter. European stock markets have been lagging the performance of other global markets in the past few months. This makes them poor candidates for our relative strength based investment models. We didn't predict the Euro crisis, but we were not heavily invested in the states that comprise the Euro prior to the crisis. Our model indicated that risks outweighed potential returns.

We did recently add a position in India to some of our portfolios. The official government statistics office reported that gross domestic product rose 8.6 percent in the 1st quarter of 2010 from a year earlier, after a 6.5 percent gain in the previous quarter. The country is growing fast, and that brings with it another set of problems. With faster economic growth comes potential inflation. Wholesale prices rose by 9.6 percent in the first quarter of 2010, according to the Indian government. Efforts to slow inflation, such as raising interest rates, carry the risk of slowing economic activity and boosting unemployment.

The choices that India faces highlight the challenge of investing. Encouraging growth can lead to higher inflation; fighting inflation can increase unemployment. There is always a risk to any decision we make. A disciplined strategy keeps us from making mistakes based upon emotions. On May 6, as the Dow Jones Industrial Average fell by 1,000 points during the day, we did nothing because our long-term strategy was not affected by this very dramatic one day move.

For now, our unemotional models dictate an investment in India, which is in effect a forecast of stronger economic growth. We will ignore the news and the concerns about inflation until the models indicate risk exceeds potential rewards. And, as always we will make no attempt to forecast when that will occur.

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Our only direct forecast is that markets will remain volatile for some time as economic crises dominate the headlines. Although we don't know which country will make those headlines, we are confident that we won't have a significant investment position in that country because market risk usually increases before the economic problems become widely known.

*Please feel free to pass "The Portfolio Reporter" to interested friends and family members. For more information about your investments, please contact your financial professional.*

*The opinions expressed here are based on the author's views and should not be construed as financial advice. Model results do not represent actual trading and may not reflect the impact that material economic and market factors might have on the advisor's decision-making if the advisor were actually managing a client's money. Past performance is no guarantee of future performance. There can be no assurance that a client's investment objective will be achieved or that a client will not lose a portion or all of his or her investment. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.*

### **MONTHLY CONFERENCE CALL**

**Our next monthly conference call will occur Thursday, June 17th at 11 a.m. Mountain Time (1 p.m. EST).**

**Phone Number: 866-740-1260**

**Access Code: 4682824**

**To view slides on the internet during the call, go to [www.readytalk.com](http://www.readytalk.com) and enter 4682824 under "Join a Meeting".**

**Please Note:** We are going to stop producing hard copies of our newsletter, "The Portfolio Reporter", effective September 30, 2010. If you would like to continue receiving our newsletter after this date, you can sign up on our website to receive free monthly emails of "The Portfolio Reporter", along with monthly emails containing a link to hear the recording of our conference call. To sign up for Dunn Warren's monthly email newsletter, go to: <http://www.dunnwarren.com/portrep.htm>

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Thank you for your time.