

The Portfolio Reporter

A Newsletter Provided by Dunn Warren Investment Advisors

October, 2006

As promised, we will address the economy this month. Economic activity continues to grow, albeit at a slower pace than earlier this year. This will require continued reflection and analysis as new developments occur. This month we saw several developments, including a report from the Federal Reserve, an update on manufacturing from the Institute of Supply Management, and new housing data from the U.S. Department of Commerce and the National Association of Realtors.

The Federal Reserve left interest rates unchanged. Therefore, steady interest rates and declining oil prices are encouraging investors and propelling the Dow Jones Industrial Index to record highs.

Specifically, the Federal Reserve stated in their September 20th press release: "inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand...The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information."

The Institute for Supply ManagementTM monitors economic growth as it applies to the manufacturing sector. In their press release as of October 2, 2006 they stated, "manufacturing economy grew in September for the 40th consecutive month." Specifically, Norbert J. Ore, C.P.M., chair of the Institute for Supply ManagementTM Manufacturing Business Survey Committee stated "The manufacturing sector continues on a trend of slowing growth in September. While there was little change in new orders and production when compared to

August, significant slowing took place in employment and inventories. It's apparent that manufacturing is losing momentum and feeling the effects of higher interest rates and a weaker housing market."

Weakness remains in housing, where housing starts and prices are on the decline. The U.S. Department of Commerce stated that housing starts for August 2006 declined 19.8% from August 2005. The National Association of Realtors stated on September 26 that prices of existing houses in the United States fell last month for the first time in 11 years as sales declined to the lowest level since early 2004. The median price of a previously owned house dropped 1.7% in August from the same month last year.

Overall the market has been strengthening as we see the strongest increase from high dividend paying stocks and international investments in Europe and Asia. Weakening sectors include energy and precious metals. As you recall these sectors were part of the decline in the portfolios in May. While we had a great level of appreciation over the last year in oil and precious metals, we have sold these investments for a gain in accounts that were with us over that time and are now looking for growth from investments that are paying high dividends in the healthcare and the consumer products sector as well as international sectors.

Our monthly conference call will occur the third Thursday of each month. The next call will be on Thursday, October 19. The two times for the call will be: 11am Mountain time (1 pm Eastern time) and 6pm Mountain time (8 pm Eastern time). Phone number: 800-430-0714
Access Code: 3445386

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