Dunn Warren Investment Advisors

The Portfolio Reporter

June 2009

Mike Carr, CMT
James Cornehlsen, CFA
6143 S. Willow Dr. Ste.102
Greenwood Village, CO 80111
Phone: 800-793-4866
www.dunnwarren.com

Growth Despite Housing Weakness & Wave of Inflation

The good news is that the economy has clearly stabilized and should begin growing again soon. In the short term (6 to 9 months), we expect to see an end to this recession. Over the longer term, we are not confident that the recovery will be very strong. The housing market has yet to improve as indicated by the number of foreclosures. Recent reports indicated that about 1 in 8 of American homeowners are either in foreclosure or seriously late on their payments. This is contributing to the continuous decline in prices which has characterized the national housing market for the past few years. Additionally the government's persistence to increase the money supply, and issue new debt cannot be overlooked. Eventually the government's easing of monetary and fiscal policy could lead to significant inflation which will cripple the economy. As it stands, for now, the economy can grow despite the weak housing market and the impending inflation.

The global economy seems to be recovering faster than the US economy. In particular, emerging markets are showing the greatest strength. Gross Domestic Product, or GDP, is the broadest measure of a nation's economic activity. In Brazil, GDP, grew by more than 5% last year and is expected to decline by less than 1% this year. By contrast, the US GDP grew only 1% last year and is expected to decline by 3% in 2009. While China has suffered from the global recession, its GDP still increased by 6.1% in the first quarter of 2009.

Because growth is stronger in the rest of the world, our portfolios have greater than average exposure to these markets. We also think there is less risk than usual in these markets. In addition to rapid recovery, the rest of the world is benefitting from a decline in the value of the US Dollar. A basic law of economics is that when the supply of something increases, the price falls. An unprecedented increase in the supply of dollars has led to a 13% decline in their value over the past four months.

Against this backdrop, we are finding some investments that seem likely to deliver solid gains. Diversified positions in emerging equity markets have provided gains and we expect to see them continue to outperform. Brazil and China offer significant potential with less risk than many of the other developing countries. Recently, fixed income investors looking for higher yields have turned to the debt of these countries, and we have found profitable opportunities in these investments. We also noted recent strength in the Canadian stock market. This investment offers an inflation hedge since Canada's economy is dominated by natural resources - gold, other metals, and timber - which offsets higher prices. As America's largest trading partner, it will also benefit from the falling US dollar.

Bond investors are beginning to show signs that they are uncomfortable with the

(Continued on p. 2)

government printing so much money to ease the effects of the economic slowdown. In response to their concerns, they are demanding higher and higher interest rates to buy government bonds. If this trend continues, the already unimaginably large government deficit will rise even more. Rising interest rates will also choke off the economic recovery, and could lead to either another recession or below average economic growth.

While dumping Treasury bonds, these same investors have been bidding up the price of municipal bonds. Traditionally bought for their tax advantage, munis suffered in the recent financial crisis and their yields rose. The iShares S&P National Municipal Bond (MUB) exchange traded fund recently offered a yield of 3.57%, which could be the equivalent of a taxable yield of more than 5% for some investors. This is significantly greater than the yield offered by Treasuries. We have made investments in MUB and municipal bond mutual funds in some portfolios, not for their tax advantages but for the potential capital gains that could result from a shift away from the US government bond market.

The US stock market has been led higher by mid-cap stocks. It is well known that small cap stocks outperform large caps over the long-term. A recent analysis showed that mid caps are actually the biggest long-term winners. Research completed by Winans International revealed that mid cap stocks have been the best performers going back to 1927. Through 2007, this asset class would have delivered a total return of 1,071,395%, more than doubling the returns available through small cap or large cap stocks. This dramatic outperformance was also demonstrated in the time period from 1958 through 2007, as mid cap stocks also beat the returns available from global stocks over that span. That is why this asset class is represented in many of our portfolios.

The current risk environment offers many potential rewards. We continue to pursue profitable investment opportunities and are finding them in more and more diverse areas.

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, June 18th 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 and enter 4682824 under “Join a Meeting”.