Dunn Warren Investment Advisors, LLC

The Portfolio Reporter

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

August 2010

Avoiding Loss of Capital Helps Maintain Future Choices

As the worst of the bear market approached in 2008, market analyst Louise Yamada told Bloomberg News that there are two very different kinds of losses in financial markets, “the loss of opportunity or a loss of capital. And there will always be another opportunity. But if we lose the capital, then we can't come back.”

In our portfolios, we have always been focused on the loss of capital, and the result is the occasional loss of opportunity. The month of July 2010 may appear to be an opportunity that we missed. Stock markets, as measured by broad indexes, experienced large gains, with the S&P 500 up about 7% in the month. The S&P 500 is an unmanaged index of stocks widely considered to be representative of the overall stock market, and you cannot invest directly in an index. For the month, our ETF portfolios delivered returns that significantly lagged the index.

This follows the market beating returns we enjoyed in many portfolios during the second quarter. While we avoided much of the double digit loss of capital seen in the indexes over those three months, the loss of opportunity in July seems to be significant at first glance. The reality is that we need to remember Yamada’s words in good times and bad, and always strive to preserve capital. That means there will be short periods of underperformance while opportunity losses occur. By staying focused on the long-term, we will avoid allowing emotion drive our response to the weeks and months where the market moves higher in a short-term burst of energy that is likely to prove unsustainable. Over time, slow but steady performance should bring our portfolios back to the levels we’d like to see relative to the indexes.

July was a typical month in the market this year as far as volatility goes. David Rosenberg, Chief Economist and Strategist at Gluskin Sheff & Associates recently observed that “Wide price swings have become more and more common in stocks. We’re 142 trading days into the year – 52 days (37%) have seen 1% or greater moves. And the S&P 500 is now flat as a beaver’s tail on the year. I call this the meat-grinder market.” He made his comments on July 27, as the month was wrapping up with a big gain to bring most of the major stock market indexes back to the breakeven level for the year. Big gains and big losses seem to be almost normal in the current market.

The volatility has also contributed to increased trading activity within our models. In some portfolios, we sold an exchange traded fund (ETF) focused on microcap stocks only a few weeks after the initial purchase. ETFs that invest in stable large cap stocks, in particular consumer staples like food companies, were added in some portfolios. The models also indicated that more diversification was warranted due to increased risks in equity investments, and more overseas exposure was likely to increase returns as the dollar seems to be weakening. Asian countries, like Malaysia and Singapore, are still enjoying strong growth, and some portfolios now have positions in ETFs that invest in those countries.

While slightly lagging the market for the year to date, we have delivered less volatility in our portfolios, and steadier returns help avoid panic selling. It usually makes it easier to be a long-term investor when the short-term volatility can be ignored. The long-term will doubtlessly present many economic and investment challenges. We will doubtlessly endure both opportunity and capital losses in the future, but our focus will re-

(Continued on p. 2)

main on the avoidance of significant capital losses ensuring that we will have investment capital to grow when the good times return. We also strive for lower volatility in order to ensure that capital is available when life requires an investor to convert investment accounts into money for living expenses.

Volatility in the market has forced many investors to delay retirement or postpone long-held dreams requiring financial resources that disappear all too quickly in a bear market. We don't forget that and will continue to invest with a focus on risk, even when the market is roaring ahead for brief periods and the markets seem destined to return to the days of irrational exuberance. We will always remember that exuberance gave way to despair, and account balances that in many cases were half of what the investor once held. Avoiding capital losses, even while suffering opportunity losses, gives us the chance to achieve long-term goals.

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.

MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, August 19th 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".

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

Once at this site, please provide your name and email address (the information will not be given to third parties). After you sign up on our website, you will be sent an email with the subject reading "Dunn Warren Investment Advisors: Please confirm your request for information" and this email will contain a link that you need to click on in order to be confirmed to receive the newsletter. ***Important: If you do not click on the link in this email, you will not be sent the newsletter. Because of email privacy laws, we need to make sure we have your permission before sending the newsletter and clicking on this link confirms your permission.***