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Dunn Warren Investment Advisors

The Portfolio Reporter

Stock Market Breadth: Negatives Outweigh the Positives

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

Administrative Note:

It is our annual practice and SEC regulation to provide you with a copy of our Privacy Policy (see p. 4) and to offer our ADV II to you. The ADV II is essentially a prospectus that provides investors with information about an investment firm. It includes contact information, information about our methodology, and other pertinent information about Dunn Warren. We have posted the ADV II on our website, but we can email it to you if you would like a hard copy. (To find it on our website you can go to [http://dunnwarren.com/docs/Financial/ADV Part II 03 17 09.pdf](http://dunnwarren.com/docs/Financial/ADV_Part_II_03_17_09.pdf))

If you have any questions, please call us at 800-793-4866 or email us at info@dunnwarren.com

To start with, we need to say that we feel your pain related to taxes. For those of you who have accounts at the custodian FOLIOfn, we felt that the iShares COMEX Gold Trust Exchange Traded Fund represented a good investment. And it was profitable in many of our strategies. To complete taxes in 2007, the fund custodian provided a K-1, which is a complex form but not insurmountable. This year the custodian changed their reporting and the work required to complete the tax forms exceeds the benefit, in our opinion. We have removed this fund from our investment universe, along with other investments with similar tax issues.

The market forecast is decidedly mixed, with some indicators being bullish and others being bearish. Market breadth refers to how many stocks are participating along in the trend - strong breadth is healthy because it shows most stocks are rising.

At least one measure of breadth looks positive. Clay Allen, CFA, reports that the NASDAQ 100 is the best performer on that basis, and defensive high yield stocks are the laggards:

% of Stocks Above their 50-day Moving Average

S&P 500 58%

S&P 400 59%

S&P 600 55%

NASDAQ 100 70%

source: clayallen.com

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Looking at sectors, we see 4 sectors with a majority of stocks moving higher, but 6 show a majority of stocks with bearish trends. For this view, we are looking at the Bullish Percent Index (BPI) from StockCharts.com. This indicator is calculated by dividing the number of stocks in a given group that are currently trading with Point and Figure buy signals, by the total number of stocks in that group. The higher numbers indicate the strongest sectors. This measure of market breadth indicates that the losers from the first part of the year are now investor favorites.

Finance	61.73%
Consumer Discretionary	59.62%
Energy	54.95%
Info Tech	54.22%
Materials	42.70%
Telecom	40.00%
Healthcare	35.93%
Industrial	33.33%
Consumer Staples	32.47%
Utilities	12.68%

Looking at sectors since the rally began in early March offers some additional insights into the current state of the market. For the most part, we see that the sectors that were losers in the decline have been leaders on the way up.

	Decline	Since March Lows (Rally rank)
Finance	-48%	+55% (1)
Industrial	-31%	+30% (3)
Consumer Discr	-24%	+27% (4)
Utilities	-19%	+15% (7)
Materials	-17%	+32% (2)
Cons Staples	-17%	+12% (8)
Energy	-15%	+17% (6)
Technology	-15%	+21% (5)
Healthcare	-15%	+12% (8)
S&P 500	-26%	+21%

Putting it all together, we get a market that may be pointing towards economic recovery.

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As we can see in the previous table, Finance, Materials & Industrial stocks are moving higher. This indicates traders see an economic recovery on the horizon. However, usually at the end of a bear market, we would expect to see technology stocks providing leadership as investor optimism returns.

The recent rally seems more like bottom fishing than a sustained bull run. The ultimate bottom may be in, but sector rotation is likely to be the dominant theme in coming weeks as the market builds a base after the deep decline it suffered since last fall.

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, April 16th 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 find Dunn Warren's Privacy Policy on p. 4)

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In the normal course of doing business, we typically obtain the following non-public personal information about our clients:

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- Information regarding securities transactions effected by us; and
- Client financial information such as net-worth, assets, income, bank account information and account balances.

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