



Dunn Warren Investment Advisors

The Portfolio Reporter

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

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Midyear Review

The stock market, as measured by the S&P 500 Index, is virtually unchanged for the year. As we write this, after the close on June 26, the index shows a gain of about 3% when dividends are included. Most of our portfolio models have done better than this and in almost all cases we are beating our performance benchmark. The biggest difference between our strategies and the buy-and-hold approach has been in how we arrived at these levels.

To say that stocks have been the equivalent of a roller coaster ride this year would be an understatement. For the buy-and-hold investor, it has been more like a bungee jump. The year began with a near vertical drop of close to 30% in most of the major averages. The snapback rally began in early March and has delivered gains of more than 40%. All that excitement brings us back to about where we started. For many, it has been an exciting ride.

Not to be outdone, other markets showed just as much, or even more, volatility as stocks. Oil fell more than 30% and rebounded by 75%. Interest rates and gasoline have doubled in less than six months. Boring markets like corn and sugar are almost 40% off their lows.

For those who place their trust in Dunn Warren, we delivered an unexciting six months, preserving wealth through the decline and positioning for potential gains if this is actually the beginning of a new bull market. Our style is better suited for those who prefer to occasionally visit the amusement park rather than those who want the constant excitement of living on the roller coaster.

In mid-June, President Barak Obama said, "Wall Street seems to maybe have a shorter memory about how close we were to the abyss than I would have expected." In talking with investors on Main Street, we have been struck by the same thing - many of their memories seem to begin in early March and the ugliness which destroyed 50% of the stock market's wealth seems to have been forgotten.

We held a large hedge position at the bottom, and continued to hold it as stocks shot higher. Obviously we wish that had not been the case. But our methods are not built upon wishes. Our investment philosophy rests on economic theory, historical modeling, and a healthy dose of risk management. We cannot change it because the market changes behavior for a short time. Over the long-term, stock prices have followed the same basic principles based upon the laws of human nature and we are seeking to capture profits from these long-term tendencies. That means we will stick with what we have always done, even when it means we will be monitoring risk when many in the investment community have given way to irrational exuberance.

At the current time, we think there is a strong possibility that the economy will grow in the coming six months. We think this will lead to increased corporate profits and potentially higher stock prices. This does not mean we will ignore risk. The unprecedented actions of the US government and the Federal Reserve have created uncertainty in the economy and this corresponds to risk in the stock market. Additionally, mortgage resets will begin to rise again at the end of this year and into next year posing risk of further foreclosures, further

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home price declines, and dampened home sales. Fortunately for us, these risks are not unique in history and we feel that we are able to monitor them using the same risk management tools we have always relied on.

Old traders like to say that the most expensive words in the English language are, "It's different this time." Only the foolhardy believe that history fails to offer a useful, although imperfect, guide to the future. In the markets, history offers clues as to where future gains may lie and what the future risks may be. We believe the latter point is more important than the former. Our willingness to learn from history and desire to avoid risk allowed us to sidestep the bulk of the devastating losses suffered by many over the past twelve months. If the worst is truly behind us, then our quantitative evaluation of risk will continue to decline and we will rest easier. If further economic problems occur in the future, we are hopeful that we will once again be able to minimize the damage to the wealth of our investors.

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MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, July 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 Note: If you would like to receive free monthly **emails** of this newsletter, along with **links to hear our monthly conference call**, you can sign up on our website.

Please go to the link below and it will take you directly to our website where you can subscribe by giving us your name and email address (the information will not be given to third parties). Once you sign up on our website, you will then be sent an email with the subject reading "Please verify that you wish to receive the Dunn Warren Portfolio Reporter..." 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.*

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Thank you for your time.