



Dunn Warren Investment Advisors, LLC

The Portfolio Reporter

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July 2010

What's Next?

Many investors are starting to feel whiplash from watching the stock market. At the end of June, the S&P 500, an unmanaged index of stocks widely considered to be representative of the overall stock market, sits more than 15% below the high it reached in April.

It is interesting to consider how we got here in such a relatively short time frame. The market fell more than 12% in early May, before it gave bullish investors something to cheer with a 10% gain over the next couple weeks, but finished May with yet another loss of more than 10%. June was mostly lower, but saw a two week, 8% gain in the middle of the month. This is an example of the volatility that we referred to last month, and it will continue until it no longer continues.

That last phrase captures a reliable description of the investment environment – trends continue for a time and then they reverse. It almost seems that as soon as you think you've figured out how to invest in the market, the nature of the market changes. This appears to be true of stocks, bonds, commodities, and even real estate. In fact, it was only ten years ago that many people believed that stocks and real estate could only go higher. Now, we all realize that risk is present in any investment, even over the long-term.

The volatility may be exciting, or frustrating, or scary. At Dunn Warren, we find it to be just another part of investing. Fluctuating prices have always existed in the markets, and we try to take advantage of the trend that is visible for months at a time, rather than the short-term volatility. For now, the trend strikes as being pessimistic.

Ultimately, value determines the general price level that a stock trades at. But for extended periods of time, the general price level can be strongly influenced by the mood of the investing public. When people are happy, like many were in early 2000 as a new era was beginning and we were all expecting our lives to be dramatically improved by that new fangled Internet, bad news could be ignored by the market and stock prices moved higher. Eventually, value became a concern and prices fell. In 2002, the lingering effects of 9/11 and a slow growing economy increased pessimism and stocks suffered through a bear market.

Now, we face stubbornly high unemployment and fears that the economic recovery will stall. In the long-term, stocks will find their fair value based upon earnings growth and the underlying fundamentals. For now, they seem to be feeling the pain of any hint of bad news and shrugging off good news. This pessimism may persist, but it is more likely to give way to optimism as quickly as it appeared.

We do not have any way of knowing. All we can do is react to the market action as it occurs, and we will remain in a generally protective position as long as our time tested models indicate we should. In many portfolios we have not changed any positions over the past month. We have noticed the volatility and watch the market daily, but the portfolios do not react to daily turmoil and instead seeks positions likely to deliver long-term gains. We've also noticed a continued slowdown in several economic indicators and if our Economic Market Indicator were to decline below zero, we will aggressively take steps that will hopefully further neutralize the impact of market action on our portfolios.

We look forward to more bullish times that undoubtedly lie ahead. But since we don't know what's next, until then, we will be watching economic data and market action very closely and working diligently to

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preserve capital.

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MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, July 15th 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>

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Thank you for your time.