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Dunn Warren Investment Advisors

The Portfolio Reporter

Good Stocks for Bad Times

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Administrative Note: It is tax season again and that means it is time to prepare. Those of you who have a non-qualified account through FolioFn (meaning it is *not* an IRA, ROTH or SEP), will need a 1099, Schedule D, and K-1 to complete your taxes. Please see the enclosed instructions on how to obtain these three forms. (Note: If you are taking a Required Minimum Distribution (RMD), make sure you have a 1099R, which can be downloaded by following the enclosed instructions under the section “Instructions for obtaining your 1099 from Foliofn”).

The markets, and the economy, have had a rough start in 2009. Stocks have posted double digit losses in the first two months of the year and the economic news goes from bad to worse on a daily basis. Our portfolios are doing as well as can be expected in such times, enduring small gains or small losses.

We expect the news to get worse before it gets better. Unemployment is a lagging indicator of the economy and will peak after the bottom is in place. Yet these reports will likely set the tone of economic coverage in the media since it is such an easy story to write. New orders will flow into factories long before these businesses need to hire more workers. Online job advertisements will turn up after the new orders materialize and before unemployment begins to decline. That makes new orders and online job advertisements leading indicators. Although the leading indicators show no sign that a bottom is in place right now, they do seem to be declining at a slower rate, giving us some reason for guarded optimism.

You may have noticed that we are currently holding gold positions in many of our portfolios. This is not because of all the gloom-and-doom advertisements that have become so common on the radio. It is also not because we believe that the end of the world is near and gold will be the only safe haven in the coming economic collapse. We bought gold because of solid fundamentals.

New ETFs have created demand for gold. Investor fear is also creating demand. The supply of gold is relatively limited, and companies were taking mines out of production as costs soared last year. Increased demand and decreased supply is the basic economic prescription for higher prices.

The price of gold has gone up by more than 30% since its October 2008 lows. Shares of some mining companies have more than doubled in that timeframe. Meanwhile the S&P 500 is down about 13% in a little more than three months. We own gold not because it is gold, or because it is believed to be a store of value in tough economic times, but because it happens to be a

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good investment right now. A time will come when our disciplined strategy tells us that this gold investment should be sold, and we will do so no matter what the headlines tell us about the economy.

Another position we hold that is outperforming the market is the healthcare sector. These stocks have proven to be the most resilient in the bear market. It might be because of the high dividend yield some of the stocks offer, something fundamental investors find attractive. The largest holding in the iShares Dow Jones US Healthcare (IYH) is Johnson & Johnson (JNJ). This well-respected company trades with a price-to-earnings ratio of 11 and a dividend yield of 3.4%. Analysts expect long-term earnings growth to be near double digits. Value investors look for strong companies with good future prospects and nice dividends. JNJ is one of many examples of this type of stock in the healthcare field.

That is the essence of our investment strategy - buy funds with strong fundamentals that are going up. It has worked very well in gold and our short position in stocks continues to profit from this type of analysis. That could lead to the question of why we aren't 100% invested in these nontraditional positions.

The reason we are not 100% in these positions is that our first priority is to manage risk. The risk of being all in one or a couple of investments is that the market changes. Eventually, although no one knows when, the stock market will find a bottom and begin a new bull market. (Bull is a rising market and bear is a falling market). Academic studies show that most of the gains in a bull market are achieved in highly concentrated surges at the beginning of the market cycle. Another famous study showed that in the 1980s, the S&P 500 gained an average of 17.5% per year. Of those 2,528 trading days, only 40 days accounted for 88% of the total returns. Missing out on those 40 days would have reduced the average annualized gains to only 3.9% a year.

In order to be certain that we benefit from the inevitable new bull market, we need some exposure to stocks. Our goal in the portfolio is to lose less than the overall market, protecting capital to profit in the future. Thus far in 2009, we have met that goal and are working hard to maintain your trust, and that performance record.

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, March 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".