



Dunn Warren Investment Advisors

The Portfolio Reporter

Bernanke's Green Shoots Continue Into Autumn

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Many of the green shoots noted by Fed Chairman Ben Bernanke in the spring have survived the summer. For the most part, the economic news continues to be good. Unemployment is still very high, and most analysts expect it to remain high for some time. While the prospect of double digit unemployment is indeed sobering, as President Obama said, it is not incompatible with a growing economy. Unemployment is a lagging indicator - it tends to peak well after the end of the recession. This largely overshadows the good news that has been trickling out showing that manufacturing, construction, and housing have reached at least short-term bottoms.

The doomsayers also highlight their bearishness on the future of the U.S. Dollar, questioning its status as the world's reserve currency and often pointing out that a weak dollar is bad for the U.S. economy. We think this may possibly be an attempt by analysts to garner headlines and question the link between a declining dollar and declining economy.

We should remind readers of the meaning of the terms bear and bull. Bears think that a market is going down. Wall Street legend holds that the name comes from the fact that a bear attacks by moving its paws downward towards its target. Bulls attack by goring with their horns in an upward motion, and therefore bulls expect a market to move up.

Writing recently in Forbes, columnist Lisa Hess laid out the bullish case for South Korea. In part, she cited the declining value of their currency as a positive, writing, "Another big plus has been the 30% depreciation in the won (the South Korean currency) versus the Japanese yen over the past year. This has been a boon to South Korean semiconductor manufacturers." She rightly points out that the declining currency allows South Korean products to be priced lower in foreign markets.

Over that same time frame, a trade-weighted index of the U.S. Dollar has declined by nearly 10%, making American products relatively cheaper in overseas markets. This should benefit U.S. manufacturers as global economic activity rebounds. In fact, it should benefit any company doing business overseas. Companies like Kraft and Procter & Gamble recognize this.

The CEO of Kraft, Irene Rosenfeld, told Business Week that her company was seeing sales growth "in the mid-single-digits" in North America and Europe. But, she noted that, "In developing markets, our focus brands continue to grow at strong double-digit rates." Procter & Gamble's CEO Robert McDonald was quoted as saying, "The opportunities here are boundless; 86% of the world's population is in emerging markets. We will dramatically increase the percentage of total company sales from these markets."

What we learn from all of this is that we need to do our own analysis. Hess is probably right - the declining value of the South Korean currency is good for its manufacturers. That should mean that a declining U.S. Dollar could have benefits for our manufacturers. When we ignore the news, our own analysis indicates that the recession has likely ended and the economy should grow stronger. The ability to increase exports can only add to the potential growth of the economy.

CEOs of large companies think their greatest growth will come from overseas markets. This means we should see strength not only in U.S. companies but in overseas markets as well. We have seen the stock mar-

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kets of some countries outperform our own market. That has led us to take positions abroad. Where possible we have focused on Emerging Markets, including China, Brazil, Canada, and South Korea.

The economic headlines are very likely to focus on the negative. This is probably because bad news tends to sell more newspapers than good news. But economic analysis requires more than a reading of the headlines. We will continue to undertake a detailed analysis, and often we give little weight to what newscasts consider to be most important. High unemployment is certainly a tragedy for those who lose their jobs, but in many studies it is shown to have little forecasting value for the economy. Data-driven analysis removes the human element so that we can spot investment opportunities without emotional biases.

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MONTHLY CONFERENCE CALL

Our next monthly conference call will occur Thursday, October 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".

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Thank you for your time.