



April 28, 2006 Newsletter and Commentary

By Will Woodard, CFP®

The model portfolios that I track on an ongoing basis have performed as follows through 4/28/06. (Note: return data is compiled using Morningstar resources. All returns reflect reinvested dividends and, if applicable, capital gains. Returns may vary slightly over time as capital gains distributions take place within the portfolio. Returns are reported before applicable management fees.)

	<u>YTD '06</u>	<u>2005</u>	<u>2004</u>
Modified:	13.26%	18.17%	19.88%
Pure:	7.08%	11.61%	16.52%
Challenge:	6.91%	11.44%	19.15%
Bond Fund:	-0.22%	2.99%	4.56%
S&P 500:	5.66%	4.83%	10.70%

Market thoughts-Well, how about that: As of late April, Goldilocks was winning out. The yield curve uninverted a couple of weeks back, US Advance 1st quarter GDP came in at 4.8% this morning, and the market can actually understand Fed Chairman Bernanke when he speaks...so the line of least resistance at this point is up. Asset allocation models that include international and small cap exposure are leading the charge, but most everything except bonds, US automakers and some individual stock laggards like Microsoft (MSFT) and Intel (INTC) has had an upward tilt in 2006. Intel may have very well put in a bottom just north of \$19 a share, too.

That there is such a rosy mood in the face of \$70+ oil and multiple (what is it now, fifteen?) interest rate hikes speaks to a robust global free-market economy. As much as nay-sayers can pick on President Bush for other actions during his Presidency, the investor-friendly 15% tax on qualifying dividends and long-term capital gains that was passed in his first term has given the uptrend in equity prices some significant structural underpinning.

With a favorable tax playing field in place, the "Bond Ghoul" allowing the yield curve to uninvert was the triggering event for another leg up for the equity markets. How far up and for how long remains to be seen--Stay tuned!

Changes to Challenge portfolio- I put the Challenge portfolio together in January of 2003 in response to a "Beat the S&P 500 if you dare" challenge from a cohort (it has done just that since inception, btw) and have not made any changes to it since inception...that is, until now. Sprint Nextel (S), Liberty Media (L), and Discovery Holdings A (DISCA), a Liberty Media spin-off, were sold on 4/28/06. The proceeds bought an increased position in

investment bank Goldman Sachs (GS) and a new position in Services Acquisition Corp. (SVI), a holding company for the Jamba Juice chain of smoothie bars.

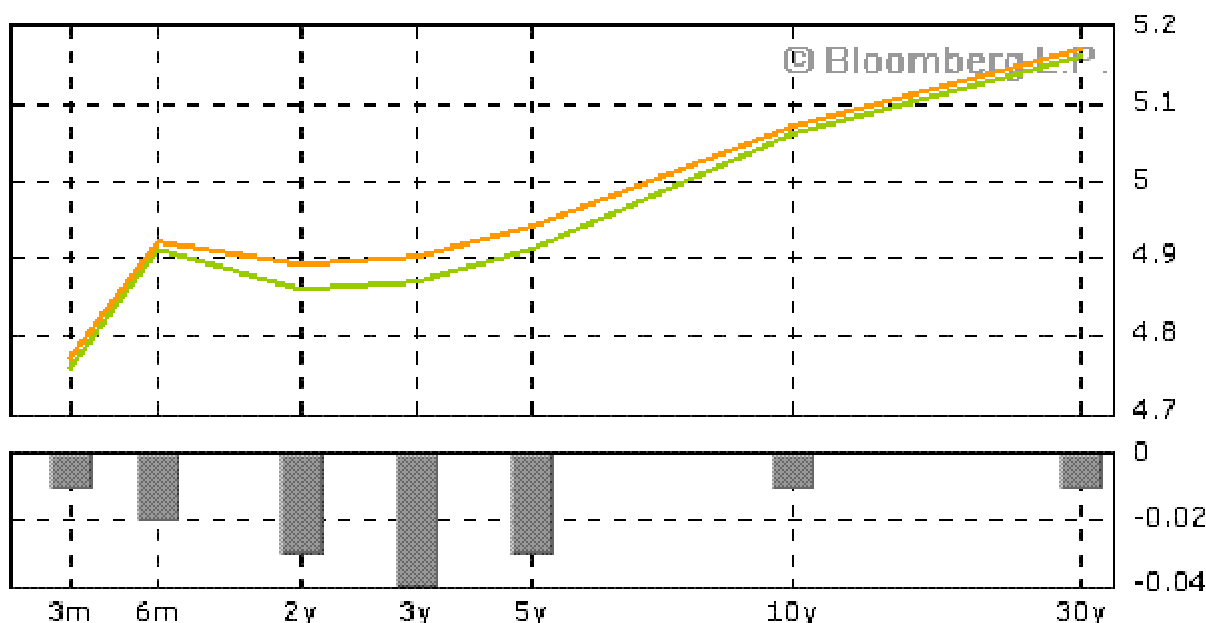
Although I advocate quality holdings and very low turnover (if any) in my model portfolios, I felt that it was time to make the changes. We had owned Nextel as a wireless leader and frankly didn't want to be merged into Sprint, although the portfolio position gained from the merger. As for Liberty Media, my patience with John Malone has worn thin. Goldman Sachs (GS) is one of my favorite stocks and is for my money like owning a piece of your very own hedge fund. The portfolio already had a position, so I just doubled up. The SVI acquisition is a start up and plays to the regional to national opportunity (ala Starbucks (SBUX)) for the Jamba Juice smoothie chain. SVI has a smaller market capitalization and is a bit more unproven to be sure, but IMHO the upside warrants getting on board for a bit.

Odds and Ends

One of the real joys of being a money manager is being exposed to the thought processes of some of the planet's smartest human beings. To that end, Barton Biggs' recently published book on his investing worldview in general and the business of running a hedge fund in particular, *Hedgehogging*, is a REAL keeper. Very well written and chock full of actionable ideas, Biggs puts his 30 plus years of experience as a money management pro on display. Great coverage of the challenging, humbling, exhilarating, war called professional investing. Bravo!

Open to a few new clients-I feel comfortable putting some new money to work in the current market environment. Call or email me if you'd like to set up a time to talk about getting on board.

Charts:Yield curve, 4/28/06: Return to normal slope equals increased confidence in economy



S&P 500, 4/28/06-Trying to break out, and on good recent volume



Good investing,

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