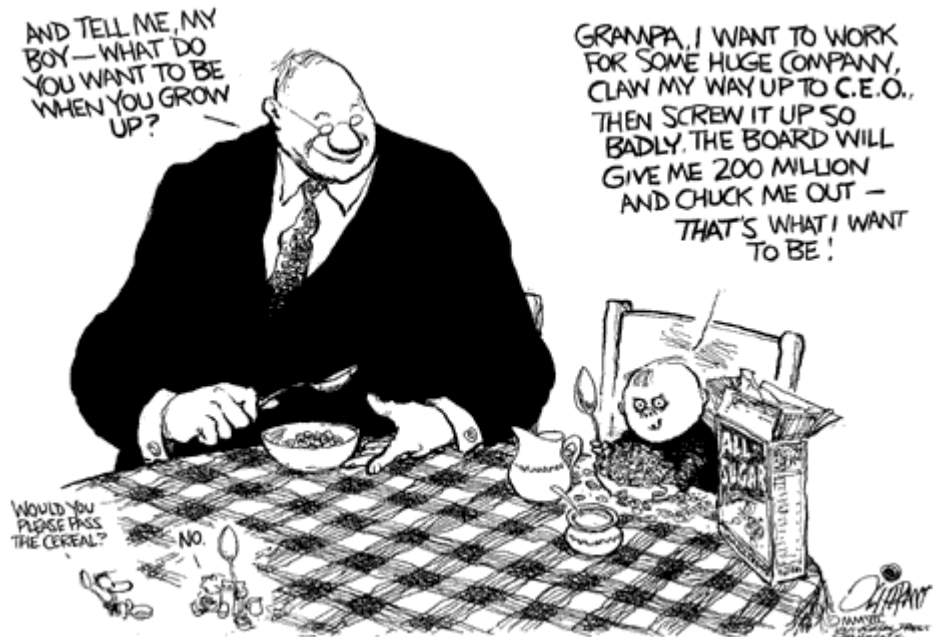




2006 Year End Commentary-1/10/07



**The Year in Numbers: In a word: WOW!** (Note: all performance figures include reinvested dividends and, if applicable, capital gains. Portfolio performance is monitored using Morningstar resources.)

**Model Portfolio Returns:**

<b>Modified:</b>	<b>24.52%</b>
<b>Pure:</b>	<b>20.42%</b>
<b>Model Trust:</b>	<b>18.97%</b>
<b>Challenge:</b>	<b>19.45%</b>
<b>S&amp;P 500:</b>	<b>15.85%</b>
<b>Bond Fund:</b>	<b>3.90%</b>

**“Success is doing what you like and doing it well.” Warren Buffett**

(Style note: Truncated/Stream of Consciousness/Direct)

**Thoughts/Emotions:** A really good year. Glad we stayed fully invested. A look back at the 2005 EOY Commentary [http://www.darecapital.com/news/060105\\_news.pdf](http://www.darecapital.com/news/060105_news.pdf) confirms that we were in retrospect pretty much on top of the possibilities for global US economies and markets.

**Fear equals opportunity:** It would have been really easy to take some positions off the table during the sell-off and recession fears that occurred during the late spring/summer. Glad we didn't! Our asset allocation models caught a lot of the outperforming sectors.

## Selected Winners:

### ETF's:

Real Estate Investment Trust Index	up 35.53% in 2006
Developed Countries International Index	up 25.81% in 2006
Emerging Markets International Index	up 31.19% in 2006
US Small Caps Index	up 18.27% in 2006

### Individual Stocks:

Goldman Sachs (GS) (see chart)	up 57.41% in 2006
Duke Power (DUK)	up 30.15% in 2006
Altria (Philip Morris) (MO)	up 19.87% in 2006



## Atonement:

A. Natural gas has been the biggest losing sector for clients. I like owning it because companies in the sector tend to have very low PE multiples. The low PE/inexpensive valuation goes for oil services, refiners, to some extent tankers as well. I like owing/buying things that are inexpensive relative to the market--Did not anticipate the warmest year in recorded history in 2006, however! Will lighten up on these holdings as they become profitable positions over time. (OR earlier, if I just can't take it anymore!)

B. I missed Apple Computer (AAPL) and some other tech stocks that had big rallies in 2006. I just don't feel as though we have an investible edge versus all the fast money in the market chasing tech stocks. My opinion may change on this over time, but the shorter and shorter product cycles that most tech companies deal with make all but the largest of them (Intel (INTC), for example) inappropriate investment vehicles. I may change my mind on this as time goes on and I am better able to identify investible edges--stay tuned.

C. We may own too much oil, but I view that as a long-term secular story--we keep using it up as fast as we can and no more is being grown/produced. Am willing to wade through the political/fear/weather issues surrounding it. Will use block trades going forward to trade the swings in some of the big oil stocks.

**Strategy:**

**Countertrend:** I am working hard on getting better at thinking countertrend. Sometimes following conventional wisdom with regards to an investment decision is exactly the wrong thing to do. Thinking countertrend worked for us in Toll Brothers (TOL), United Health (UNH), and American International Group (AIG) over the last couple of years. Has not worked (yet) in Valero (VLO), Caterpillar (CAT), TD Ameritrade (AMTD).

**Transparency:** Personal and family investment accounts are invested the same way and in the same stocks and ETF's as client accounts are. I try to apply the "what would I do if this was a family account?" rationale to all client investment decisions.

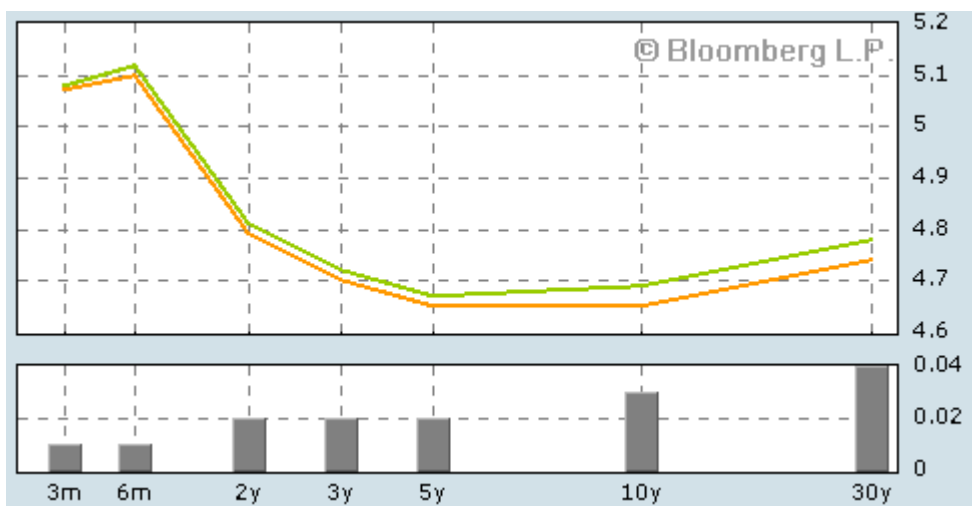
**Trends for 2007**

**Opportunity:** This is one terrific time to be doing what we are doing in the markets in which we are doing them! The opportunities to diversify portfolios across more and more negatively-correlated asset classes is going to be what provides the most upside to investors' portfolios over the coming decade. Should be fun! Now, where's David Swenson's (Yale Endowment, 16.1% average annual return 1985-2005) asset allocation model?!

**Liquidity:** There is an unbelievable amount of global capital chasing return. Investors stand to benefit by having thoughtfully constructed portfolios. I would venture to say that individual stocks will become smaller and smaller portions of client portfolios over the next several years as more and more specialized Exchange Traded Funds (ETF's) proliferate.

**Writing on the wall:** All but the best few actively managed mutual funds are in danger of being relegated to the investment junk heap. There are simply too many more thoughtful ways to build diversified portfolios!

**Wisdom:** The bond market is still much smarter than the stock market. The yield curve is still inverted as of this writing (1-10-07-see chart). That means that the bond market continues to consider there to be a chance of a recession in the US in coming months. It will be especially important to watch upcoming GDP and inflation data because of this.



Finally, as we enter 2007, thanks for all of the kind words and support over the years, and for allowing my firm the opportunity to add value to your family's financial lives. We live in the greatest country in the world-make sure to take full advantage of the opportunities you've been given!

Will W. Woodard, III, CFP®