



Investor's Corner Newsletter

February 26, 2007

Model Portfolio Returns:	<u>2006</u>	<u>YTD 2007</u>
Modified:	24.58%	4.51%
Pure:	20.62%	5.46%
Model Trust:	19.07%	2.66%
Challenge:	19.45%	7.49%
S&P 500:	15.85%	2.60%
Bond Fund:	4.60%	0.83%

(Note: all portfolio return figures include reinvested dividends and, if applicable, capital gains. Portfolio performance is monitored using Morningstar resources.)

Market Thoughts: Print readers may want to refer to the 2006 End Of Year commentary at www.darecapital.com/news/070110_newsletter.pdf for a more detailed 2006 synopsis. As I write this, the market is attempting to continue to rally, fueled by a mixture of good corporate earnings reports, blockbuster corporate mergers and private equity buyouts, (more on this later) and general global economic prosperity.

Recent strength in metals, commodities, and foreign currency markets should serve as a reminder to investors of the importance of diversifying across negatively correlated asset classes. The relative strength of the above sectors plays to Contrarian investor issues as apparently disparate as sentiment regarding the U.S.' position as a debtor nation and global depletion of natural resources. Throw in the Iraq quagmire, fallout from the much-discussed US housing bubble, and a looming U.S. Presidential race, and investors have the classic "Multi-factor model" to contemplate.

I should note that there are vocal skeptics on the sidelines crying to all who will listen that the rally feels a little long in the tooth. Indeed, I think that's a positive market sign. It's almost always healthy to see skepticism on the part of market participants. Skepticism aside, however, this would have been a tough rally to have missed. Undoubtedly, some great return numbers have been put up these last few years.

Portfolio Commentary: The Challenge Portfolio has had a very strong start to 2007--Morningstar data shows the portfolio up 7.49% as of 2/26/07. Believe it or not, however, that figure is actually low. Why the Challenge Portfolio is doing so well this year is also a big reason why there may be more fuel in the market's rally tank—corporate mergers and private equity buyouts.

Mergers and private equity buyouts have provided nice paydays for shareholders of two Challenge Portfolio stocks. First Florida Rock (FRK), a regional owner of cement plants and aggregate quarries, received a \$66 per share buyout offer from rival Vulcan Materials (VMC) on February 19th. The offer represented a 42% premium to FRK's share price prior to the offer. Then Equity Office Properties (EOP), the US's largest Real Estate Investment Trust, or REIT, was the object of a bidding war between two private equity firms. EOP was eventually taken private for \$55.50 a share in a transaction that is one of the largest private equity transactions in history. That transaction has not yet been fully reflected in the Challenge Portfolio's return figures for 2007.

Speaking of returns, FRK had a 188% total return over its 49 month holding period 1/03-2/07, while EOP had a 185% return. Those are numbers I can live with! If market pros continue to find merger or takeover value in current US equity share prices, then the rally may still have legs-stay tuned.

Interview Excerpts from The Wharton School of Business' Olivia Mitchell and Money Magazine's Jason Zweig discussing Baby Boomer Retirement, from the March 2007 issue of Money Magazine.

(Will's comments: Normally the thought of talking heads discussing generational retirement issues makes me want to pull my fingernails out one at a time, but Jason Zweig is an exception: Thoughtful, erudite, well informed. He and Olivia Mitchell, Head of the Wharton School of Business' Pension Research Council, touch on some issues with relevance to us all. The article has been edited for content, as we come in four questions in.)

Jason Zweig: Will Social Security get fixed?

Olivia Mitchell: Recently the Japanese learned that 40% of the working population wasn't paying Social Security taxes, including a couple of economic ministers in the prime minister's own cabinet. Here too, if young people lose faith that Social Security will be around, they'll stop supporting it. So I'm hopeful there will be some modest progress soon. I personally favor the individual account approach, not (for ideological reasons) but because I think it's the only way to keep Congress from spending the surplus.

JZ: What do retirees regret most?

OM: Many seem to regret losing their social context of friends and activities, which is why "unretirement," or volunteering and part-time work, is gaining appeal. One thing they probably don't regret enough is that they failed to invest in their own health. Keeping fit in your fifties is key to staying healthy later.

JZ: What's going to be our biggest shock in retirement?

OM: Medical-care costs and having to support aging parents.

JZ: What's going to be our biggest pleasant surprise?

OM: Hmm. In my view, it's that you may live longer and healthier than you thought. We'll be around, engaged and active. With this comes the duty to be a productive citizen.

JZ: We've all heard about the gap between what people are saving and what they will need. Is the situation all that bad?

OM: It's not ideal, but there is a solution that can have a powerfully positive impact: deferring retirement. Quitting at age 65 instead of 62-just three more years-cuts the average savings shortfall in half! So even small steps can make a big difference.

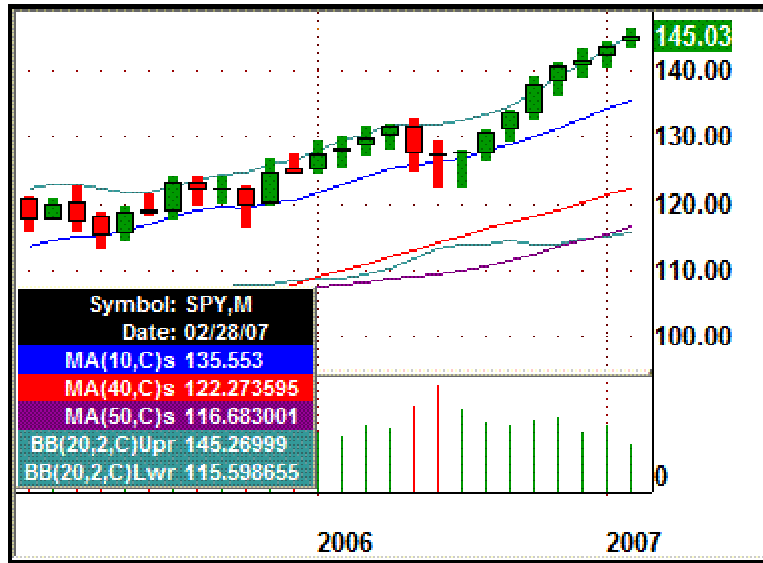
JZ: But is it realistic to urge people to work into old age?

OM: With proper planning and investment in your skills ("human capital"), it should be possible to construct a string of careers that will keep you going until your seventies and beyond—at least part time. I tell my students that they should study not for their first job but as if they're going to have six or 10 careers.

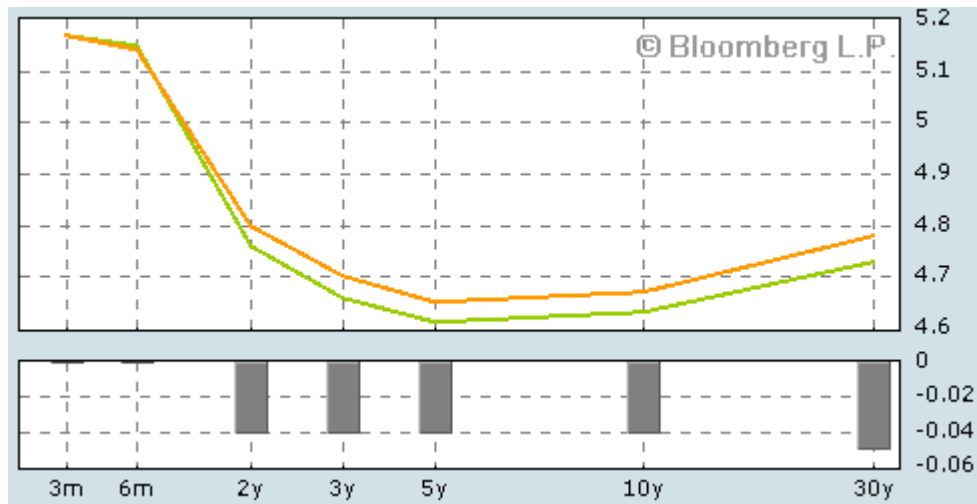
You should also invest in your "social capital," making new friends and doing volunteer work. Being able to afford to retire is not just a question of saving enough financial assets. It's also a question of reinventing yourself to maintain your value in the labor market in the decades to come.

Charts:

S&P 500



Yield Curve



Good investing,

Will

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