



2007 Year End Commentary-1/17/08



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

2007 Model Portfolio Returns:		End of Day 1/16/08:
Modified:	17.06%	-7.63%
Pure:	5.50%	-4.77%
Model Trust:	14.08%	-6.72%
Challenge:	9.43%	NA
S&P 500:	5.14%	-6.31%
Bond Fund:	5.66%	1.46%

2007 Comments: 2007 started strong but finished noticeably weak. Reference the 2006 EOY Commentary at http://www.darecapital.com/news/070110_newsletter.pdf for more color into our asset allocation and strategic thinking at the beginning of 2007.

We caught good performance during 2007 in oil and energy, commodities, emerging markets international, developed markets international, and selected US individual stock names. This led to our portfolios outperforming many notables in the money management world, including Ron Muhlenkamp (Muhlenkamp Fund MUHLX down -9.70% in 2007), Bill Nygren (Oakmark Fund OAKMX down -3.6% in 2007, Oakmark Select OAKLX down -14.00% in 2007), and Bill Miller (Legg Mason Value Trust LMVTX down -6.73% in 2007).

Selected Gainers--ETF's and Mutual Funds:	2007 Total Return
Emerging Markets International Index	up 33.08%
StreetTracks Gold	up 31.10%
PIMCO Commodities Real Return Fund	up 23.80%
EAFE Developed Markets International	up 9.97%

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Selected Gainers--Individual Stocks:

Intel
Devon Energy (see chart)
Chevron Texaco
TD Ameritrade
Altria (Philip Morris)

2007 Total Return

up 34.22%
up 33.51%
up 30.59%
up 23.98%
up 22.10%



A note on the Challenge Portfolio: This portfolio has existed since Jan. 15, 2003 and has beaten the S&P 500 (its mandate) every year, showing a 92.09% total return including reinvested dividends and 18.57% annualized return (again assuming reinvested dividends) over its 4.96 year history. That said, I am retiring this incarnation of the Challenge Port as of 12/31/07. I will build a new Challenge portfolio by the end of January 2008 and will track it in a similar fashion and with a similar mandate-stay tuned.

Atonement: Owning Up" to mistakes, missteps and other general hardheadedness

- A. **Buying Value Traps**--I plead guilty to repeated violations of this offense. Many of our losing positions are companies that were cheap and oversold when we bought them, then simply stayed cheap and oversold (or got cheaper and more oversold). Time Warner, AIG, Amgen, and many financials fell into this category. We have had repeated success over the years buying quality companies that have fallen a quick 20 or 30 points for whatever reason, so this will probably continue to be an issue from time to time.
- B. **Value vs. Growth Slant**--Growth outperformed value in 2007, led by high-fliers such as Research in Motion, Amazon, Apple Computer, Garmin, and First Solar. We don't own any of those names. Frankly, I am just not comfortable buying high PE "momentum" stocks. I can't help but think of owning them as being one piece of bad news away from a big loss in the position. Maybe I'll get better at rotating in and out of the momentum stock "fashion show" after I get the number of positions that we own down some more. Stay tuned.
- C. **Not Selling the Financials**--I wouldn't say that we were in any way overweight financial stocks, but most of the sector had an awful 2007, and (as a particularly ugly example) the little bit of Washington Mutual we owned for the low PE and hefty dividend (see Value Traps, above) just got hammered! Wonder how Bill Nygren feels, with Washington Mutual being one of Oakmark Select Fund's largest holdings? I think there are some good buys in the sector, and by the time the contagion clears the sector will have bottomed and resumed an uptrend. The financial sector historically makes up the largest sector in the S&P 500, so the broader market **needs** financial stocks for leadership.

Worrisome rollover: After falling sharply and recovering in the summer of 2007, the market increasingly looked as if it were trying to roll over the last two months of 2007. Fears of recession

due to higher energy prices, the continuing subprime mortgage and housing contagion, and slowing consumer spending were cited as catalysts. Grizzled market veterans noted that the market actually traded similarly to 1990, when another financial contagion caused deterioration in a broad range of financial stocks. Without considering the financial and consumer discretionary sectors, however, the S&P 500 would have been up 17% on the year for 2007.

As an aside to the 2007-1990 comparisons, Jim Cramer recently commented that 1990 was the most difficult market he ever experienced as a hedge fund manager. It's definitely worth perusing 10 of Cramer's Market Predictions for 2008 here: <http://seekingalpha.com/article/58745-jim-cramer-s-10-predictions-for-2008>

Trends for 2008

Defense: Two weeks into 2008, the market is in a nasty mood. As I posted the YTD numbers this morning I just can't shake the feeling that this market is WAY oversold. It will remain to be seen how long the condition persists. Until the market stops repeatedly selling the same news over and over, we have to think capital preservation just as much or more so than we think capital appreciation. This type of market is very narrow as well, meaning there have only been a few things working: Tobacco, commodities, certain health care, natural gas, certain agriculture. The financials and indeed, a lot of the broader market feels oversold (see Value Traps, above)

ROW(short for Rest of World)--International stocks are still outperforming US stocks for several reasons--the weak dollar, the ability to record revenues in a stronger currency like the Euro, and lack of exposure to the US contagion in other markets. Our portfolios have included generous international exposure since "Day One" and have outperformed US-only allocations as a result.

Commodities: Still good. Whether due to the weaker dollar (gold), a truly bird-brained ethanol tax boondoggle for farmers in the Midwest (corn, wheat) or high energy prices (oil, natural gas) commodities are due to remain strong. Don't think I'd be overweight the sector at this point, but it's still going to be worth owning some exposure here in 2008.

Notable Quotes:

What's notable about the recent volatility is that there's hasn't been a knee-jerk reaction in which what's happening in the developed markets affects the emerging markets. There truly is something fundamental going on here. There is a shift from the center of the universe being New York and the U.S. to there being several financial centers. Some of it is occurring because of the emphasis in these markets, with the Middle East really thinking about how to invest petro dollars. But I think we should be quite honest with ourselves: It's also been driven by the litigation regime, the regulatory regime in the U. S., the approach we take to inviting or not inviting foreigners into our markets. There is an insular nature here, and we have not fully recognized—I know we have not fully recognized—the seismic shift that is occurring. That is not to say there won't be volatility in all of the markets. The fundamental issue remains the lack of liquidity.

I think the key mistake that a lot of pundits make is, they keep saying that while we have a liquidity issue, the fundamentals are OK. The point I try to make is, liquidity is the fundamental. The liquidity issue, in turn, is led by concerns about what will happen to economic fundamentals.--Sallie Krawcheck, Citibank head of global wealth management (and former Morehead Scholar at UNC), [Worth Magazine](#), Jan/Feb 2008.

"Whether you think you can or think you can't, either way you are right."—Henry Ford, from Byrne, Ronda, [The Secret](#).

Good investing, Will W. Woodard, III, CFP®

Will Woodard is president of Dare Capital Management LLC, a Registered Investment Advisor firm in the State of North Carolina. Learn more about the firm at www.darecapital.com Will and/or clients of Dare Capital Management LLC may own the investments mentioned herein.

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