



Investor's Corner Newsletter-4/25/08

**Model Portfolio Returns:** (Note: all performance figures include reinvested dividends and, if applicable, capital gains. Portfolio performance is monitored using Morningstar resources. Print readers can access 2007 End of Year commentary and see more specifics regarding investment performance at <http://www.darecapital.com/news.htm>)

	<u>2007</u>	<u>Through 4/25/08</u>
Modified:	17.11%	-0.52%
Pure:	5.53%	4.87%
Model Trust:	14.41%	2.05%
New Challenge:	NA	-1.52
S&P 500:	5.14%	-5.05%
Bond Fund:	5.67%	1.30%

Well, what a way to open 2008! The first four months of this year have not lacked for drama, and after a sharp correction culminating in the Bear Stearns buyout by JP Morgan Chase on March 17, the market has rallied nicely. As a result we are back to positive on the year in some portfolios and mildly negative in others.

As much as we wish it would, the market doesn't go up in one straight line, so we have to take what the market gives us and make the best decisions that we can with the information we're given. Here are ten thoughts and ideas on dealing with a crazy, news event-driven market.

1. Ignore the media. There are many times when folks just need to cut their computers and TV's off and go play with their spouse/ kids/ dog. The media has really gotten out of hand—a 100 point down day on the Dow is referred to as a PLUNGE and reported breathlessly. Tune it out!
2. Realize that herd mentality is alive and well. One of the reasons that I think most actively-managed mutual funds are exercises in mediocrity (with investors footing the bills) is that the fund managers are more rewarded for staying in the investing pack than for thinking on their own. That's why something like 80 percent of actively-managed mutual funds underperform their benchmarks. Investing outperformance comes from experience, discipline and, frequently, being willing to think and act independently of the herd.
3. Recognize that in uncertain times, obfuscation and misinformation reign. Within the timeline of the current financial crisis there were days when different unfounded rumors had banks up to Citigroup in size on the brink of bankruptcy. Rumors were spread by short sellers hoping to profit from the selloff, and for every rumor that proved founded there were many more that proved groundless.
4. Understand that by the time the news makes the cover of *Time* or *The USA Today* or *The New York Times*, the move has been made and is already totally factored in by the market. Headlines on March 17 all sounded like "The End is at Hand"—well, it wasn't, and if you sold based on that news, you sold at the bottom.
5. Realize that the market will act irrationally at times, and be ready to take advantage of that irrationality. Investors will frequently penalize innocent companies for the mistakes of their peers, a situation that can provide a great opportunity for the prepared buyer. I like to use the metaphor that my job is like a Persian rug store owner, with a parade of suppliers constantly bringing merchandise of all types past. Sometimes it's overpriced junk, sometimes

it's well-priced quality goods, and occasionally it's top quality goods at distressed prices. Those are good days indeed.

6. Employ hedges. At the market bottoms in January and March, commodities including oil, gold, natural gas, and agricultural staples were up on the order of 25% for 2008. That provided a great hedge to the global equity market volatility. (Long-time readers know that I have advocated owning commodities since "Day One").
7. Try to find an investible edge, even if it's a small one, then exploit it repeatedly. One of our edges is that we're small and nimble by Wall Street standards. We can buy in hundreds of shares instead of having to buy hundreds of thousands of shares, and we can purchase stakes in companies with smaller market cap weightings when appropriate. Bigger is definitely not always better in the investing world!
8. Find and identify winners--then stick with them until given a compelling reason not to. In every situation there will be winners and losers, champions and duds, outperformers and laggards. Where a lot of investors chase recent performance, a strategy that is by nature like looking in the rear view mirror at the market and is almost guaranteed to underperform over time, I prefer to get to know the leaders of some of my favorite companies, then monitor what they say versus what they do. A winner's vision executed over a period of several years in the history of the company can produce stellar returns for investors in that company.
9. Understand that governmental decisions or policy actions frequently produce unintended consequences. The ethanol initiative has produced food crop shortages and skyrocketing grain prices. The SEC's removal of "the uptick rule" on short selling (Google it if you are interested in learning more) produced the unintended consequence of unprecedented bear raids on the market by large hedge funds starting last July. Early recognition of unintended consequences can be profitable indeed!
10. Weigh the potential downfalls of doing it yourself, and consider working with an investment advisor. Not succumbing to fear and news is really hard for individual investors to do on their own, to say nothing spending the research time investigating potential investments and knowing what constitutes an appropriate asset allocation model for your family's portfolios. Consider getting help.

**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](http://www.darecapital.com) Will and/or clients of Dare Capital Management LLC may own the investments mentioned herein.

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Charts:

S&P 500 ETF



Oil ETF



REIT Index ETF



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