



2009 Second Quarter Commentary-7/10/09

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

Model Portfolio Returns:	6/30/09:	7/10/09 AM:
Modified:	13.04%	7.42%
Pure:	6.20%	0.46%
Model Trust:	6.33%	1.41%
Challenge:	14.99%	9.78%
S&P 500:	4.04%	-1.02%
Bond Fund:	6.76%	7.40%

When we last spoke in early March, I was advocating hypothetical moves to Paris, Tahiti, or Russia if the US equity markets did not improve. Trying to remain invested with the amount of fear, misinformation and noise that was present in the marketplace at that time was frankly wearing me down! I was tired of trying to see the glass as half full, if I was seemingly the only investor doing so. I wrote to you on March 6th, and the market bottomed on March 9th. Thankfully we caught a nice move over the next fourteen weeks that brought the major indices positive on the year.

Since the first week of May, however, concern about the strength of any potential economic recovery has caused markets to give back some of the move. Contributing to the weakness was the July 3rd employment report, which came in worse than expected with US unemployment reaching 9.5%.

As I was brainstorming how to address the Gordian knot of issues we face and avoid writing a long, dull, and boring book in the process, Jim Cramer stepped in. In a segment on the July 8th issue of "Mad Money" on CNBC-TV, Cramer addressed "the Obama Accountability Index"-a basket of stocks Cramer organized to purport to show how President Obama's actions were affecting the economy. Every once in a while Cramer really hits the nail on the head. He did such a good job with this that I have excerpted the article and attached an imbedded video of the segment. Note, if you cannot open the embedded video go to <http://www.cnbc.com/id/15840232?play=1&video=1175786152> to see it.

The same force that so hurt the markets this winter has yet again reared its ugly head: the White House's anti-business rhetoric. Cramer on Wednesday blamed the negative sentiment for stocks' recent pullback. Investors don't seem to trust President Obama to create jobs and stimulate the economy, not when he prioritizes climate change and health care. "I want President Obama to succeed," Cramer said, "but right now he's getting it wrong."



Obama's administration seems to be working on all the wrong things, at least for now given the recession and the chatter about revisiting the early March lows. On top of cap-and-trade and Medicare, the president has pushed for the expansion of union powers, taxing offshore corporate profits and even probing **AT&T** and **Verizon** on antitrust grounds. Cramer doubted that Obama could send clearer signals that his concerns are anywhere but the economy. Not that these aren't noble pursuits, but people need steady income so they can pay their mortgages. "The president should be focusing on job creation," Cramer said, "but is in fact doing very little of the sort."

A look at the **Mad Money Obama Accountability Index**, created just after Inauguration Day, tells the tale. The index, comprising Bank of America, General Electric, Citigroup, JPMorgan Chase, Caterpillar and General Motors, has dropped to 96.1 from its starting point of 100. While that may not sound bad, this measure of Obama's job performance "has been on the downswing," Cramer said. And on a technical basis, the OAI could drop to 84 if all this anti-business chatter continues.

Businesses won't start hiring until we get two of three economic imperatives, Cramer said: people need to feel their jobs are stable, their home prices are stable and that stocks are going higher. Right now we have stabilization in home prices, but not in jobs. And then there's the OAI. One of three isn't good enough. Cramer urged Obama to postpone his agenda for now in favor of boosting the economy. And the best way to do that is to fight unemployment.

"Without more job creation," Cramer said, "the president's agenda and his tone will continue to slowly and inexorably squeeze the life out of this stock market."

Well spoken, Cramer—the reference to Chinese and French plans was especially prescient, and sobering—there's those bastions of free enterprise, the French, being mentioned in glowing terms relative to the US again.

On the Table: Here are some topics that have been on your minds lately, based on client interaction over the last few weeks:

Deflation versus Inflation—As mentioned in my 2008 EOY letter http://www.darecapital.com/news/090116_year_end_commentary.pdf the crux of the economic argument centers around inflation versus deflation. As long as the economy is shrinking and losing jobs, deflation will be the biggest concern. As soon as things start to improve, fear will switch to

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inflation. We are well hedged against inflation, but cash and US Treasuries are just about the only way to hedge against deflation.

Commodities Fund—Along with the entire commodities space, the PIMCO fund that we use for exposure to the commodities sector had a tough second half of 2008. Owning this fund gives exposure to eighteen commodities (oil, gold, soybeans, corn, etc) and also invests in Treasury Inflation Protected Securities. The inflation exposure has caused the fund to outperform other commodities indices so far in 2009. Here's another great hedge against inflation, if we can ever get the deflation word off the table.

Oil Refiners—This subset of the oil sector has been one of the hardest to understand. The stocks that we own in this sector are trading at one half to two thirds of their stated book values, which looks to me to be incredibly cheap valuations. Only problem is, these stocks can't get out of their own way! The sector is really out of favor in the market due to variable prices for input costs (refiners purchase oil on the open market then sell gas, diesel, heating oil, etc.) and the global slowdown. I keep thinking that the rock bottom valuations-among the lowest in the entire equity market-will be recognized over time. My confidence in owning these, long term has been hurt by how poorly they have performed the last eighteen months. Will sell into strength.

Bond Exposure—We own some exposure to North Carolina Municipal Bonds in some more conservative accounts, but do not own much US Treasury exposure. I have used utility stocks as a way to conservatively position accounts (A solid idea until worries about utilities' debt loads and fears about Obama's planned cap and trade regulation took them down last year--they have since largely recovered due to their low valuations and good dividend yields) and am loath to do any allocating to bonds now due to how poorly they performed in 1993-1994, at the end of the last banking crisis. I am of the opinion that the easy money has already been made in the bond sector. Will consider some baseline allocation into bonds after two or three years of economic recovery.

The Future of Business in America—May need to use the back of the page for this one! Simply put, America is not going to recover until Washington recognizes that small business/entrepreneurism is the engine of American growth. Increasing taxation, attaching putative mandates regarding healthcare or carbon emission or enhanced regulation simply to meddle is going to further strip any economic incentives to be in business in the US.....and stated as directly as I know how, that would be a huge mistake.

Recommended Reading:

"The Lessons of 1937" Christine Romer, *The Economist* June 20, 2009
http://www.economist.com/businessfinance/displaystory.cfm?story_id=13856176

"Two Cheers for America" *The Economist*, July 4, 2009
http://www.economist.com/world/unitedstates/displaystory.cfm?story_id=13942015

"Dead End: The Rise and Fall of Communism" *The Economist*, July 4, 2009
http://www.economist.com/books/displaystory.cfm?story_id=13940919

"Ikea In Russia: Enough is Enough" *Business Week*, July 13, 2009
http://www.businessweek.com/magazine/content/09_28/b4139033326721.htm

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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