



Commentary 01/22/10

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:	<u>EOY 2009</u>	<u>01/22/10</u>
Modified:	41.45%	-2.57%
Pure:	29.98%	-2.25%
Model Trust:	28.15%	-1.60%
Challenge:	49.45%	-2.00%
S&P 500:	26.31%	-1.02%
Bond Fund:	13.06%	1.11%

"Looks like I picked the wrong week to stop sniffing glue" Steve Mc Croskey, *Airplane!*

2009 ended up being a very good year for clients, although we climbed the proverbial wall of worry to do well. The market bottomed in March and hiccupped in June and November, but recovered and finished fairly strong. A vast majority of client portfolios have outperformed the S&P 500 over their reporting periods.

We entered the first earnings season of 2010 a week or so ago. Though there were quite a few moving parts to the corporate reports from a fundamental/economic standpoint, the overall tone was positive until this past Thursday. Indeed, some of the earnings reports-Google, IBM, Goldman Sachs, were excellent. The whole atmosphere changed when news coming out of Washington on two fronts just pole axed the markets. Folks, political risk has reemerged as an issue-maybe a huge issue. More about this in a moment--let's first review 2009.

2009 Standouts:

Among client holdings, the best performing sectors in 2009 included:

Emerging Market International index:	up 68.81%
Pimco Commodities Fund:	up 39.92%
Mid Cap US equities index:	up 37.52%
REIT index:	up 28.24%
US Small Cap index:	up 28.53%

Among larger individual stock positions, some of the standouts included:

Freeport MacMoran Copper and Gold:	up 228.52%
Goldman Sachs:	up 101.87%
Google:	up 101.52%
Microsoft	up 59.47%

I don't want to make it sound like everything we own went up, because there were some laggards in the energy space- like refiners VLO and TSO, oil tanker play NAT, and regional banks like BBT. Interestingly, several of those are outperforming on a relative basis so far in 2010. Still, I am very pleased with our performance in 2009.

How the prevailing winds are blowing in 2010:

I make no claims as a political commentator. Aside from running for local office because I thought many citizens' views were not being represented (a position I feel has not changed) I am not even a political person. So with that in mind, I was pretty happy when Massachusetts elected a Republican to fill Ted Kennedy's Senate seat this past Tuesday. Goodbye, Democratic Senate supermajority-hello, gridlock! I thought the election's outcome would remove some of the focus from healthcare, cap and trade, and wooing unions, and return the dialogue to getting the economy back on track, stimulating growth among the business formation sectors of the economy-namely, **BUSINESSES!**

Well, not so fast: Obama's putative approach to banks, coupled with Barbara Boxer and Russ Feingold coming out against Ben Bernanke's reappointment as Fed Chairman—well, it strikes me as a Super-sized version of "The Biggest Loser", with the real losers potentially being anyone who is a corporate shareholder. Wasn't it Washington that swept Merrill Lynch into Bank of America's arms? And now they are going to punish Bank of America because of its size? I'm sorry folks, but idiocy reigns, or at least appears to temporarily...

Jim Cramer commented on the outsized political risk that reemerged this past week on CNBC-TV's "Mad Money" Friday night <http://www.cnbc.com/id/35022745>

Charts: This is one time when a picture really is worth a thousand words. This stripped-down chart of the S&P 500 (using the SPY ETF) does a great job of illustrating the entire scenario. Each green or red bar is a week's price action in the S&P. The two horizontal blue lines in the upper half of the screen show the break in the index that occurred during the Lehman bankruptcy in September 2008. As you can see, the market had risen above that level and, after breaking the 50 day moving average at 111 has now fallen back to bump against that level at 109, on the right of the chart.

If the market can test this level and not fail, i.e. go lower than the bottom horizontal blue line (107 on the SPY or 1070 on the S&P index, on a weekly closing basis) we may be okay. A break of the 107 level signals potentially more downside, with the red 200 day moving average at the 101 level being crucial support.



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On the Table:

- Fed Chairman Bernanke's reappointment-his current term ends January 31st.
- Quarterly earnings season and the market's reaction to earnings-last week and this coming week are the busiest two weeks.
- China's growth
- Greece's sovereign debt worries

-Frankly, it's a sad state of affairs when I'm two pages in to a commentary piece and haven't discussed a single fundamental investment metric, but that covers the place that we investors inhabit at this dysfunctional time. Stay tuned!

On the reading list:

Recommended Reading:

"Seth Godin's Blog" (available for free signup online) -I have found this to offer a generally very high level of thinking and have gleaned more than a few nuggets of wisdom from Seth's ideas.

"The Silence of Mammon" (Business People Should Stand Up For Themselves) Schumpeter column, *The Economist*, 12/19/2009

http://www.economist.com/businessfinance/displaystory.cfm?story_id=15125372

"At the Table with Paul Volcker: The Lion Lets Loose", *Charlie Rose Column, BusinessWeek*, 1/11/2010 http://www.businessweek.com/magazine/content/10_02/b4162011026995.htm

The Snowball: Warren Buffett and the Business of Life, Alice Schroeder

A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers, Lawrence C. McDonald

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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