Dare Capital Management, LLC
Registered Investment Advisor

Commentary 04/23/10

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:	EOY 2009	04/22/10
Modified:	41.45%	7.45%
Pure:	29.98%	5.42%
Model Trust:	28.15%	8.95%
Challenge:	49.45%	13.61%
S&P 500:	26.31%	8.27%
Bond Fund:	13.06%	2.59%

(Aside-once again I find myself trying to write something even remotely intelligible during Outer Banks Motorcycle Week. My office just off the Bypass in Nags Head sounds more like a front row, center seat for a concert by a symphony of jackhammers. If this piece reads that way, please accept my apologies in advance.)

I attended an interesting meeting of investment professionals at the end of March. The Hampton Roads Study Group of NAPFA, a fee only financial advisors' organization, meets bimonthly at Old Dominion Trust's offices in Norfolk. Aside from the early wake up call, I enjoy interacting with the group, have several close professional friends among the regulars, and inevitably walk out with synapses firing.

The best insight I was able to glean at the March meeting was that many investment professionals are very negative about the rally and overall market health. Hearing the bear case for the umpteenth time bolstered my confidence that the market could in fact rally further on the backs of skeptical investors. As counterintuitive as it may sound, that is actually great news for those of us who are invested in (termed "long the") market, for as long as a meaningful percentage of market participants are un- or under-invested, there is good potential for further gain. I think that the market will face a more serious challenge when the consensus view is that everything's rosy. Stay tuned..

In this article:
Developing trends
On Goldman Sachs
Illiquid financial instruments
Charts
Recommended reading

Developing trends: Among major market sectors that we follow, the best performing sectors so far in 2010 are the US Small Cap Russell 2000 Index (up 16.53% ytd as of 4/22/10) and US Mid Cap Index (up 14.48% as of 4/22/10). Sectors that have lagged so far in 2010 include Developed and Emerging Markets International Indices (up 2.30% and 2.27% respectively so far in 2010) Also, our commodities fund is down 0.12% ytd. Market breadth on the major exchanges and the number of issues making new yearly highs has been improving as the year goes on.

2518 S. Croatan Hwy, Suite E   P.O. Box 1806

Nags Head, NC 27959 (252) 480-0156 www.darecapital.com

Another interesting developing trend involves Real Estate Investment Trusts (REITs) and the stocks of leading homebuilders. The REIT index that we follow is up 15.14% ytd and Toll Brothers, a homebuilder stock that we own selectively, had a major breakout to the upside this past week. Both of these signs could point to an improvement in the US real estate and homebuilding industries.

On Goldman Sachs: Investment bank Goldman Sachs is our largest individual stock position by a healthy margin. I have extolled the virtues of the firm in several commentaries over the past years. So I was not surprised to receive calls, emails, even posts to my Facebook wall last week after Goldman made news last Friday.

At 10:30AM last Friday morning-note the interesting timing- the U.S. Securities Exchange Commission (SEC) announced an inquiry into circumstances around the structuring of a mortgage backed security by a Goldman Sachs employee in 2007. As the market was open, GS stock dropped 25 points immediately, from $185 to $160, and has traded in a narrow range around that level since. Cause for panic, right?

Not so fast. The timing of the announcement smells of Chicago roughhouse politics and a high profile trial in the media, and excuse me, but isn't this the same SEC that couldn't identify Bernie Madoff's Ponzi scheme even when they were repeatedly pointed directly at it? Call me a skeptic (for many reasons-timing, intellectual and procedural rigor by the SEC, market knowledge by the SEC as to the role of market maker, the intensity of Goldman's response, and the fact that Goldman lost $90 million on the security in question), but I'm not selling the fear. I have bought the stock this past week and, frankly, it's all I can do to keep from throwing asset allocation models to the wind and doubling up on existing GS positions.

I can hear the jealous competitors, closet Socialists, conspiracy theorists and those who place too much faith in media headlines (if any of the aforementioned still read my work lol) muttering, Goldman Sachs has an unfair advantage, they are evil, yadda yadda. My response is, as American investors we are in the business of investing capital and seeking return, and companies that are as good at what they do as Goldman Sachs is are rare gems to be bought on any weakness.

GS has defined rigor and excellence in investment banking for almost a century. Their employees work harder, manage risk better, and execute at a higher level than any of their peers, which is one reason why so many GS alums hold positions of importance through the global business and political world. At current price levels GS has a PE of 7 and a return on equity that is four times that of JP Morgan Chase. Ignore the headlines and own excellence when it is priced attractively.

Illiquid financial instruments: Over the past few months I have had a disturbing quantity and variety of illiquid financial instruments come across my desk in new client portfolios. These investments include hedge funds, private REITs, exchange traded notes with multi-year lockup periods, variable annuities, and private placements. The investments share three traits in common: All are complex securities with brain-numbing prospectuses, (prospectii?) all are difficult to unwind i.e. sell and convert to cash, and all were sold by brokers to clients.

Readers, if you are being pitched a product by a financial products or insurance salesperson, ask the broker/salesperson to detail the liquidity of the investment-that is, its convertibility to cash. If the investment is not highly liquid, consider getting a second opinion from someone who does not stand to get paid by your purchase before you seal the deal. Stated colloquially, there is a lot of "junque" out there!

Charts: Wanted to revisit the S&P 500 chart. When I wrote to you in January, the S&P Index was testing the break that occurred when Lehman Brothers went bankrupt in October of 2008. Such traumatic events scar the memory of all market participants and subsequently provide daunting psychological resistance levels for the market.

The chart below uses the SPY ETF as a proxy for the S&P 500. 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 October of 2008. As you can see, the market had risen above that level and came back to test it. Remember how severe the January correction was? That's what it takes to have a successful test of a bad break-and the market went up ten straight weeks after the test.

Recommended Reading:

"Extreme Forecasts", (Rich Karlgaard column), *Forbes*, April 12, 2010
http://www.forbes.com/forbes/2010/0412/opinions-rich-karlgaard-economy-recovery-digital-rules_print.html

"The New Masters of Management" (a special report on innovation in developing markets), *The Economist*, April 17, 2010
http://www.economist.com/specialreports/displaystory.cfm?story_id=15894358

"From Hope to Change", (Lexington column), *The Economist*, March 27, 2010
http://www.economist.com/world/united-states/displaystory.cfm?story_id=15769712

Now, about those jackhammers……

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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