



Commentary 02/04/11

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 2010</u>	<u>02/04/11</u>
Modified:	19.15%	1.84%
Pure:	16.87%	3.44%
Model Trust:	15.37%	2.51%
Challenge:	20.32%	1.81%
S&P 500:	15.02%	4.28%
Bond Fund:	5.91%	-0.67%

But the fact that some geniuses were laughed at does not imply that all who are laughed at are geniuses. They laughed at Columbus, they laughed at Fulton, they laughed at the Wright brothers. But they also laughed at Bozo the Clown. American astronomer Carl Sagan

Patient readers have heard me grouse about the writing process over the years-attempting to distill a complex ecosystem of economics, free enterprise, government intervention (or lack thereof) and emotion into data points like return on capital, and more important, peace of mind. Well, by any standard I've ever seen, 2010 was one wacky year. Seems every time I've tried to sit down and share what's on my mind, another "crisis" (quotation marks mine) has arisen: Oil rig explosions, bond vigilantes, financial regulatory reform of questionable provenance, speculators and talking heads of all stripes, overreaching governments, political extremists, and callous corporate boards...the past months have seemingly had it all.

I beat myself up more than a couple of times last year for putting in print in my April commentary the smug-sounding conclusion that the market could go higher because everyone was so negative (as if I, or anyone for that matter, could predict which way the market will go-on demand) -but the conclusion proved correct, and indeed, is still valid.

Don't want to spend too much time rehashing old news, so take a few minutes and absorb the return numbers above, then think about the amount of uncertainty we all felt at different times during the year. (I joked grimly during a few summer client interactions that there were metaphorical anvils falling through my office skylights on some particularly bad market sessions. So I held my nose and did some buying in my favorite names...good decision!)

The reality is that the trauma of 2008 is still in the market's collective memory, and like aftershocks following a big earthquake, the ground rumbled a few times in 2010. As Jim Cramer and other market commentators have said over and over, though, "Nobody ever made a dime by panicking." Resisting the urge to just say "Heck with it!" and consciously deciding to stay the course was a good investment decision in 2010.

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There are a few things we should recognize, however-call it **Woodard's Investor Reality 2011:**

1. Unemployment is high and is going to stay high for a while, and the housing market is not going to stage a miraculous recovery. That said, the unemployment rate dropped to 9% in Friday's February jobs report, and stocks of some of the components of housing (lumber, tools, home improvement retailers) are firming.
2. As goes the financial sector, so goes the market. A sustained recovery cannot happen without participation from the financial sector, like them (individually or as a group) or not.
3. There are big players in the global markets (especially the bond and currency markets) who can make the markets move whenever they want to.
4. The media amplifies everything and, with a few exceptions, adds very little value. Paraphrasing Danny Meyer, author of *Setting the Table*: The media is like a shark. It has to keep swimming or it will die. Dealing with the media is like being dropped into the ocean from an airplane fifty miles off the coast and landing on the back of a shark. The shark may deposit you on land safely. It may deposit you on land with a few lost limbs, and it may eat you.

As participants in the investment universe we are exposed to the media to the extent we wish to be. I would recommend that that amount be "not very much, and with a cynical eye." I would go further and say that allowing the media to influence our thinking, or cause us to react, is a recipe for investment failure.

Quick Hits

-A few of our biggest winners in 2010 were Tanger Outlet Malls, Freeport MacMoran Copper and Gold, Caterpillar, Apple, Chevron, Ford, Goldman Sachs and Ameritrade.

-Among our losers were Nordic American Tanker Shipping, stocks of oil refiners that are showing signs of life but are still priced below where we bought them, and a couple of bank purchases that are in the same situation but are also showing strength. Of particular note was the announcement by Bank of America after the bell on Friday February 4th that it was going to cordon off all its problem and non-performing loans into a separate entity. This "good bank, bad bank" strategy is considered a prudent operational decision by bank analysts.

-Gold and especially silver have felt overvalued for a while now (maybe when all the gold coin TV commercials started running?) The fact that gold did not rally on early reports of unrest in Egypt is somewhat telling. We own gold by virtue of our investment in the PIMCO Commodities Fund but are not overweight it in our portfolios. Gold may have further to run, but I would be very careful about outsized purchases at these levels.

-Local Flavor: Regional companies Tanger Outlet Malls, Progress Energy, and Dollar Tree have been on our shopping list lately.

-Just my opinion, but financial analyst Meredith Whitney should be strung up by her letterhead for her fearmongering pronouncements about impending defaults in the municipal bond markets. The lack of accountability of headline-seeking extremists with personal gains at stake is yet another reason to cut off the TV or throw out the average newspaper. PS-the Market (and I) remember, Meredith!

Reading List:

Danny Meyer, *Setting the Table: The Transforming Power of Hospitality in Business*.

Robin D.G. Kelley, *Thelonious Monk: The Life and Times of an American Original*.

Rich Karlgaard, "America's 12-Step Program", Forbes, January 17, 2011
<http://www.forbes.com/forbes/2011/0117/opinions-rich-karlgaard-digital-rules-12-step-program.html>

"Charts of 2010: A Year in Nine pictures", The Economist, January 1, 2011
http://www.economist.com/blogs/dailychart/2010/12/charts_2010

"Ford's Unsung Hero" interview with Ford CFO Lewis Booth, Forbes, September 27, 2010
<http://www.forbes.com/forbes/2010/0927/outfront-ford-gm-autos-debt-lewis-booth-unsung-hero.html>

"If They Were Countries-the size of the states' GDP (map)", The Economist, January 15, 2011
http://www.economist.com/node/17910000?story_id=17910000

Rich Karlgaard, "What Grows an Economy?", Forbes, November 22, 2010
<http://blogs.forbes.com/richkarlgaard/2010/10/20/what-grows-an-economy/>

"Economics Focus: Dismal Ethics-an intensifying debate about the case for a professional code of ethics for economists", The Economist, January 8, 2011
<http://www.economist.com/node/17849319>

"Charlie Rose talks to David Einhorn", Bloomberg Businessweek, December 13, 2010
http://www.businessweek.com/magazine/content/10_51/b4208052554248.htm

"The U-Bend of Life"- Why, beyond middle age, people get happier as they get older, The Economist, December 18, 2010
<http://www.economist.com/node/17722567>

Parting Shot

"I used to think that if there was reincarnation, I wanted to come back as the President or the Pope. But now I want to come back as the bond market: You can intimidate anybody." Clinton economic advisor James Carville, 1992.

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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