



April 19, 2017



How about those UNC Tarheels, NCAA Men’s Basketball National Champions?! The Tarheels’ run through the ACC and the NAAs and a largely warm, enjoyable winter on the Outer Banks have precipitated a very enjoyable start to the year. Indeed, 2017 is zipping right along--seems like we’re about a month ahead of schedule in both pollen and tourists.

Another facet of life that has been very enjoyable has been how we fared versus some of the titans of the investment management and hedge fund universe in 2016. Our portfolios were up 10-25% in 2016, on par with my hero David Tepper of Appaloosa and besting Dan Loeb of Third Point (6.1%), David Einhorn of Greenlight (9.4%) and Bill Ackman of Pershing Square (-13.5%). Right on! High five! Now, back to the task at hand-

Quarter in Review-The first quarter of 2017 was a good quarter considering the possible range of outcomes. The market is processing multiple competing viewpoints, from the micro of individual company results through business sector issues, individual country economics, and the ultimate macro of the global geopolitical environment. Nothing is as easy or as straightforward as it appears and the whole situation is, as the apparatchiks like to say, fluid. As an example of this fluidity, British Prime Minister Theresa May announced snap elections for the UK on June 8th, adding to tensions already in place over the impending French election cycle.

Quarter in Review-Large Cap US



Reviewing the S&P 500 ETF SPY on a weekly (l) and daily (r) basis, we can see the uptrend that was confirmed in mid-2016 indicated by the two parallel blue lines I added to the charts. January and February 2017 were strong, but the uptrend has weakened since the end of February, perhaps reflecting the lack of corporate news in March and Washington’s dysfunctionality in crafting legislation and public policy. Markets have also had to navigate escalating tensions in North Korea, Syria, and Afghanistan in the last few weeks.

Quarter in Review-US Treasury Bonds



Here we have weekly charts of the long (10-20+ year duration) and intermediate (7-10 year duration) US Treasury bond ETFs. Both securities show weakening prices from June 2016 to a short-term bottom in January-February 2017 and marginally stronger prices since that double bottom (the rough W figure on the right of both charts) This suggests that the bond market has temporarily stopped worrying about higher interest rates and/or inflation. Corporate earnings reports and economic data will be the major influencers of these securities, which will also cast a keen eye towards upcoming European elections.

Quarter in Review-Small Cap US and Real Estate Investment Trusts (REITS)



I don't feature these charts very often but they play a part in all our portfolio constructions. The left chart is a weekly chart of the Russell 2000 Small Cap ETF and the chart on the right is the Vanguard Real Estate Investment Trust (REIT) Index ETF weekly chart. The small cap chart is in a clearly- delineated breakout and consolidation pattern, whereas the REIT chart shows a pennant pattern that suggests a more uncertain near term outlook. Suggestions of higher interest rates and issues of retail REITS which have weighed on REIT performance are being offset by the portfolio diversification advantages and higher dividend yields (currently 4.27%) offered by this REIT index.

Interesting that the relative strength of all five of the weekly charts is above 50, indicating that large and small capitalization US stocks, US bonds and REITS have all been under accumulation.

Game Plan: As I write this quarterly earnings season is a week in. As this bull market has matured it has broadened. Most US business sectors are well-positioned for growth due to improving fundamentals, weak year over year comps, or suggestions of an improved tax and regulatory environment. Many companies are using low borrowing costs to shrink their share counts by way of stock buybacks, also. Low interest rates help this narrative by providing access to cheap capital. Market bulls would also like to see prudent corporate mergers and acquisitions (M&A) activity to keep the momentum.

My weather eye is on the lookout for weak corporate earnings, good news of any sort being treated badly, and destabilizing policy/ geopolitical scenarios. See links below for more substantive discussions.

Supplemental Links for Interested Readers:

Think like a 94 year old: <https://mobile.nytimes.com/2017/04/07/opinion/sunday/to-be-a-genius-think-like-a-94-year-old.html?referer>

10 Economic questions for 2017: <http://www.calculatedriskblog.com/2017/04/q1-review-ten-economic-questions-for.html?m=1>

Trump shifts on core policy: http://www.businessinsider.com/trump-campaign-promises-change-bannon-cohn-china-syria-russia-2017-4?utm_source=feedly&utm_medium=referral

The Fed raised rates – why are mortgages getting cheaper?
http://money.cnn.com/2017/04/14/pf/mortgage-rates-cheaper-federal-reserve/index.html?section=money_topstories

Intellectual humility: <https://www.inc.com/jessica-stillman/the-surprising-personality-trait-that-massively-improves-decision-making-accordi.html>

Jamie Dimon's annual letter: http://www.businessinsider.com/jamie-dimon-shareholder-letter-on-state-of-the-us-2017-4?utm_source=feedly&utm_medium=referral

Trump's flip-flops on economics move policies towards the status quo:
<http://www.npr.org/2017/04/14/523881777/trumps-flip-flops-on-economics-move-policies-toward-the-status-quo>

Lies, damn lies, and financial statistics: <https://www.bloomberg.com/news/articles/2017-04-06/lies-damn-lies-and-financial-statistics>

Luke Maye 8AM class: <http://www.inc.com/justin-bariso/what-did-this-college-basketball-player-do-after-hitting-the-game-winning-shot-g.html>

The Milky Way Galaxy: <http://ritholtz.com/2017/04/the-milky-way/>

Belize Fly Fishing: <http://www.nytimes.com/2017/04/05/travel/belize-fly-fishing-ambergris-cave-coast.html>

52 Places to go: Grand Teton: <https://www.nytimes.com/video/travel/100000004909841/52-places-to-go-grand-teton.html>

Signing off from Nags Head,

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Please note that the above commentary is presented for informational purposes only.

Dare Capital Management is a registered investment advisor in North Carolina providing ongoing investment management and related planning to individuals, families, businesses, trusts, and estates. Find out more about the firm at <http://darecapital.com>

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