



March 12, 2018



Our brave new world of 2018 is one that requires a bit of work on our part. Advertising, social media, and news outlets of varying degrees of legitimacy are all simultaneously grabbing and luring and attempting to validate themselves by catching our eye or, perhaps more important, our click in the din of the moment.

This spells trouble, because many of us are not prepared to do the work, the heavy lifting of separating factual wheat from misinformational or misinterpretational or outright-bold-faced-lie-ual chaff.

These outlets of misinformation know that we can't always determine what's true and correct in real time. Indeed, many of the offenders' entire business plans/reasons for existence are tied to capitalizing on information overload and a gullible, harried, or ignorant populace. Some are even put in place for the express purpose of... let me paraphrase Breitbart's Steve Bannon's words... "Flooding the zone with (poop)" to drown out the "real" media.

So please do your part to spread truth and fact and verify your information from multiple credible news sources. More about this in the Links section of the letter.

Snapshot-Our best-case scenario market environment continued through 2017 and January 2018 before the market experienced a quick, sharp ten percent correction and subsequent recovery in February and thus far in March.

2017 ended up being a strong year. The S&P 500 ended up gaining over 21% in price appreciation and dividends for 2017, with other US market cap weighted indices that we follow up 14-19% and our international indices up 25-38% for the year.

Perhaps the most significant market news of 2018 is the great corporate earnings environment for US companies-in fact, the best such environment in seven years.

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

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

Corporate tax rates have been positively impacted by the 2017 Tax Cuts and Jobs Act (TCJA) legislation, falling from a previous top rate of 35% to 21%. The TCJA also cuts individual tax brackets until its stated expiration for individuals of 2025. These earnings/tax cut tailwinds have provided a base of support for a market that has gotten marginally more expensive as equity prices have risen. (See TCJA links, below)

In economic/macro news, Jerome Powell was sworn in as Federal Reserve Chairman on February 5th and was promptly subjected to a stare down by the bond market. We've discussed the bond market's bully persona and need to test/vet/challenge/throw tantrums of varying intensity when the mood hits, and Chairman Powell got an immediate welcome as his every eyeblink and utterance was exhumed for hints as to the upcoming direction of monetary policy.

45 has proposed to put in place tariffs on imported steel and aluminum. This has sparked heated debate in financial, economic and political circles. Say what you will about the need to protect US steel jobs, I'd prefer not to have American economic policy being established via one septuagenarian's Twitter account.

Support and Resistance-



The above charts of the Vanguard S&P Index ETF show two years (left) and six months (right) time frames. I've added two blue trend lines framing the uptrend of the US Large Capitalization Index over the time frame. In the right chart we can see the January break above trend, subsequent correction, and recovery. Relative strength, breadth, and volume indicators are positive.

You all are probably getting sick of hearing me talk about the bond market, but interest rates are a significant data point.

The charts below track the long-dated US Treasury Bond price, again with my two blue trend lines added. The long US treasury bond is one of the most interest rate sensitive of all bonds. As such, it is a good security to track interest rate moves in real time. The bond price charts show that sellers have had the upper hand in this market recently, as interest rates tick higher from historic lows. Volume and relative strength readings reflect incremental weakness.



The 2017 Tax Cuts and Jobs Act

Investopedia has compiled a handy summary of the 2017 Tax Cuts and Jobs Act. See <https://www.investopedia.com/taxes/how-gop-tax-bill-affects-you/>

Here's a Motley Fool piece on capital gains rates under the TCJA- <https://www.fool.com/taxes/2017/12/22/your-guide-to-capital-gains-taxes-in-2018.aspx>

TCJA Self-Employed and Entity Tax Changes from Inc.com <https://www.inc.com/erik-sherman/no-you-probably-wont-get-hit-by-hidden-blacklist-in-tax-cuts.html>

Tea Leaves

It's never a whole lot of fun going through a market correction, but this market needed one.

Benchmark interest rates are as important as ever. Currently the ten-year note yields 2.894%. Thirty-year fixed mortgage rates are in the range of 4.4-4.625%.

Macro-focused investment managers of all stripes are trying to tell the bond market how to act. I harbor no such delusions of gravitas and will suggest that rising interest rates are not necessarily a negative- unless they start rising in a straight line. The few inflationary data points that we've seen in economic reports are still being tempered by neutral and even some deflationary readings.

Corporate earnings and the benefits from the TCJA should provide good tailwinds for the equity markets, though price paid matters-as it should.

TD Ameritrade 'Ticker Tape' Newsletter

TD Ameritrade Institutional is my firm's excellent custodian partner and Ameritrade common stock is a top holding. (see chart, below) TD Ameritrade offers a timely and thoughtful weekly newsletter called Ticker Tape. To sign up for the Ticker Tape newsletter visit <https://tickertape.tdameritrade.com/>

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TD Ameritrade (AMTD), two year

Links for interested readers:

How Biased is Your Media Outlet? <https://goo.gl/wgMYjs>

Morgan Housel on Ideas That Changed My Life <https://goo.gl/Rokdej>

13 Signs of High Emotional Intelligence <https://goo.gl/drNgyr>

Has Anyone Seen the President? By Michael Lewis <https://goo.gl/2dEuKM>

New York Takes on The Fiduciary Rule <https://goo.gl/WGszTA>

Ben Carlson on the Gap Between Bond Yields and Stock Yields <https://goo.gl/uNczA5>

Freakonomics Radio Interview with David Rubenstein (podcast and printed) <https://goo.gl/wVeJke>

Huge MIT Study of 'Fake News': Falsehoods Win on Twitter - The Atlantic <https://goo.gl/OhLJY6>

One in Five Hedge Funds Lost Money in 2017- Institutional Investor <https://goo.gl/RranN6>

How the Harvard Endowment Reportedly Lost \$1.1 Billion, and Paid the People Who Lost It \$242 Million <https://goo.gl/sNJEjz>

What It's Like to Ski an Olympic Downhill Course <https://goo.gl/f1T4BU>

Mediterranean Potato Hash with Chickpeas, Asparagus, and Poached Eggs <https://goo.gl/4NFN92>

Signing off from Nags Head,

Will W. Woodard, III, CFP®

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

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