



January 7, 2019

“If you decide you’re going to do only the things you know are going to work, you’re going to leave a lot of opportunity on the table” -Jeff Bezos

Happy 2019-hope you and your family had a terrific Christmas and Holiday season.

2018 ended with some aggressive, indiscriminate selling, selling that seemed to suggest hedge funds or mutual funds being forced to liquidate before year-end, but also selling that suggested hopeful market bears, long-starved for a win, trying to change the market’s tone.

The last few years have been lean times for the bears. (Aside: yes, you can make money when the market falls by selling stocks short or by buying put options, but they are dangerous exercises under even the most calculated investment strategy, as the market has an upward bias over time.) However, this fall parts of the economy paused, and the relative high valuations of the equity market caused sellers to emerge, hoping for a tactical entry point.

Bears have been pointing to a flattening US Treasury yield curve which has briefly inverted between two- and five-year time frames as corroborating evidence of trouble ahead, never mind that the yield curve frequently flashes short-term false positives. Here’s an example of the yield curve as of Monday 1/7/19-note marginally higher rate for the two-year Treasury bill versus the five-year:

WILL YIELD CURVE		
Security	Last	Change
US 2-YR U.S. 2 Year Treas...	2.49% 10:04 AM EST	+0.004 ▲
US 5-YR U.S. 5 Year Treas...	2.489% 10:04 AM EST	+0.005 ▲
US 10-YR U.S. 10 Year Treas...	2.66% 10:04 AM EST	+0.001 ▲
US 30-YR U.S. 30 Year Treas...	2.972% 10:04 AM EST	-0.002 ▼

Tactical sellers also solicited journalists for help in spreading their bear market thesis, even though the broader market is not in a bear market, bear market being defined as trading 20% or lower from recent highs. (As of 1/7/19 the S&P 500 is 13.3% below its all-time highs set in September 2018)

Perhaps most frustratingly, the bears were helped in their cause by the actions of 45, his Twitter account, his habit of trying to govern alternately by tantrum and derisive Don Rickles -esque

standup comedy act, and his motley crew of sycophants and opportunists. In the words of Barry Ritholtz, CEO of Ritholtz Wealth Management, they are collectively “The Unforced Errors Administration.”

UEA aside, there are current market headwinds, including a partial government shutdown, the potential of a blossoming trade war with China, China’s economy weakening (as reflected in Apple’s preannouncement of soft iPhone sales in China this past Wednesday), and the suggestion of peak earnings and high valuations for US companies after eight straight years of market gains.

The Federal Reserve’s policy on interest rates had been perceived as (too?) hawkish in the face of variable economic data in the fall of 2018, although Federal Reserve chief Jerome Powell’s comments Friday 1/4/19 seemed to offer encouragement that the Fed was not going to continue to tighten monetary policy blindly into a softening economy. Bulls interpreted that information as good reason to buy, pushing up the Dow Jones Industrials over 700 points on Friday.

Also confounding the bears is some very strong economic data, like Friday’s 312,000 monthly non-farms payrolls increase. The “glass half full” argument also references excessive bearish sentiment among investors, low energy costs, low to non-existent inflation and market valuations that have been impacted favorably by the selloff.

If the hiccups do prove to be temporary and investors buying the market sale step in, the V-ing bottom in the charts could prove to be a great seasonal entry point. Positive news on the trade war with China would also be welcomed. Stay tuned.

Support and Resistance- Equities:



Here are two-year (left) and five-year (right) charts of the S&P 500 ETF SPY as of market close on Friday 1/4/19. I’ve drawn blue lines on each chart indicating major support and resistance levels.

The forced selling in December culminated in an extreme oversold bottom on Christmas Eve, with buyers stepping in to bring the price back to that of the break during the third week of December. How the US large cap index deals with primary resistance at \$253 on SPY (2530 on

the SPX index), then secondary resistance at \$263 on SPY (2630 on the SPX index) will tell us a lot about short-term market direction.

On the five-year chart, we can see that the SPY has tested its red long-term uptrend line once successfully. Selling volume was higher than recent buying volumes, placing more importance on the source of the selling. Chartists would say that for the test to be successful the level must either be retested at some point in the future or have been resolved with a whoosh-style V bottom of buyers stepping in in large numbers. This certainly can take place in January as it's typically a month of heavy market inflows, but that's no guarantee that it will in fact happen.

Adding to the tug of war, technical analysts would point to the three red weekly selling bars on the two-year chart as sign of possible further selling to come. Market sentiment trackers would point to the extreme oversold conditions accompanying the December selling and the preponderance of market participants identifying themselves as bearish, the most since January of 2016 and January of 2009- periods just preceding significant market bottoms- as signs of possible upside catalysts.

We've been spoiled the past few years because it's been since 2016 that the market suffered a 15% pullback. In typical market cycles, 15% pullbacks happen with some regularity. Upcoming earnings reports and US China trade talks will ultimately influence how the charts and the corresponding markets resolve.

Support and Resistance-Bonds:



The charts above track the long-dated US Treasury Bond price ETF symbol TLT (bond prices move inversely to yields) with simple moving averages, volume bars, and 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. This bond ETF will sell off as interest rates go higher and go up as long interest rates go lower.

Both charts show that TLT is attempting to find support and break its intermediate-term downtrend. Buyers have stepped back in as the ten-year note has fallen to 2.65% from fall highs of nearly 3.25%. These long bonds will continue to provide a flight to quality, but not much in the way of yield, should economic conditions deteriorate. A current quote on 30-year mortgage rates from an Outer Banks lender on 1/7/19 revealed quoted rates of 4.375% annually.

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

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

Strategy Session- A Few Ideas for January 2019

Pause on withdrawals- if you don't need the funds immediately, it might be prudent to wait on taking 2019 RMD's and let's see how the end of 2018 noise filters out in the markets.

Review cash balances and go fishing- if you have a comfortable level of cash and have paid down debt, especially high interest debt, it might be time to deploy some cash. There are relative values in high dividend yield stocks-AT&T is currently paying a 7.2% dividend yield and Dominion Power yields 4.6% - and in higher growth names-Take Two Interactive is currently trading at \$104 a share after trading as high as \$139 in September 2018. Goldman Sachs is trading below book value at \$175 and Apple has traded back to long term support levels last seen in 2016.

“Be fearful when others are greedy, and greedy when others are fearful” –Warren Buffet. I'm a big fan of Buffet's although I am not a fan of all of Buffet's companies. We did follow his Apple accumulation this past year and increased our position incrementally, a move that has been hurt in the last quarter. He makes a great point about sentiment and long-term investment success in this timeless quote.

Turn off the breathless day by day news flow- (this goes double for not-factually-documented talking heads) 45 is a master of creating chaos, and I have a professional duty to watch it. That doesn't mean you have to, however. Turn off the noise and pick up a good book, go for a long walk, write a friend, volunteer your time. This too shall pass.

Accentuate the positive-Find something good in your partner, coworker, friend, family member and tell them about it. Let someone in front of you on the Bypass. Do an unclaimed good deed.

Take on a new task-This is a time for doing and we're the luckiest human beings on the planet. Take on a new task, work hard at it, and see it through to completion. Then reward yourself in a small but meaningful way. Lather, rinse, repeat as needed.

A Note on Taxes-

The 2017 Tax Cuts and Jobs Act (TCJA) has made significant changes to tax policy. Tax rates, standard deductions, capital gains rates, itemized deductions- all have been affected. Now is a good time to review your 2018 tax picture while there's still time to consider tax-planning options.

TCJA Resource Links:

Investopedia has compiled a handy summary of the 2017 TCJA- <https://goo.gl/wgnpKB>

Here's a Motley Fool piece on capital gains rates under the TCJA- <https://goo.gl/KKZZkc>

TCJA Self-Employed and Entity Tax Changes from Inc.com- <https://goo.gl/Ag7CLz>

TD Ameritrade 'Ticker Tape' Newsletter

TD Ameritrade Institutional is my firm's 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/>



TD Ameritrade (AMTD), five year

Signing off from Nags Head,

Will W. Woodard, III, CFP®

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, and businesses. Find out more about the firm at <https://darecapital.com>

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

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