Dare Capital Management, LLC
Registered Investment Advisor

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Nice to be back in the office after a bit of internal tune-up work. I had bypass surgery on April 24th at Norfolk Heart Hospital and am happy to be progressing through the phases of recovery. Having known almost nothing about the whole cardiac health matrix except that my father and grandfather had heart issues, this spring has provided a robust learning curve. Please reach out with any questions about the process that you or a loved one may have; there are amazing resources close by and if you're like me, fear of the unknown ends up being the worst fear of all…

Snapshot: The second quarter of 2018 has been a tug of war between corporate earnings reports and global macro events, with the market whipsawing between greed and fear depending on the news flow. Companies riding secular growth waves and/or producing earnings above Wall Street's expectations have been rewarded with advancing stock prices, while any downbeat news or failure to meet quarterly expectations has been dealt with swiftly by the market's pricing mechanism. Corporate tax cuts are providing an underlying bull case while the market tries to decide how much to pay for a given stock's future earnings prospects.

We're still talking about global macro news much more than I would like, and I think many market professionals would say the same thing. As of this writing markets are wrestling with the effects of trade tariffs levied on US allies Canada, Mexico and France. Trade wars are not good for capitalism, "justified" tariffs or not. Capitalism is about inclusion and free markets and growth. Markets will tolerate strategic posturing on trade if it clears up past or lingering imbalances. Let an aura of capriciousness and/or evil-spirited vindictiveness enter the picture, however, and sellers will gain conviction.

A summit with North Korea appears to be back on the schedule. Many are hopeful (a dangerous word, hope) that North Korea will stop its nuclear program and take steps to join the 21st century. However, there are so many possible angles with China and Russia in the picture that caution and discipline must be paramount in the US game plan. I'm certainly not alone in questioning 45's abilities with regards to both caution and discipline.

Speaking of Russia, the ongoing investigation into the 2016 election has shown clearly that at the very least a lot of story fabricating has gone on among 45 and his handlers over the last three years. Additionally, 45's erratic way of delivering policy proclamations and his short attention span tweet flow have not made him many fans in the money management universe, though the 2017 Tax Cuts and Jobs Act is good for corporations and corporate earnings (in the hands of good corporate management, that is.)

So, we've done a bit of grinding, hemming and hawing thus far in 2018, consolidating the gains from 2017 and January 2018. Market indices that I track have shown returns of between -4.47% and 9.15% for the year. The only indices that are currently above January 2018 highs are the Russell 2000 small cap index and the technology-heavy NASDAQ index.

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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 left chart we can see the multi-year advance culminating with the January highs and the subsequent consolidation. In the right chart we see that our uptrend is still intact but undergoing a choppy period of rest and refueling.

The charts above 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. This bond ETF will sell off as interest rates go higher, and indeed the security's price action reflects 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 but are not dramatically bearish.

On My Radar

Sometimes my investment decisions move right along with the Wall Street fashion show, and sometimes they don't. I'd like to highlight a couple of temporary divergences in the interest of illustrating how the market is not always a fully formed, rational entity.

Dominion Energy (D)- We're customers of Dominion in northern Dare County, and I've come to really enjoy how well-run and reliable Dominion is-both the energy provider and the stock. After hitting an all-time high of $85 a share in late December, Dominion announced an all-stock deal to purchase South Carolina utility SCANA. I think that if Dominion CEO Tom Farrell and the D brain trust did their homework and proposed a good purchase price for Dominion shareholders' interests, while also expanding Dominion's footprint and helping long-suffering SCANA customers get free of a failed nuclear power plant that they'd been paying for for years, the deal would be a win-win-win.

Well, D has done nothing but go down in price since the proposal. The stock is currently at $62.60 and has a dividend yield of 5.34%. I established some new positions in January around $75 and am very tempted to grab the yield and buy more, even though utilities are traditionally weak in a rising interest rate environment.

Adding to the moving parts of the analysis is Dominion's partial ownership interest in the proposed Atlantic Coast natural gas pipeline. The pipeline is in the final stages of permitting, but approval has been contentious. Federal regulators also made an adverse tax ruling to pipeline operators earlier this year, although that ruling is under appeal. In my view the US's position as the global leader in cheap, efficient natural gas should not be frittered away while other forms of energy generation come online.

Ultimately, I think that either the SCANA deal gets done at terms that are amenable to Dominion and adds to Dominion's service area, or Dominion walks away and the speculators who have been leaning against D get whiplashed. I applaud Tom Farrell for leading Dominion into good growth markets if the math on the proposed expansions works out. And it's always an interesting proposition to be paid 5% to wait. Stay tuned.

Johnson & Johnson (JNJ)- JNJ is one of our biggest positions. The company sports one of only two AAA balance sheets in the corporate world (the other is Microsoft) and has three main product lines: Pharmaceutical sales and development, medical devices, and consumer products.

Pharmacy sales and development is going great. Medical devices have been growing, albeit at a lesser rate than JNJ would like. Worldwide consumer sales are solid but JNJ faces overhang from lawsuits related to talcum powder and ovarian cancer.

Most of our position was purchased at around $100 a share and the stock reached a high of $148 a share in January. I added some shares around $131-134. The stock is currently at $124.75, yielding 2.89%. JNJ's diverse businesses, robust pharmaceutical pipeline, iconic consumer brands, history of increasing its shareholder dividend, and visionary leadership make it one of the kind of investments that fits a lot of our portfolios. Also considering adding.

The 2017 Tax Cuts and Jobs Act 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

Tea Leaves

Market tone has improved since we last convened. The market will digest another quarter of corporate earnings in July and early August and I anticipate that summer volumes will slow until the beginning of September.

Benchmark interest rates are as important as ever. Currently the ten-year note yields 2.94%. Thirty-year fixed mortgage rates are in the range of 4.55-4.70%.

Summer is kicking in on the Outer Banks. There are A LOT of cars on the Bypass.

RIP Anthony Bourdain, chef, traveler, TV personality, individual. Thanks for all the exposure to global citizens through the lens of markets and restaurants-you will be missed.

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/

TD Ameritrade (AMTD), two year

Links for interested readers:

What is a Tariff? Your Trade Questions Answered- https://goo.gl/1WnC2x

Mortgage Rates and the Ten-Year Yield- https://goo.gl/mYHWdS

Starbucks' Howard Schultz: The Full CNBC Interview (video)- https://goo.gl/4beA9Q

11 Proven Habits of Highly Innovative People- https://goo.gl/jmPLBx

The Man Who Would Be King- https://goo.gl/rLb8xm

Bond Bears Just Can't Seem to Throw in the Towel- https://goo.gl/oa5Znv

Experience Is Overrated- https://goo.gl/tA3viu

Ben Bernanke: Tax cuts are like Wile E. Coyote- https://goo.gl/vdXVhN

Ten "Parts Unknown" Episodes That Reveal the Genius of Anthony Bourdain https://goo.gl/iMKhyt

World Cup 2018: Everything you need to know about all 32 teams competing for the biggest prize in football (Includes Group Draws)- https://goo.gl/j9Prt3

Also, World Cup Preview 2018: Messi vs. Ronaldo, Magic Cats, Iceland!!, and More, from the New Yorker (Humor) https://goo.gl/qQQR7u

Happy summer 2018, hope you get your toes in the sand sooner rather than later-

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, businesses, trusts, and estates. Find out more about the firm at http://darecapital.com