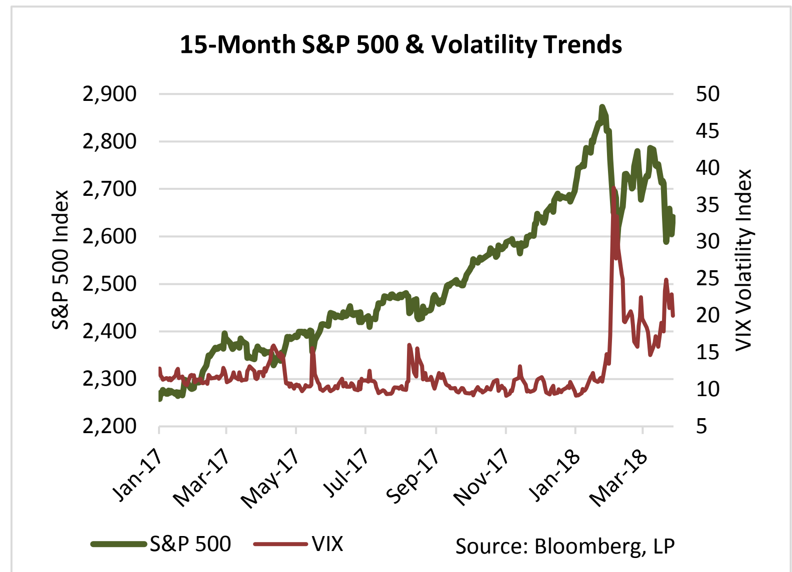
**QUARTERLY COMMENTARY**
**March 31, 2018**

The New Year rang in with an ebullient run of 7% in January, capping off a full year's steady march upward of a market marked by slow consistent gains. Across our many years of investing we have rarely seen such low volatility and smooth sailing. The steady, low volatility climb of 2017 seemed to terminate in a vertical ascent in January yet ended abruptly in February's volatility rout.




We at DAC have often discussed the potential distortions and effects of Exchange Traded Funds (ETFs) over the years. It came as no surprise to see the rapid unwinding of the low volatility trade with the ETFs shorting the volatility index (VIX), some to the order of 2 or 3 times, suddenly lose nearly all their value overnight. With that event volatility magically returned with a more normalized market an overdue correction.

Following the February correction and return of volatility to the market, the fear of an emerging trade war-- first with the NAFTA constituents via steel tariffs, then with China directly-- suddenly took the world stage. Given the number of arguments for and against trade fairness, tariff effects, and leveling the playing field, we will watch the trade issue's effect on the global economy and subsequent US economic impact with great interest. We cannot help but think this issue is fraught with peril and of second-order effects.

The first quarter also brought us a new Federal Reserve Chairman and the continuation of rising rates. Not only has the Federal Reserve gradually raised the Federal Funds rate, but the clearly stated potential for continued rising rates also gives the market the expectation of a steady pace of rate increases in 2018 and 2019. Typically changes to monetary or fiscal policy are expected to have long term effects such that the results of a tax policy change will not fully show up in their first-order nor second-order effects for maybe 12 to 18 months. The effects and magnitudes of changes to interest rates, taxes, and Federal spending will not become clear for quite a while. Hence we are a bit nervous about the way these rising rates, the tapering off of quantitative easing and the contraction of the Federal Reserve's balance sheet will show up in the real economy.

The stimulative measures such as infrastructure spending as well as tax reform, combined with contractionary measures such as Federal Reserve tightening is an interesting and dissonant mix. The true effect of the combination will not make itself fully known in the US economy for quite some time. Nonetheless, it is our belief that the stock market is a leading indicator, not a lagging indicator. Hence the market predicts the direction of the real economy. This is converse to what market participants, and especially the financial media, like to believe. We have no doubt that the market volatility will continue as the issues are sorted out and the effects of the taxes, trade, and interest rates are sorted out in real time in quoted values of companies and commodities in the markets.

As we look at the market and the individual sectors, we think another distortion may be starting to unwind. For the past few years the market returns have been driven by a handful of large technology companies, nicknamed FAANG by the media. With the data breach and subsequent bumbling response by certain companies within FAANG and a weakness in their shares, it appears that this disproportionate driver of market performance may be ending. We are hopeful that market returns will not be so concentrated in such a few names and that we will see rotation to other sectors than large technology companies.

We are bullish on financials in a rising-rate environment. Rising rates generally benefit banks, which remain in great shape after having their balance sheets cleaned up post the Global Financial Crisis. We remain bullish on commodities, especially energy. Oil and gas prices remain firm, and US exports continue to grow rapidly. We cannot make a better argument for natural gas demand than the potential for electricity usage from electric cars. In fact a shift toward electric cars is bullish for many other commodities also, such as copper, lithium, and rarer minerals such as cobalt.

We think that agricultural commodities may even have their day in the sun as rising global living standards, resulting from global economic expansion, increase the demand for proteins. Infrastructure renewal remains an investable theme with a broad range of potential beneficiaries ranging from the materials sector to the telecommunications sector, depending on whether your focus is the buildout of 5G wireless networks or the fabled border wall.

Overall, we remain constructive on the stocks but expect heightened volatility. We would continue to avoid longer duration fixed income instruments until the Fed is done normalizing interest rates via rate increases. We remain hopeful for a profitable and prosperous 2018.

---

**Past performance is not indicative of future results. You should not assume the future performance of any specific investment or strategy will be profitable or equal to past performance levels. No stock trading system or strategy can guarantee profits.**

This material is for informational purposes only and should not be considered investment advice. You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses before investing. There are no guarantees that dividend-paying stocks will continue to pay dividends. In addition, dividend-paying stocks may not experience the same capital appreciation potential as non-dividend paying stocks. Data is deemed reliable, but DAC does not guarantee reliability or accuracy. Information provided is as of the date of this report and is subject to change**.**

S&P 500 refers to the Standard and Poor's 500 Index which is a capitalization weighted index of 500 stocks. Individuals cannot invest directly in the S&P 500 Index.

DAC does not provide professional tax or accounting services. The Dividend Assets Capital, LLC's Investment Adviser Brochure, Form ADV Part 2, contains this and other information about the Firm, and should be read carefully before investing. You may obtain a current copy of Dividend Assets Capital's Form ADV Part 2 by visiting our website at www.DACapitalSC.com, emailing info@DACapitalSC.com, or by calling us toll free at (866) 348-4769.

DIVIDEND ASSETS CAPITAL, LLC

INVESTMENT ADVISORS

58 RIVERWALK BOULEVARD
RIDGELAND SC 29936-8126

Copyright © 2018 Dividend Assets Capital, LLC