DIVIDEND ASSETS CAPITAL, LLC

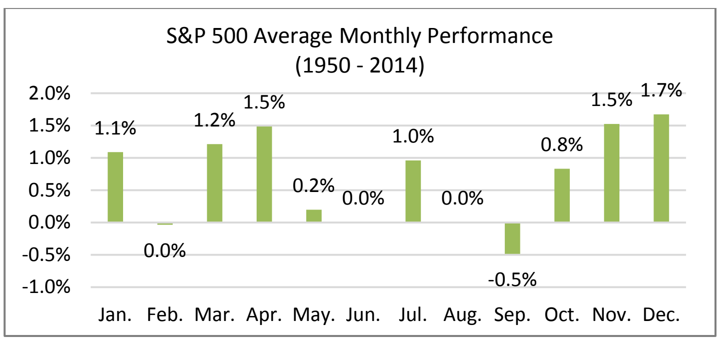
DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

QUARTERLY COMMENTARY **Q3**

NEWSLETTER **October 10, 2015**

LET'S BE POSITIVE

If ever there was a *sell in May and go away* year, 2015 has certainly shaped up to be one with the S&P 500 down -6.44% during the third quarter. All this after the S&P 500 posted a total return of 1.23% through the first two quarters of 2015. While the third quarter was unpleasant for most equity investors, this has not been a tremendous deviation from the norm and we strongly believe and are hopeful that the remainder of the saying *come back in October* is equally applicable.



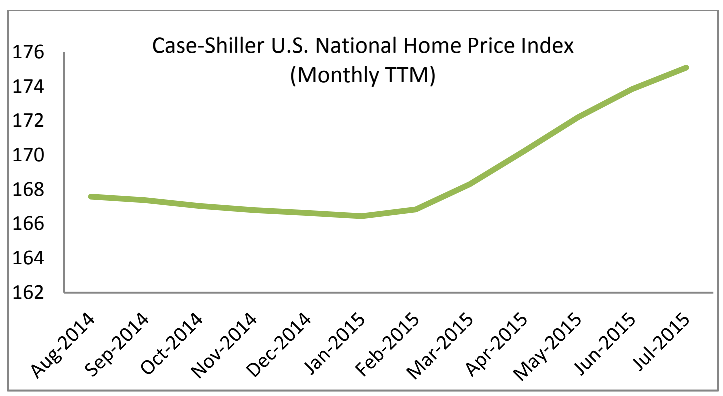
Source: Bloomberg, DAC Research. Chart represents the simple average price returns of the S&P 500 Index for all months from Jan. 1950 through Dec. 2014.

One day we will look back at a chart pockmarked with market corrections similar to the Asian Contagion, the Long-Term Capital Management (LTCM) fiasco, and the Mexican Peso crisis, to understand that this year's Chinese economic and government control meltdown is only one of a long history of market scares and corrections.

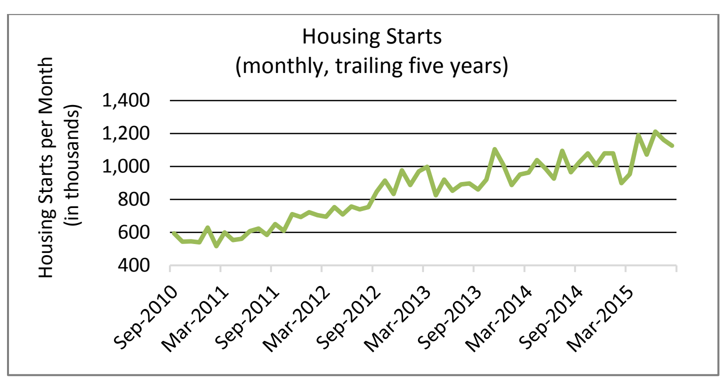
How the Chinese market malaise will play out will be a significant issue for the entire complex of Asian emerging economies and the world in general. More importantly, it will give market pundits and certain well-followed media commentators some variety for their repertoire to go along with Greece, general European worries, and of course the weakness in the energy and oil sectors. At Dividend Assets Capital, we are primarily concerned about the strong U.S. dollar's effect on the underlying earnings of the companies we hold.

It was quite interesting that the market sold off on the Federal Reserve's announcement to leave rates unchanged. One could interpret that to mean the markets are concerned that the Fed knows something we do not. Yet, a view of the current labor market hints that economic strength is beginning to build.

It is hard to be bearish on the U.S. economy when you look at the housing data. The Case Shiller Home Price Index may be one of the few charts besides the U.S. dollar that shows strength over the last twelve months. The home price index data is reported with a two month lag, and while September housing data is still two months out, we view the recent trend as a positive indicator and a reason for bullishness. We also see new home construction and increased housing demand as bright spots in the economy, and believe that these are likely underestimated strong supports for being bullish.



Source: S&P Dow Jones Indices LLC. Data reported on a two-month lag and reflects the most recent data available as of September 30, 2015



Source: FactSet. Through August 2015. Data reported on a one-month lag and reflects the most recent data available as of September 30, 2015.

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While the markets have been tough for investors to weather over the quarter, continued weakness in oil prices has been positive for consumers. We believe that the stimulative effect of lower energy prices will eventually work its way into both consumer spending and the underlying economy. The strength in new car sales, particularly sales of trucks and SUVs, is likely explained by the compounding factors of increased consumer spending capacity and the reduced cost of ownership for vehicles that have higher fuel demands.

For energy and MLP investors, however, the weakness in energy prices and energy stocks has been brutal, with the Alerian down -22.10% over the course of the third quarter and down -30.67% year-to-date. During the third quarter, we saw a tremendous amount of technical selling that appeared to be completely divorced from corresponding fundamentals. This asset class is now showing nominal prices nearly as low as they were in the 2008 – 2009 financial crisis while trading volumes have increased drastically.

While a difficult environment to weather as investors, we believe the U.S. energy infrastructure story remains intact as one of the most attractive investments available to U.S. investors. We see this as an opportunity to participate in the continued development of geologic technology and global industrial development that allows our companies to be the most advanced and productive energy companies in the world.

As we look at our midstream MLP exposure, we see solid fundamentals and prospects for double-digit distribution growth rates. We do not believe these two very important factors are yet reflected in the market pricing of these securities. Current conditions indicate that this is a striking opportunity for new and additional investments in this devalued sector. We remain dedicated to our strategy and anticipate that companies with good fundamentals, such as those we own, will overcome current sentiment.

On an organizational note, DAC welcomes Michael ‘Mick’ P. Kuehn, CFA®, Senior Research Analyst, and Gregory Cherewko, Portfolio Administration & Client Service Representative, to the family. Mick comes to us with sixteen years of experience in research and portfolio management. Greg comes to us with a strong background in administration and client services.

As always, we appreciate the opportunity to be of service to you. Please let your portfolio manager know if you have any special concerns. If there are changes in your financial situation that affect your investment objectives, please let us know.

Additional Source: Bloomberg

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