

# DIVIDEND ASSETS CAPITAL, LLC

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

## QUARTERLY COMMENTARY

NEWSLETTER

Q4

January 10, 2014

### THE BOTTOM LINE

Year-end reports are often a chore to write because performance might not have reached expectations and the outlook for the New Year could not be forecast with any degree of confidence. While there is always risk about the forecast, we can be certain about 2013 – it was fantastic for equity investors. The more risk that the investor took the more likely he was to reap higher benefits. The S&P 500 Index had price appreciation of 29.60% and total return of 32.38%. During the latter part of the year, this index hit new numerous all-time highs. The Dow Industrials trailed the S&P, coming in at up 26.50% appreciation and 29.65% total return. We consider both indexes to be somewhat on the conservative side of common stock investing. The NASDAQ index was up 38.3% and when current income is added, the total return was 40.12%. The Russell 2000 was up 37.0%, appreciation only, and on a total return basis was up 38.82%. The bottom line is common stocks had a great year.

That is not true of all asset classes. Fixed income investors had a much more difficult year. The Barclays Capital Index for Long Term Treasuries was down 12.66%, and the Municipal Bond Index was down 2.55%. Precious metals investors had an even more difficult year. The Dow Jones UBS Commodity Index for gold was down 28.65% and silver was down 36.63%. Investors who attempted to play it safe and buy FDIC covered bank instruments reaped a meager 0.38% for a 30-month C/D and 0.11% for a money market account according to the Bankrate.com National Index. Conservative savers have been bearing a big burden since 2009.

The superb performance of the equity markets was not just the province of the domestic market. The major markets in Europe showed gains in the mid-teens to mid-twenty percent range and Asia-Pacific was up with the exception of the Shanghai Composite. The strongest performance was registered by Japan's Nikkei Stock average, which was up 56.7%. As equity markets are anticipatory in nature, one may logically assume that the global economy is expected to improve in 2014, a consensus with which we agree.

Looking back over the events of 2013 indicates that the investor needed to have confidence in the companies that he was investing in rather than the strength of the economy or constructive governmental policy. Gridlock in Washington created a series of concerns that were largely unresolved. While a budget was passed in December for fiscal year 2014, many of the underlying issues were not addressed. It is evident that the debt ceiling will be the next roadblock of consequence. Several legislative initiatives are unlikely to be dealt with this year, not the least of which is the implementation of the Affordable Care Act. Last year's sequester cut spending across all budget lines, reducing funds available for legislators' favorite programs like defense or unemployment benefits. This has intensified the debate between the political left and the political right that is likely to continue up until mid-term Congressional elections. The pre-election period is likely to be acrimonious. The bottom line here is another legislative year in which little is accomplished from the fiscal policy side of government. That leaves the initiative in the realm of monetary policy where it has been for the last five years.

Monetary policy is the purview of the Federal Reserve. The Fed has been the dominant force on the economic policy for the last five years. The Fed has aggressively forced interest rates down to about zero at the short end of the Treasury yield curve in an effort to stimulate economic activity. Early into the recovery phase, the Fed also began to purchase outstanding treasuries and mortgage backed securities. Now in the third iteration of "quantitative easing", the Fed has signaled that it will begin to reduce the amount of securities that it will buy. When first suggested last May, the equity and bond markets reacted by selling off equities and raising the yield on fixed income. Cheap money was beginning to help the economic expansion, however investors feared that the withdrawal of the stimulus would slow or reverse the gradual expansion. The Fed chose to delay the tapering of the stimulus until the December meeting of the Federal Open Market Committee (FOMC) when they thought the condition of the

economy was strong enough to allow the tapering process to begin. The equity and the fixed income markets had come to accept that course of action and the market reaction was minimal. One of the major risks for the markets in 2014 will be how the Fed reacts to further steps to reduce quantitative easing.

The rate of advance of the US economy has been slower than previous recoveries. Unemployment has seen gradual improvement as has Gross Domestic Product, industrial production, new home sales, and an array of other economic indicators. Since 2009, corporate America's growth also has been below average. Corporate managements have taken advantage of low interest rates to issue debt to finance or refinance their balance sheets. They have also managed their income statements by keeping expenditures in line with revenue growth. The companies in our universe have a history of increasing dividends at a substantial rate and appear to be in financial shape to tackle the challenges of slow to moderate economic growth that we project for 2014.

One of our favorite investment themes has been and continues to be the distinctive trend towards energy independence. The fundamentals continue to be in place for further growth of energy production. New technologies have opened up energy deposits to development, reducing the need to import petroleum and natural gas. The United States is now exporting refined product, natural gas and natural gas liquids. The January 3, 2014 report from the US Energy Information Administration entitled "This Week in Petroleum" focused on shifting production and demand patterns. Crude oil production in 2013 reached the highest

level in 24 years and even exceeded weekly net crude imports on several occasions. The same theme of rapid development of natural gas reserves is also occurring.

Our interest in energy Master Limited Partnerships (MLPs) continues. New facilities are needed to transport, process, and store the newly available energy, and this is a primary function of our MLPs. We continue to see growth potential for both the distributions paid to unit holders and in unit price appreciation.

While we are projecting a positive year for equity performance in 2014, there is a wide range of potential events that could have a negative impact. International surprises could come from a number of sources. Topics regularly discussed by our Investment Committee include: political problems on the African continent including Libya and Egypt; continued Israeli/Palestine issues; failure of talks with Iran; breakdown of the situation in Syria, deflation throughout the world; slowdown in world trade; internal issues in China including air and water pollution, water shortages, banking and credit issues, and military adventurism; and economic weakness in the Euro zone and Russia. Many on this list were on the list at the beginning of 2013.

As always, we appreciate the opportunity to serve as your investment advisor. Please let us know how we can serve you. We wish you good health and prosperity in 2014.

Sources: Wall Street Journal,

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## IMPORTANT DISCLOSURES

*You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses before investing. The Firm'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 Capitals' Form ADV Part 2 by visiting our website at [www.DACapitalSC.com](http://www.DACapitalSC.com), emailing [info@DACapitalSC.com](mailto:info@DACapitalSC.com), or by calling us toll free at (866) 348-4769. 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. The past performance of the strategy is not an indicator of future performance; and investment results may vary. An investment in a Master Limited Partnership (MLP) unit involves risks that differ from a similar investment in equity securities including ownership controls associated with the limited partnership structure, high debt to equity ratios, and certain tax risks. Investments in international markets present special risks including currency fluctuation, the potential for diplomatic and political instability, regulatory and liquidity risk, foreign taxation and differences in auditing and other financial standards. Risks of foreign investing are generally intensified for investments in emerging markets. The S&P500 Index is a widely recognized unmanaged index of equity prices and is representative of a broader market and range of securities than is found in individual client portfolios. The Alerian MLP Index (NYSE: AMZ) is a widely recognized, unmanaged index that includes a composite of the 50 most prominent energy (MLPs). The Index returns do not reflect the deduction of expenses, fees, and taxes and assumes reinvestment of all distributions. Individuals cannot invest directly in the Index; however, an individual can invest in exchange traded funds or other investment vehicles that attempt to track the performance of a benchmark index. Dow Jones U.S. Index is a broad-based but investable measure of the U.S. stock market, intended for use as the basis of investment products. The index aims to represent consistently the top 95% of U.S. companies based on float-adjusted market capitalization, excluding the very smallest and least-liquid stocks. This index assumes the reinvestment of dividends and the percentage changes in the benchmark represent the annual percentage change of the index for the period reported. NASDAQ Composite Index is a stock market index of all of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market, meaning that it has over 3,000 components. Since both U.S. and non-U.S. companies are listed on the NASDAQ stock market, the index is not an exclusively U.S. index.*