# DIVIDEND ASSETS CAPITAL, LLC

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

## QUARTERLY COMMENTARY

**Q1**

NEWSLETTER

April 10, 2014

### CLIMBING THE WALL OF WORRY

There is an old Wall Street adage that the market climbs a wall of worry. While last year had several periods when the equity markets were down and there were plenty of things to worry about, the S&P 500 index climbed that wall of worry without much apparent struggle. The Index was up 29.6% price-only. As we move into 2014, it is apparent that some of last year's strong performance might have been borrowed from the first quarter's growth, which was not particularly strong.

The price-only performance of the S&P 500 for the first quarter was +1.30% and the total return was +1.81%. Comparable numbers for the Dow Industrials were -0.72% price only and -0.15% total return. The NASDAQ was +0.54% and +0.84%. These first quarter numbers are light, particularly after the strong performance of last year, but we believe that growth at that rate was unsustainable. Our view for the current year is far more modest. Upper single-digit growth of 8 or 9 percent for the S&P 500 for the year would meet our projections.

The modest market performance not only takes into account where investors are coming from but also the current events of the quarter. The wall of worry has both old and new issues. Included in this list are the pockets of geopolitical unrest that now include Russia, Ukraine, Syria, Libya, Egypt, Iraq, Iran, Afghanistan, Pakistan, China, and North Korea. With so many hot spots, it is difficult for the US State Department to develop meaningful foreign policy. Some would argue that the decline of US dominance and loss of influence around the world is for the best, others mourn the loss. These hot spots are not the only places around the world that need watching; they seem to rotate as headline stories.

China is the one country mentioned that has significant impact on the global economy. As the third largest country as measured by GDP (the United States and the Euro zone are in first and second place, respectively), China is a significant trading partner with the rest of the world. In 2013, their GDP grew 7.7%, the fastest growth among the larger economies. Investors have focused on a number of issues that could slow China's growth that in turn could affect the global economy. The financial press seems to have daily articles about some aspect of the Chinese economy: the currency during the first quarter has depreciated, companies are going bankrupt, bank loan delinquency rates are rising, and the air and water are dangerously polluted. Projected GDP growth has declined and observers are not sure what the new leadership will do in the face of these challenges. As the third largest economy, China's growth is important for global wellbeing.

The growth of the US economy has been relatively stable but at a low rate. The fourth quarter of 2013 saw GDP growth at +2.6%. Weather issues in the first quarter have had a negative impact on demand growth. We hope that pent up demand will be transferred to the second and third quarters. We anticipate that the first quarter GDP will come in at around 2% and will build from there through the rest of the year with the middle two quarters perhaps the strongest.

As has been the case since 2008, the Fed has had visibility as an instrumental player on national economic policy. In January, the Fed chair changed from Ben Bernanke to Janet Yellen. The question on investors' minds is will there be a change in Fed involvement with a new chair. Ms. Yellen has already found out that she has the power to move markets. In her first conference call, she made remarks that suggested the Fed might begin raising interest rates sooner than the markets expected, and there was immediate reaction, downward for stocks and upward for interest rates. Ms. Yellen clarified her statement such that the stock market was able to recoup the momentary downturn and interest rates returned to the levels before the press conference. The cheap money policy of the Fed is viewed by many as beneficial to economic growth. If it disappears before that growth improves, the equity market might react negatively.

The Fed, in connection with their March 2014 FOMC meeting, outlined their projections for several of the economic statistics that will influence their policymaking. As the fixed and equity markets will react to these numbers, we, too, should be aware of them. For 2014, the growth of GDP is projected to be 2.8 to 3.0%, the unemployment rate 6.1 to 6.3%, and the Personal Consumption Expenditure Index (PCE) 1.5 to 1.6%. The Fed also indicated that they would look at other factors, but left those factors undefined. Recently released employment numbers for March had the unemployment number at 6.7%, which was the same as February and well above the target level. It appears that the change at the

Chair level will have little effect on the easy money/low interest rate environment that has existed since the 2008-2009 recession.

The market climate for both fixed income and equities seems much like it has been for the last four or so years. We look for a modest increase in the equity indexes. We would be pleased with price appreciation of 8-9%. This being a midterm election year, there are likely to be a number of contentious issues of both a domestic and international nature to keep investors on the edge of their chairs. The tone of the conversation is unlikely to be one of reconciliation. The current train of events suggests that the Republicans could regain control of the Senate, which opens the possibility for a number of vetoes from the President. Bottom line: there would be more of the same and very little governing going on. Politicians are now looking forward to the Presidential election in 2016 and positioning themselves for it.

We continue to believe that investing in companies with a long history of increasing dividends at a substantial rate is a logical investment strategy. These companies tend to be well-financed and well-led. Their revenue stream and net income tend to be less impacted by the economic cycle than their competitors are. They are best of breed. We feel strongly that our long-term theme of energy independence has only been strengthened by the current issues between Russia and the Ukraine. The energy Master Limited Partnerships (MLPs) are an important component of this story. Investors are rewarded by receiving an attractive distribution yield that is partially tax deferred, although K-1s are issued. Some of the partnerships are able to increase the distribution rate above ten percent. Others are more mature and grow distributions in the mid-single digits but have a higher current yield. The need for additional energy infrastructure continues, which is the prime reason for the growth of MLPs. The market climbs the wall of worry.

As always, we appreciate the opportunity to be of service to you. Please do not hesitate to let us know if you have any questions about your investments.

*Sources: Bloomberg, FederalReserve.gov, FOMC*



**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, emailing 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. Investors in Master Limited Partnerships (MLPs) should determine the tax consequences of investing in MLPs based on their specific circumstances and should consult with their tax advisor regarding the tax consequences of an investment in MLPs. Investors in MLPs should be aware that any changes in the current tax law could potentially result in future and retroactive tax consequences and should consult their tax advisors regarding any tax law changes. Investors in MLPs may be required to file tax returns and pay tax in each state in which the MLP operates. Individual retirement accounts and retirement plans investing in MLPs may be required to report unrelated business taxable income (UBTI) and pay unrelated business income tax (UBIT). Tax reporting information for MLPs is provided to investors on an annual Schedule K-1 issued by an MLP. Investors may be required to request an extension of time to file their tax returns if an MLP has not issued a Schedule K-1 by April 15. MLPs are generally held in an investor's account to generate income.*