QUARTERLY COMMENTARY
December 31, 2017

We may remember 2017 as the year that the animal spirits returned to the market. The post Global Financial Crisis bull market has been one of the most hated and questioned bull markets. But the tide may well have turned with the steady upward march of the stock market in the low volatility environment; the market has not seen a 5% correction for over a year.

Nonetheless, the current environment looks far from bearish; rather, it mimics the market of the mid to late 90's. A few years of 20% returns created the belief that those returns would continue unabated. We think the S&P 500's return of 21.83% in 2017, combined with the strong returns of the prior few years, may actually attract more inflows, creating a rising market.

There have also certainly been speculative excesses this year. Bitcoin may be the modern equivalent of the seventeenth-century Dutch tulip bulb craze, as its price acceleration has gone from speculative to ludicrous. Though we are adamant believers in the underlying block chain technology, we would venture a guess that the runup may well end badly for the late money showing up.

But the biggest excess may well be in low long-term bond yields and the underlying bond prices. If the inflation genie leaves the bottle, we feel fairly certain that long duration, fixed income instruments will be a bad place for investors to have their capital.

The flat yield curve presents a bit of a conundrum. The Federal Reserve's pace of increasing short-term rates, and the lack of movement of the long end of the yield curve could be seen as a recessionary signal, especially if the yield curve inverts with short-term yields higher than long-term yields. While an inverted yield curve has preceded all modern recessions, this does not definitively signal a recession. There have been periods with an inverted curve where no recession had occurred.

It is hard for us to see any other recessionary signals. The world appears to be in a synchronized global expansion, and a very powerful one at that. There are few economic signs of trouble anywhere in the developed or even emerging markets. Other than, of course, whether the leader of the U.S. or North Korea has the larger nuclear button on his desk.

Though we are believers in self-driving and electric vehicle technologies, but global demand for oil and gas continues to grow, and global inventories have begun to dwindle. The energy sector, which has been a noted laggard the last few years, may finally attract attention. The strong fundamentals certainly are not reflected in security prices, and we believe at some point they will revert higher.

If the specter of inflation does return, it is our opinion that oil and all other commodity-exposed investments could do well. Fixed income and its equity proxies, such as utilities, would likely have headwinds. Since all long-duration

assets like stocks are priced off of long-term yields, an inflation scare could be what finally gives this bull market a pause or correction.

As we enter 2018 we think the effects of the recent tax legislation will show both in markets and the real economy. The prospect for more jobs and lower taxes across all income levels is great for the U.S. consumer. The potential for repatriation of foreign profits could translate into new job creation as U.S. companies begin to deploy their repatriated profits. We also believe that lower corporate taxes and potential repatriated profits will result in increasing dividends for stocks, which is of course one of our favorite things.

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