



April 9, 2007

Dow: 12,569

FOOD FIGHT

It's a sad day when you have to compete with your car for food. The demand for ethanol and bio-diesel is the primary cause of the recent surge in prices for commodities such as corn, sugar and other crops that can be converted to fuel. Farmers are already diverting more land to grow corn for ethanol. It is estimated that 30% of US grain production will be devoted to ethanol by 2008. This is up from 16% in 2006. Food prices are rising worldwide. In China, for example, food prices are rising at a 6% clip, more than three times faster than last year. In the US, food prices rose 3.1% in February from a year ago. Corn is used to feed livestock, so we can expect prices for beef and poultry to rise. Corn is also used to make fructose, so you can expect the cost of soda to rise. As the standard of living is rising around the world, there will be a need for more food. Environmentalists are predicting droughts in some areas of the Earth causing a further shortage of food. We have the perfect storm scenario developing here for those in the media that move from one potential disaster to the next.

There is, however, a highly plausible solution to this problem that is slowly gaining acceptance. That would be nuclear energy. Nuclear energy has had a bad rap because of the scare at Three Mile Island and the disaster at Chernobyl. However, much has changed since those two episodes. Technology has improved the safety of this form of energy dramatically. Environmentalists are warming up to nuclear (pun intended) because it burns clean. France (yes, France) currently meets 80% of its energy requirements from nuclear and arguably has the cleanest air on Earth. By contrast, the US meets only 20% of its energy needs from nuclear. If we decide to move in this direction, we need to move quickly, as it takes about five years to bring a nuclear plant on stream. China apparently has immediate plans for thirty nuclear plants and more for the future. A further plus for nuclear is that currently it takes large quantities of emission producing fuel to convert corn or sugar to ethanol, and it will take even more to convert to hydrogen fuel. Hydrogen seems to be the fuel of choice for the future, and nuclear energy would produce this hydrogen fuel much cleaner and more efficiently.

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The biggest problem with nuclear is waste disposal that can lay active for decades. Once again, the French have developed a system where they can recycle this waste and re-use it. New methods of technology will certainly be discovered to make nuclear power safer.

Another positive factor for nuclear, for the US especially, is that we have good relationships with the countries that are the major producers of uranium – namely Canada and Australia. All of these factors have not gone unnoticed in the investment community as the price of uranium has risen from \$7 to \$90 a pound in the last five years. Unfortunately, for investors, most uranium mining companies are small and are traded on the Canadian and Australian stock exchanges.

Sunday's episode of *60 Minutes* discussed nuclear energy, and you can expect more articles as the combination of rising fuel prices and global warming concerns make headlines.

Good Friday brought good news in that the government reported the creation of 180,000 new jobs and that the unemployment rate dropped to 4.4%, the lowest rate in six years. Since mid-2003 the economy has added 7.8 million new jobs. This report is especially impressive considering the weakness in the housing market the past year. Worker paychecks have also increased by 4% over the past twelve months.

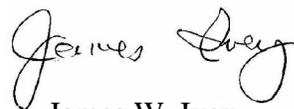
Although the economy has cooled somewhat from the torrid pace of a year ago, we see no cause for alarm. The economy has absorbed the housing slowdown, and interest rates are still low by historical standards. In fact, if the dollar should weaken further and we see further increase in inflation, we believe the Fed could raise rates without dampening economic growth.

Random thought for April 2007: "I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

Winston Churchill



Michael L. Dana
Chairman of the Board



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