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THE DANA VIEWPOINT

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*April 13, 2009*

*Dow: 7,987*

## ***CYCLES***

There have always been cycles in life, and there will always continue to be cycles. Just as the moon causes the tides on earth to rise and fall in an orderly cyclical manner, the earth revolves around the sun in a 365 day cycle, and humans are born, grow and age. There are short cycles and long cycles, some shorter than an hour and others lasting years. So it is with the economy. The economy has a life of its own and no amount of tinkering by the Federal Reserve or Congress will alter the long-term cyclical nature of our financial system. Cycles involving the trading of stocks and bonds can be as short as an hour or can encompass years. Many investors today do not remember what the economy was like in the very early 1980s. The late 1970s saw rapid inflation peaking at 15%, rising interest rates with the prime rate exceeding 20% and unemployment running in excess of 10%. The Dow Jones Industrial Average had peaked at 1067 in 1972 and in early 1980 it was at 730. It was not a happy time in America, but that ten year cyclical low was about to end. Inflation dropped over the next twenty-five years to about 2.5%. The prime rate is 3.25% and unemployment after reaching a low of 4.4% in 2006, is now at 8.5%. Within that twenty-five year cycle (1982-2007), there of course were shorter down cycles. We had a brief market collapse in late 1987, a short recession in the early 1990s, a high-tech bubble and collapse in the late 1990s and early 2000s and a housing bubble ending in 2006. However, during those twenty-five years, we saw unprecedented economic growth, individual wealth creation and a rapidly improving standard of living. Innovations were created in high-technology and bio-technology. New companies came to the fore in these areas – Microsoft, Cisco, Apple, Genentech, Amgen and Genzyme just to mention a few. There were of course other companies outside these two industry groups such as Starbucks and Amazon.

We have currently been through a down cycle (we believe we are ready to resume an up cycle) that has not been pleasant but is natural in the longer term nature of cycles. Because of increasing economic globalization, we are likely to see shorter and more rapid economic cycles, but the longer term cycles will still be prevalent. It has been said many times that those who forget history are doomed to repeat it and that is why we have these cycles. As an investment advisor, it will be interesting and challenging to discover the new innovations and investment opportunities that will arise as the next cycle turns up.

It is somewhat amusing to watch the media, who have been so negative for so long, write in

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disbelief that the stock market can be up over 20% from its early March lows when they are still reporting on how dire the economy is. Well, most economic statistics are lagging indicators. The stock market tends to anticipate both positive and negative trends in the economy. Right now the markets are telling us that this cycle may be turning up as maybe the light at the end of the tunnel is actually sunlight. Home sales have turned up, retail sales are stronger than we anticipated and unemployment claims dropped last week. In addition, last week the Financial Accounting Standards Board (FASB) voted to change fair-value rules virtually wiping out the previous mark-to-market standards. Companies will now be allowed to use their own judgment when pricing certain securities. Any investment person can tell you that fair value is what you can sell a security for, not what you think is fair value. Needless to say, this ruling added stimulus to the stock market and will help corporate balance sheets, particularly those of financial institutions. Last week Wells Fargo announced expected earnings of fifty-five cents a share for the first quarter vs. Wall Street estimates of twenty-three cents. This translates to a record of \$3 billion in net income. As more of these announcements occur, confidence will be inspired and lending will increase which is needed to get this economy rolling again.

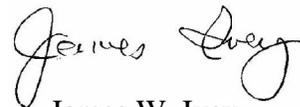
Some states (SC, LA and TX) are turning down government stimulus money in an attempt to work out their budget problems, realizing there will be strings attached to the government money. Corporations are getting the message also and do not want the government running their businesses. This works well for the American free enterprise system. Many financial institutions have plans to pay back stimulus money by year-end and start lending money to stable companies and individuals. These firms will recover and be even stronger because of good management.

**Random Thought for April 2009:** “The heights by great men reached and kept were not attained by sudden flight, but they while their companies slept were toiling upward in the night.”

*Henry Wadsworth Longfellow*



Michael L. Dana  
Chairman of the Board



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*Dana Investment Advisors welcomes any comments to their newsletter and is more than willing to discuss or explain any aspect of the letter. Feel free to call us at 262-782-3631.*

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