



THE DANA VIEWPOINT

August 11, 2008

Dow: 11,782

RECESS

That's something we used to have in kindergarten and grade school. That ends when we become productive members of society. Unless, of course, you are a member of Congress. They don't call five weeks off from work a vacation; they call it a recess. How could any business survive if all the employees took a five week "recess?" Webster's defines a recess as a temporary withdrawal or cessation from the usual work or activity. It can also be used to denote the recesses of the mind (a cessation from thinking?). It's interesting also that the word following recess in the dictionary is recession. So the economy is left to flounder while congressmen and women fill up their SUVs and take a five week break. One will even use the time to jet around the country promoting a new book on power.

The housing bubble and the financial crisis are not resolved, but the market has discounted the bad news in these areas admirably. There will be more bad news from housing and finance, but if Congress steps aside, the market place will sort this out. We have been very positive on the direction of the economy in spite of the aforementioned problems. However, if there are two issues that could throw our economy into a recession, it would be the prices of food and energy. Congress needs to address these two issues immediately. Oil has been well discussed in the media, and we feel that pressure being put on Congress resulted in the recent decline in the price of oil as investors speculate that we will expand drilling. Also, the global economy has slowed, and the demand for oil has abated somewhat. That's unfortunate as Congress will take this to mean that oil prices will continue their downward trend, and they need not do anything. We still believe the economy is working out the excesses created in the years leading up to the financial crisis and is laying the groundwork for a major economic boom. But, we need energy to propel this boom, all sources of energy. Currently, alternative sources of energy (solar, wind, ethanol) provide less than 7% of our energy needs. It is doubtful that these alternative sources of energy are the ultimate solution to our energy needs. Not all parts of the country get year round sun or wind. As for ethanol, it requires more energy to convert it to fuel than it saves, and, in addition, its use is a major factor in rising food prices. Oil is the answer for energy independence for the near future until viable alternative sources can be discovered and that may take decades.

The worldwide economy will likely experience a strong recovery led by China and India. China's daily need for oil is growing by half a billion barrels a year, and they recently signed a contract with Iraq for more oil. Amazing. We free Iraq from the yoke of Hussein and Al Qaeda, and China gets the oil. Wake up

(CONTINUED ON REVERSE SIDE)

Congress. We need oil if we are to stay economically competitive with the rest of the world.

Now, we have Russia invading Georgia, a former part of the Soviet Union. Make no mistake, this is about oil. Russia is buying up all the oil and natural gas they can find. They even took a submarine and shot a torpedo tube with a flag in it to the top of the world trying to lay claim to all the natural resources under the Arctic Circle. By invading Georgia, they can control the flow of oil and natural gas that fuel Eastern Europe. They have also nationalized the oil industry in Russia as has Chavez in Venezuela. Make no mistake, the Olympic competition for energy is on, and here we sit with the largest potential energy reserves in the world.

The Fed met and interest rates remain unchanged and will likely remain that way as the Fed walks a line between economic slowdown and inflation. Interest rates are not the problem. They are low enough. Money is not the problem either as there is plenty of that out there. The problem is encouraging those that have the money to lend it to those who want it. This, of course, will happen, and then we will see the beginning of the next economic boom.

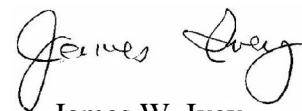
Speaking of China, if you saw the opening ceremony at the Olympics, you had to be impressed with the pageantry and coordination of the massive numbers of people taking part. This is a showcase event for China, and they are putting their best foot forward. Behind the pageantry though, lurks another world. China has coal, but it is loaded with sulfur and that creates a constant thick fog that was evident if you watched the bike race Saturday. China is also suffering from double-digit inflation and in effect is exporting it to the US. American companies that moved some of their manufacturing plants to China are returning to America. We still have the most productive workers, the best technology and the most energy efficient plants in the world. There is even increasing evidence that middle and upper-class Chinese are buying American made products on the Internet. So don't fret, America is doing fine.

Random thought for August:

The huddle in football was formed by a deaf player, who used sign language to communicate, and his team didn't want the opposition to see the signals he used and in turn huddled around him.



Michael L. Dana
Chairman of the Board



James W. Ivey
President

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.

If you would prefer to have our newsletter e-mailed, please send your e-mail address to newsletter@danainvestment.com. If you would like to be notified when our portfolio managers will be broadcasting in the media, please send your e-mail address to media@danainvestment.com.