THE DANA VIEWPOINT

Dog Daze

August 10, 2009
Dow: 9,337

The phrase "dog days of summer" refers to a time period or event that is very hot, stagnant or marked by a dull lack of progress. The term "dog days" was used by the Greeks and Ancient Romans to depict Sirius (the Dog Star), the brightest star in the heaven besides the sun. The ***dog days*** originally were the days when Sirius, the Dog Star, rose just before or at the same time as sunrise, which is no longer true owing to the precision of the equinoxes. Today this time period is usually the hottest time of the year in the northern hemisphere. This term has been carried forward and applied to the stock market. This is generally a period when the market is dull and volume is sluggish. Much of this, of course, can be attributed to investors taking a final vacation before school starts. Nevertheless, the hot, humid weather does have an affect on the thought processes and decision making actions of investors.

Well, once again the stock market is correct. The market has apparently signaled the ending of the recession. The Dow Jones Industrial Average touched a low of 6500 on March 9th this year and has rebounded 43% to 9,300. Likewise, the S&P 500 has advanced to 1,000 from 670 on March 9 or a move of 49%. The economic news back in March was dire indeed, however, the market is great at anticipating economic trends. Second quarter GDP (Gross Domestic Product) declined 1% which was better than most economists predicted. New housing starts are showing improvement also. Housing cycles generally last about 48 months and housing starts peaked in July 2005. Here we are right on time for the recovery, albeit at a much slower pace than the peak years. Consumer spending has been rising surprisingly despite the drop in personal income, no doubt the effects of a higher savings rate the past year.

The two biggest factors for the economic recovery are inventories and cost cutting. First, corporations in a panic paired back production at such a rapid rate that the bottom literally fell out of the economy. The need to rebuild inventories in almost all industries will keep the economic recovery steaming ahead well into 2010. Extreme cost cutting has given rise to solid earnings gains this year but has also led to the unemployment rate reaching 9.5% (the highest since 1983) and possibly peaking at 10% before this is over. Unemployment rates generally lag any economic recovery.

(CONTINUED ON REVERSE SIDE)

It's been said that money goes where it is treated best. Since March of this year over $2 trillion has been added to investors' wealth. There is still over $2 trillion invested in short-term liquid investments that is looking for a better return than the less than 1% now available in short-term securities, so the stock market could still have legs.

Are there any dark clouds on the horizon? There always are, and two come immediately to mind - revenue growth and inflation. So far the strong growth in earnings has been the result of cost cutting by corporations. The government needs to keep incentives in place to ensure that money is available for expansion of plant and equipment and that the real innovators in our economy have the opportunity to bring new products and services to the fore. This will lead to strong revenue growth, high employment and increased tax receipts to states and the federal government. History has shown this to be a recipe for sustained growth. As for inflation, the Fed has indicated they will keep the money supply flowing and interest rates low until they are convinced the economy is on sound footing. Commodity prices are already rising in anticipation of the recovery. The price of oil has risen 110% from $34 a barrel in February to $71 a barrel today. Yes, inflation will come creeping back, but we do not see this as a potential problem until sometime next year.

A positive outcome of the government stimulus packages is that Goldman Sachs repaid their portion of the bailout funds and the payment for warrants. The government earned a 23% annualized return. We (taxpayers) earned a $7.1 billion profit with $318 million in dividends for our $10 billion loan. Hopefully other companies repay their loans and the government sees fit to pay down the deficit.

Random Thought August 2009: "Success breeds complacency. Complacency breeds failure. Only the paranoid survive."

Andrew Grove, Founder of Intel

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.