THE DANA VIEWPOINT

February 9, 2009
Dow: 8,270

HAVING A PROACTIVE RESPONSE TO THE RECESSION

Many Americans are doing just that. Over 92% of the labor market is showing up for work every day. Business owners are finding creative ways to stay afloat and even increase their business. Some small businesses are even going door to door soliciting business, and others are providing extra services like pick-up and delivery dry cleaning. Even larger corporations are exploring new business opportunities; Proctor & Gamble recently announced that they are looking to expand into the car-wash business (Mr. Clean Car Wash). We have been on the gravy train since the last economic slump (early 1980s) with booms in hi-tech, bio-tech, real estate and business in general. Perhaps we became too complacent and took too much risk, thinking the ride would go on forever. Well, nothing goes on forever and now America is retrenching and setting up for the next economic recovery. We have always been impressed with the resiliency of the American people and their ability to make lemonade when life gives them lemons. It is a huge ship ($12 trillion GDP), and it cannot turn on a dime, but it will turn.

One man's pork is another man's steak. Yes, we feel the need to weigh in on the stimulus plan. The House and Senate have both passed bills but now have to come together and work out a compromise. More and more Americans are voicing their displeasure with this pork-laden plan. The Rasmussen tracking poll shows support for the plan dropping from 45% two weeks ago to 37% this week. The Congressional Budget Office estimates that just $29 billion, or 8%, of the $356 billion in discretionary spending under the plan will be spent this year; another $116 billion, or 41%, will be spent in 2010. This is just the discretionary portion of the plan. Looked at another way, $170 billion of the total plan will be spent in fiscal 2009, $356 billion in fiscal 2010 and $293 billion in fiscal 2011 and beyond. We confess to not having read all 680 pages of the stimulus plan, but you can look at the entire plan by logging on to stimuluswatch.org. We do not believe that we can spend our way out of this recession. The good news, however, is that three key factors for the recovery are in place. Number one, the Fed has injected billions of dollars into the money supply. Since September of last year, money supply has been increasing at an estimated annual rate of 20%. It normally takes six to twelve months for the benefits of this increase to take effect (do the math). Number two, it looks as if the tax cuts put in place by the previous administration will remain, and number three, interest rates are low and will probably remain so until the Fed is convinced that a recovery is underway. In short, we already

(CONTINUED ON REVERSE SIDE)

have a stimulus plan in effect. Now if Congress would only reduce the corporate tax rate from 35% (second highest in the free world after Japan) to at least 25% we would see corporate and new business spending escalate. That would be a real and immediate stimulus.

Recessions occur several times over each investor's lifetime. We generally work through these periods quickly and resume our previous investment strategies. Less frequently, and maybe only once over each investor's lifetime, do we have an event that brings about a major change in investment strategies. We are witnessing one of those once in a lifetime experiences now. The last occurred in the 1930s, and there are few investors around today who remember that time period. Now, we are not saying that we are entering a depression. We are saying that the current crisis will bring about change in our economic system and the manner in which we invest. This is not bad. In fact, it is healthy as we learn from the mistakes of the last twenty-five years in particular. We can then build a more solid economic foundation for the investment strategies of the future. We are in the process of accomplishing that now.

Human nature dictates that greed and fear will always be with us. It is the former that drove asset prices to unsustainable levels, and it is the latter that is now building the framework for the next recovery. Investments in fixed and financial assets will still be with us, but the manner in which they are analyzed will be re-evaluated. There will also be new and more sophisticated investment vehicles originated. We suggest you may want to read *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay, first printed in 1841.

Random thought for February: "Internal improvements were the pork of the day." Van Buren watched with bemusement as Congressmen "brought forward under captivating disguises the thousand local improvements with which they designed to dazzle and seduce their constituents."

American Lion: Andrew Jackson in the White House

John Meacham, Random House 2008

Comment: The more things change, the more they stay the same.

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.