



THE DANA VIEWPOINT

July 9, 2009

Dow: 8,183

JOBS

No, not the CEO of Apple, but as in employment. The jobs report for June was another disappointment, but that is a lagging indicator. The economy will have turned up before the unemployment rate peaks. The real number to watch is the monthly report of new layoffs and this number has been dropping. The group that decides when a recession ends will be looking closely at the peak number of new layoffs and this number may well have been put in place already. The silver lining with the employment picture is that corporations have cleaned up their balance sheets and income statements and put themselves in position to participate in the economic recovery. As this occurs, new and better jobs will be created. Other economic indicators are mixed and the press can put any spin they want on these numbers. The price of oil recently approached \$72 a barrel and has retreated to \$60 a barrel. Some in the press view this negatively as it would indicate a lessening demand hence slower economic growth. There are other factors at play here, notably speculators betting on short-term moves in the price of oil. Western cultures (USA) tend to look at things in short time periods (weeks and months) while Eastern cultures have a longer viewpoint (years and decades). The economic recovery is happening but will not be recognized until well after the fact.

Speaking of China, what's happening there? It's hard to trust their numbers, but they certainly are not growing at double digit rates now. In fact, China may be using another (unfair) tactic to bolster their economy. They have begun restricting exports of certain raw materials used to manufacture goods. This will give them an (unfair) cost advantage. The US and the EU (European Union) have filed a complaint and Japan will likely follow. It is estimated that Chinese exports to the US have dropped 25%. Russia recently dropped out of the WTO (World Trade Organization), possibly a protectionist move and other countries could follow suit.

China has been talking tough in other matters also. They are the largest foreign holders of US Treasury bonds, and they are concerned that our huge Federal deficit will bring on uncontrollable inflation. This in turn will threaten the buying power of their Treasury holdings. They are

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threatening to dump all of their US Treasury holdings on the market. This would collapse the US dollar and severely damage our economy. This is not likely to happen as it would pull down the economies of the rest of the world including China.

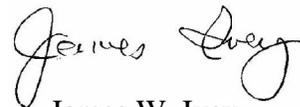
Federal Reserve Chairman Ben Bernanke has been on the hot seat lately, being grilled incessantly by Congress over his handling of the economy. There is even talk that he will be replaced in January when his term expires. We believe his term should be extended. He is a brilliant man and understands the causes of the depression in the 1930s and the mistake the Fed made by tightening monetary policy during that period. He also understands the role of money, and he stated recently that control over the money supply was his top priority. The Fed was created in 1913 to be an independent body, reporting to Congress only, to pull the levers on the money supply so that there is not too much or too little in the economy. Our recent travails were not caused by the Fed alone, but by a “perfect storm” of events that have been discussed at length here and elsewhere. The objective now is to prevent a depression and get the economy rolling again. Many economists fear that the Fed has created too much money that will lead to runaway inflation. However, Bernanke has stated that the Fed is not printing too much money, but that the money they have injected into the economy has come from the vast cash reserves at the Fed, and that these “loans” will be called in when he is sure the economy has righted itself. We feel Bernanke has done a good job of walking the tightrope between depression and inflation and that to change horses in mid-stream would have disastrous consequences.

Random Thought for July 2009: “The purpose of government is to protect us from our enemies. The purpose of the Constitution is to protect us from the government.”

Richard Russell



Michael L. Dana
Chairman of the Board



James W. Ivey
President

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