



May 10, 2007

Dow: 13,295

THE STEALTH ECONOMY

The media bombards us daily with the tribulations of Rosie O'Donnell, Anna Nicole Smith, Don Imus, Alec Baldwin ad-infinitum. This doesn't even include the war on terror, nuclear proliferation, illegal immigration, energy dependency, healthcare, social security and global warming. Pass the aspirin please. However, traveling under the radar of all this bad news has been a vibrant economy. The economy actually entered a recession in the 3rd quarter of 2000, and from its peak in early 2000, the stock market sliced \$8 trillion from American wealth. The Federal Reserve had just completed six interest-rate hikes when they finally reversed course in January 2001. Then we suffered through the terrorist attacks on 9-11-01, the disaster created by Katrina and the war on terror. A lesser people would have caved in with all this weight.

Nevertheless, since 2002 we have witnessed one of the strongest periods of economic growth in our history; a period that has gone largely unnoticed. A few highlights bear witnessing:

1. Real gross domestic product has soared \$7.64 trillion or 16.5% during a five year stretch averaging annual growth of 3%.
2. Disposable personal income (after taxes) has jumped \$2.16 trillion or 29% to \$9.65 trillion.
3. Productivity has improved by 14.3%.
4. Overall employee compensation has expanded 4% a year.
5. Net wealth (the amount people have after paying off debts) has swelled \$15.2 trillion or 38% to \$55.6 trillion.
6. About 69% of Americans now own their own homes, an all time high.
7. The jobless rate at 4.5% remains below its 40 year average. Since August 2003, 7.8 million new jobs have been created.
8. Tax receipts have surged 43% or \$757.6 billion.
9. The Dow Jones Industrial Average is hitting daily new all time highs having surpassed 13,000.
10. Interest rates remain low by historical standards.

We are indebted to Investors Business Daily for this data.

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And, according to the Wall Street Journal, federal tax receipts for April were \$10 billion above the same month in 2006, and April 24 marked the single biggest day of tax collections in US history at \$48.7 billion. Treasury revenues for the first seven months of fiscal 2007 are up 11.3% or \$153 billion. The Wall Street Journal further states, "Taxes paid on so-called non-withheld income, which are dollars that don't come from normal wages and salaries, have climbed nearly 30%. This is income largely derived from capital gains, dividends and other investment sources – i.e., the tax rates that President Bush cut in 2003. Individual income taxes are also up by 17.5% - a handsome fiscal dividend from rising wages and low unemployment." As Joey from friends would say, "What's not to like?"

Well, the Fed met once again and for the seventh straight meeting held interest rates steady. They once again indicated that inflation remains their top concern but did note that economic growth is slowing. Core inflation – minus food and oil – rose 2.1% for the year ending in March, slightly above the Fed's target rate of 1% - 2%. On the other hand, the economy grew at a rate of 1.3% in the first quarter, the weakest in four years. There is no question that the slowdown in the housing market has been a major factor in the weakened economy. The sub-prime mortgage market hasn't helped either, and unfortunately the housing market cannot turn on a dime, so we can expect further weakness to continue to hamper the extended economic growth. However, we do not believe this will lead to a recession, just a pause before the next continuation of the current economic expansion. Some analysts are calling for a rate reduction to ward off a potential recession, and others want a rate increase to combat inflation. The Fed will soon be forced to get off the fence and move one way or the other. We are reminded of President Reagan's comment that competition, not interest rates, is the best weapon against inflation.

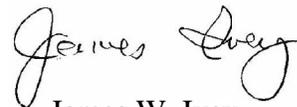
Random thought for May:

"A critic is a man who knows the way but can't drive the car."

Kenneth Tynru (critic)



Michael L. Dana
Chairman of the Board



James W. Ivey
President

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