THE DANA VIEWPOINT

GOLDFINGER

November 11, 2009
Dow: 10,287

"He's the man, the man with the Midas touch. A spider's touch. Such a cold finger. Beckons you to enter his web of sin. But don't go in." (Shirley Bassey, *Ringtones*). The price of gold reached another high this week at $1,100 per ounce. There are three primary reasons for the flight to gold:

1. India has been purchasing huge quantities of gold (other nations have also cued up the gold window).
2. Fear of inflation. The massive amount of money created by the Fed will likely lead to inflation. Some economists even see hyper-inflation. Hard assets (gold, oil, real estate) do well in inflationary periods.
3. The weak dollar. The US dollar has declined 16% since March – coinciding with the rise in gold and the rise in stock prices. As the dollar declines, anything priced in dollars rises (at least for the time being).

Gold has always been powerful stuff. It has long been associated with the gods, with immortality and with wealth itself. Prospecting for gold was a worldwide effort going back thousands of years. The first form of gold as money appeared around 700 BC. The Greeks mined for gold by 550 BC and Plato even wrote about it. Since that time gold has either been used as currency or as a backing for paper currency. US currency was backed by gold. Gold clauses were written into both government and private contracts. These clauses committed signatories to paying not merely in dollars but gold dollars. In 1933, FDR virtually took us off the gold standard when he eliminated the gold clause in relation to government bonds. The treasury called in all the gold in the country forcing citizens to sell their gold for dollars. FDR was then able to dictate the price of gold which stood at $35 per ounce until the 1970s when Nixon took us completely off the gold standard. This allowed the Fed the freedom to print as much money as deemed necessary to stimulate the economy. This resulted in a rapid rise in inflation to 15% by the early 1980s. Here we are again with the Fed printing money to stimulate the economy and investors turning to gold as an inflation hedge.

Cause and effect. In this case the zero interest rates are the cause and the weakening dollar and strengthening gold prices are the effect. Any time you treat the effect rather than the cause it leads to the next problem. Japan kept interest rates near zero throughout the 1990s, yet the Japanese economy continued to

(CONTINUED ON REVERSE SIDE)

suffer through a decade long recession. Low interest rates were not the cause of the problem. The slow growth in money supply was. When they started to increase the money supply the economy recovered. Our problem today is a little more complex. We have a plentiful supply of money and low interest rates. That is not the cause of our current 10.2% unemployment rate. The cause is the reluctance of financial institutions to make loans. New businesses create most of the jobs in this country, and these new entrepreneurs are either reluctant to start a new business or they cannot obtain the necessary funds. That is understandable considering all the uncertainties surrounding us – trillions of dollars in government debt and possible tax increases looming. We need some clear and concise policies from Washington as to whether the future environment will be favorable for business. Kennedy, Reagan and Bush understood that a low tax rate is needed to promote investing in new businesses and that is one thing we need now. We are resilient people with a resilient economic system. We just need to let it work.

What, me worry? This is the Alfred E. Neuman stock market. Neuman, of course, was the iconic character whose face adorned the cover of Mad Magazine. His face often replaced a celebrity or character that was lampooned in the issue. Mad's mission was to exploit the illogical, hypocritical, self-serious and ludicrous events of the day. The stock market certainly has a what, me worry attitude today. High unemployment – what, me worry? Trillions of dollars in debt – no worry. An unpopular war – not to worry. It has been said that the market climbs a wall of worry. It's also been said that the trend is your friend and don't stand in front of a moving freight train. All true. The market discounts both good and bad news. Right now it is discounting the bad news and saying things are improving. So, stay with the trend until it proves otherwise.

Thanksgiving is upon us and 15 million Americans are unemployed. However, it is the nature of Americans to lend a hand to those that might be temporarily down. We would ask all of us to look around this holiday season and lend a hand or words of encouragement to our fellow Americans that need a boost right now. It is good karma for the nation as a whole.

HAPPY THANKSGIVING!

Random Thought for November 2009: **"**I try to be cynical, but it's hard to keep up."

Lily Tomlin

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.

15800 W. BLUEMOUND RD • SUITE 250 • ZIP 53005-6026 • P.O. BOX 1067 • BROOKFIELD, WI • 53008-1067 • 262.782.3631 • FAX 262-782-0581
365 ERICKSEN AVENUE.N.E. • SUITE 312 • SEATTLE, WA • 98110-1888 • 206.855.8781 • FAX 800.560.6227
E-Mail: dia@danainvestment.com
Web Site: www.danainvestment.com