



October 9, 2007

Dow: 14,058

HERE THEY COME TO SAVE THE DAY

The Federal Reserve rides to the rescue once again indicating that there is no crisis so severe that the Fed can't fix. The Fed cuts the Fed Funds rate 50 basis points to 4.75 and prints gobs of new money to halt the mortgage market crisis. Then, in a fit of conscience, several financial institutions own up to having invested in huge amounts of sub-prime loans, write off millions of dollars and promise not to do it again – until the next time. The stock market rose to new all time highs, and everyone lives happily ever after. The Fed's actions were not so much an economic boost as they were a psychological ploy to assure investors that the Fed would always be there. The problem with their actions is that investors will take more risk the next time knowing they have a safety net. But do they? The world economy is so large and complex today that the Fed has become more of a participant than a mover and shaker. Plus, interest rates were not too high to begin with, the world is still awash in money, and investors were quick to pour that money into common stocks. So, here we are back to where it started in July. Now good old fashioned fundamentals will have to carry the bull, and we have been confident that the economy has been on sound footing all along. Nevertheless, there will continue to be a shift to stocks with more predictable earnings.

Lower interest rates lead to different problems for the Fed. Lower interest rates coupled with the new influx of dollars once again raise the specter of inflation. The dollar continues its slide in this environment as investors sell it for currencies offering a higher yield. The weak dollar also pushes oil prices higher (oil is traded in dollars) and imports become more expensive here. The plus side to the weaker dollar is that US manufacturers who stayed home will reap increased sales both here and abroad. However, don't fear for the dollar, as it is not making new lows versus a basket of currencies against all countries we trade with. This index was at a low of 30 in 1973 and reached a peak of 130 in 2002. The index is currently at 105, the level last seen in 1995. Currencies do fluctuate and having climbed steadily for the last thirty years, the dollar is due for a

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rest. We are still the largest, strongest and most stable country in the world, and we would not fret over the recent weakness in the dollar.

Recession? What recession? The August jobs report (a minus 4000 jobs) the first decline in more than four years had analysts using the “r” word. The September report dispelled that cry as new jobs increased by 110,000. Not only that, but the August numbers were revised up to a plus 89,000. A total of 8.4 million new jobs have been added in the last forty-nine months with 1.6 million in the last year alone (*Investors Business Daily*).

Like it or not, nuclear energy is back. On September 7, NRG Energy (a New Jersey energy company) applied to build and operate two new nuclear reactors in Texas, the first in this country since 1973. Also, three other companies are likely to apply for licenses by year-end (*New York Times*). Despite the fears over nuclear, France (which derives 80% of its energy from nuclear) has never had an accident. Nuclear has become safer because of new technology and design features. At the moment, 439 nuclear reactors in 31 countries supply 15% of the world’s electricity (*Economist*). Renewable energy sources (food, wind or solar) do not appear to be a long term solution and oil prices remain high. In addition, much of the world’s current oil sources are held by countries hostile to the US. Maybe a new source of energy will be developed (hydrogen) that will provide clean efficient energy, but in the meantime expect more nuclear reactor applications.

Random thought for October :

During the eight minutes it takes you to read this market letter or less:

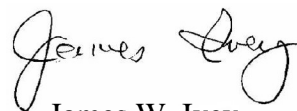
60 babies will be born in the US

244 babies will be born in China

351 babies will be born in India



Michael L. Dana
Chairman of the Board



James W. Ivey
President

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