



THE DANA VIEWPOINT

September 4, 2009

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VW

No, we are not talking about an automobile. We are talking about the economic recovery currently underway. Will it be a V shaped recovery or a W shaped recovery? Initially, we were anticipating a W shaped recovery with an initial bounce followed by several false starts. A W shaped recovery now seems to be the consensus. Not to be contrarian, but we are now leaning towards the V shaped scenario. The free market process is indeed an awesome thing. Economic data being reported is much stronger than had been anticipated by most economists. This week's report from the Institute of Supply Management (ISM) showed the eighth straight monthly increase rising to 52.9 in August from 48.8 in July. This index measures growth in eighteen different manufacturing industries. Anything over fifty is considered positive, and the August numbers indicated eleven of the eighteen industries reported growth. Within the index, new business orders jumped to 64.9 and production rose to 61.9. With inventories at historical low levels, businesses will have to start re-hiring workers to keep up with demand. However, do not expect employment numbers to improve dramatically. Cost cutting and improved technology will benefit businesses initially to be followed by improving employment numbers. Not all economic data is positive yet (retail sales are lagging), but once momentum starts building, it can accelerate quickly. Another important point to consider here are the tax rates scheduled to increase in 2011. Corporations and investors are likely to increase activity and investments before the deadline. This will set us up for the potential V shaped recovery, starting now and carrying well into 2010.

"It's the economy stupid." Remember that campaign slogan penned by James Carville for Bill Clinton in 1992? Well, it certainly applies today and not just in the US. After fifty-four years the dominant party in power was ousted in Japan. German voters recently withdrew Chancellor Angela Merkel's ruling majorities in the state legislatures of Thuringia and Saarland. And of course we have had some raucous town hall meetings here in America. Voters are upset and their anger is being directed at whoever is in power. There are other issues on the table (healthcare), but mostly it is about the economy, jobs and debt. The Organization for Economic Co-operation and Development (OECD) has compiled statistics that show that debt as a percent of Gross Domestic Product (GDP) is on the rise across the globe. Debt to GDP in the US rose from 55% in 2000 to 87% now. In Britain, it is now 75% up from 45% in 2000. Germany has shown an increase to 86% from 66%, and of course Japan, where debt to GDP is currently 180%. No wonder voters are

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up in arms. You don't have to be an economist to realize that all this debt will have a negative impact on growth and job creation. Inflation will be the next problem if debt levels keep spiraling upwards. Elected officials around the world are going to have to listen to the voters and start cutting costs the way businesses and individuals are doing. Perhaps California has taken a step in the right direction by auctioning off items that the government no longer needs – chairs, tables and even some video games.

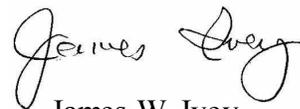
Another good place to start would be to develop our vast oil reserves. Not only would this create tens of thousands of jobs, but it would free us from dependence on foreign oil. It should concern people that our second largest supplier of oil is Venezuela. Oil has dropped from the front pages because of other concerns at the moment, but as the economy gains steam not only here, but everywhere, the demand for oil will accelerate. We will be looking at \$150 a barrel for oil and paying \$4-\$5 at the pump. Some companies and countries are taking a pro-active approach to this looming problem. British Petroleum (BP) recently discovered oil at a place called Tiber Prospect which is about 250 miles southeast of Houston. BP estimates that this discovery may hold as much as 3 billion barrels of oil or about a year's worth of output from Saudi Arabia. The US Mineral Management Service says that, all told, offshore areas off-limits to US drilling contain upward of 86 billion barrels of oil and 420 trillion cubic feet of natural gas. Brazil discovered the Tupi oil field in 2007 off their east coast that holds 5 billion to 8 billion barrels of crude, and now its Carioca discovery promises up to 33 billion barrels.

Height of hypocrisy development: The US Export Import Bank is sponsoring a \$10 billion loan to Brazil's Petrobras to develop its offshore fields. Face it; we need fossil fuels now if we are to compete with the rest of the world (China and India in particular) in the upcoming economic recovery.

Random Thought for September 2009: It was reported recently that Federal Chairman Bernanke's wife was the victim of identity theft. There must be some irony in that.



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