THE DANA VIEWPOINT

THE MEANING OF LIFE

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In a scene from Monty Python's "The Meaning of Life," an executive from a large corporation is presenting a report on the meaning of life to colleagues. The executive explains that he has been working on the project for some time and the answer can be reduced to two fundamental concepts: "One, people are not wearing enough hats. Two, matter is energy. In the universe, there are many energy fields which we cannot normally perceive. Some energies have a spiritual source which act upon a person's soul. However, this soul does not exist ab initio, as orthodox Christianity teaches. It has to be brought into existence by a process of guided self observation. However, this is rarely achieved, owing to man's unique ability to be distracted from spiritual matters by every day trivia." Whereupon, one of the executives asks, "What was that about hats, again?"

Which brings us to paradigm-- really. A paradigm can be described as a set of implicit assumptions that are not meant to be tested. Paradigms are never questioned. They become part of our belief system. That is until we run into a wall, and those beliefs are shattered. For example, the earth is flat or the earth is the center of the universe; both were paradigms not that long ago.

Paradigms exist everywhere because for most people it's easier to live in the paradigm than to have to think about it. Down through the years, the investment business has always had its own paradigms. Prior to the 1950s it was generally accepted that a high short-interest position in a common stock was negative. Along came Jack Dreyfus who shattered that paradigm by pointing out that stock sold short must eventually be bought back thus pushing the price up. In the 1970s the paradigm was the "nifty fifty," stocks whose earnings were predictable and would grow 20-30% every year, a paradigm that made for easy non-thinking investing. The 1990s witnessed the dot-com boom. Just buy any stock with a technology sounding name and you would be rewarded with untold riches.

What then, are today's paradigms? One is that 1.3 billion Chinese represents a market for anything that can be produced. Many American corporations are spending vast sums of money in anticipation of tapping into that huge pool of consumers without apparently giving much thought to the fact that most of these people subsist on less than $100 a year. To be fair, other countries are doing the same. However, some foreign companies are thinking outside the box and are actually building plants here in the USA to

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take advantage of what is by far the largest, most stable economy in the world.

Another related paradigm is that with 1.3 billon people, China has an unlimited supply of labor that will keep labor costs low for years to come. China is itself somewhat caught up in this paradigm. However, there are reports out of China that all is not well in labor land. The Chinese labor force is well aware of labor conditions in other countries, especially the US, and is demanding higher wages and benefits as help-wanted signs are popping up all over the industrial landscape. None of this is meant to denigrate China as they are and will be an economic force in the continuing globalization of this planet.

So, where is all this leading? Only that in our business, like yours, there are paradigms that can turn into pitfalls (note GM). It requires constant vigilance to avoid these traps. We have an equity strategy that has produced superior results in both bull and bear markets. To maintain this performance we place a heavy emphasis in examining trends in the market place and continually questioning ourselves and our strategy to avoid the complacency that could disrupt this record. The same, of course, applies to our fixed income strategy. We have seen interest rates as measured by the prime rate drop from 22.5% to 4% and short rates drop below 1% with huge volatility in between in our 25+ years in business. This has required us to continually adjust our strategies to provide the best returns with the least amount of volatility.

Every year someone says, these are trying times and every year it is probably true. We try to view every year as a challenge and do our very best to not get caught up in the latest paradigm.

In the marketplace this last month, the new head of the Federal Reserve, Ben Bernanke, had his first meeting and stayed the course with another quarter point increase in the fed funds rate. Another quarter point increase to 5% seems likely at the next meeting. Interest rates on the long end of the curve are now rising, and it does not make much sense to invest in long-term, fixed-rate bonds. The 30-year Treasury bond issued in February at 4.5% is now down 8% for the year.

Random thought for April 2006: "There is nothing either good or bad but thinking makes it so."

William Shakespeare

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