THE DANA VIEWPOINT

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Monetary/Fiscal Policies

Can monetary policy save the economy? We are talking about big government taxing and spending while the Fed prints more money and keeps interest rates low in an attempt to stimulate the economy. We have had six years of accommodative monetary policy and we have stalled with an anemic 2% growth rate in our economy coupled with high unemployment (don't be fooled by the current 5.5% unemployment rate, the government conveniently does not count the millions of Americans who have given up looking for a job as unemployed). The Fed has kept interest rates low to stimulate borrowing and thus expand the economy. Corporations are borrowing alright, but the money is ending up on their balance sheets to be used to buy back stock or buy other companies, neither of which expands the economy.

Fiscal policy can help if a government takes measures to create a friendly environment for the free enterprise system. That would include lowering taxes, both corporate and personal. History has shown that every time taxes were lowered (only three times-Kennedy, Reagan and Bush), business expanded and the government ended up with more tax revenue. The regulatory environment is also burdensome for anyone starting a business or expanding an existing one.

The Dodd/Frank Act is particularly onerous with its myriad of regulations. Sometimes one gets the impression that Congress feels it is their job to create new laws. If the government would focus more on positive fiscal policies and less on monetary policies this economy would break out of its slumber. The merits of monetary policy and fiscal policy can be argued ad nauseum and no doubt will be years from now. However, it's been said that "those who forget history are doomed to repeat it". We need to look no further than the 1930's with a fiscal policy of high taxes (92.5%) and government spending. We actually ended up with a recession (1937) within the depression and a double digit unemployment rate at the end of the decade.

Which brings us to the latest employment report. A disappointing 126,000 private sector jobs were created in March. This is well below the 263,000 average of new jobs created in the last 12 months. The labor participation rate (which the Fed follows closely) ticked down to 62.7%, its lowest reading since the 1970's. According to government data, 93.2 million Americans were not in the labor force last month. Average hourly earnings continue to increase at a slow 2.7% annual rate. The stock market shrugged off this news, taking it to mean the Fed will continue their policy of low interest rates. Bad news is good news in this investment environment. Contrarily, job openings rose to a 14-year high of 5.1 million in February, up from 4.97 million. There is a silver lining in every cloud

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Oil prices continue to take investors on a wild ride this year. Due to new technologies, oil firms have extracted large amounts of oil, leading to a surplus of oil reserves. Prices have dropped about 50% in the last 12 months, which is good news for consumers. Now, however, the price of oil by the barrel (about $50) is too low to be profitable for the drillers. Add in the potential for war between Saudi Arabia and Iran and that surplus could disappear. The price of oil seems to be trying to form a base near $50 per barrel, but that all depends on what happens in the Middle East.

So, what's happening in Europe? Greece just made a 450 million Euro payment to the IMF (International Monetary Fund). However, beyond this payment they want more bailout funds but do not want to implement any reform policies. The Syriza party was recently elected on an anti-reform platform and the populace likes that policy – no one really likes to cut back on their standard of living. If Greece balks at making the next payment, the EU may just let them go. Most of Greece's debt is held by European banks and the IMF, which can absorb the hit. Greek citizens would be hurt and will wish they took the economic reforms. Unfortunately several of the EU countries in financial straits (Spain, Portugal, Ireland and Italy) are considering Greece's anti-reform policies. This would be catastrophic and the EU would collapse. The financially stronger countries in the EU will have a difficult time holding everything together, a good example of monetary policy not working.

With all the uncertainties facing investors, it is amazing that the stock market indexes are still hovering near their highs. There is no fear. This market wants to go up and as a result of all the money being printed worldwide, the necessary resources are available. The U.S. stock market continues to be the best place to invest.

Random Thought for April 2015: "You can always count on Americans to do the right thing-after they've tried everything else."

Winston Churchill

15800 W. BLUEMOUND RD • SUITE 250 • 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