



August 8, 2012

Dow: 13,185

DOG DAYS

The Romans associated the dog days with the star Sirius. They considered Sirius to be the “Dog Star” because it is the brightest star in the constellation Canis Major (Large Dog). Sirius is also the brightest star in the night sky. The dog days were originally the days when Sirius rose just before or at the same time as sunrise (no longer true owing to the precision of the equinoxes). The Romans believed the Dog Star was the hot, sultry weather. Dog Days were popularly believed to be an evil time when the sea boiled, the wine turned sour, dogs grew mad and all other creatures became languid, causing in humans, among other diseases, burning fever, hysterics and phrensies (a study of the skull to determine mental imbalances). We are no longer superstitious about this time period and do not sacrifice dogs at the altar during this period (July 24 thru August 24). Nevertheless, people do suffer from the heat and flock to beaches or the theatre to cool themselves off. New Yorkers of course leave the city en masse to the beaches on Long Island. The result is lower volume of trading on the stock exchange. This does sometimes lead to volatility in the market place.

So how about the current stock market? Stock market indexes (Dow Jones and S&P 500) continue to approach the highs for the year. It has been said that the stock market climbs a wall of worry and there is plenty to worry about. A sluggish growth rate of 1.5% in GDP for the quarter ended June 30, the prospect of the highest tax increase in history facing us on January 1, 2013, the national debt fast approaching \$16 trillion and a very uncertain outcome for the Presidential election. It has also been said that the “trend is your friend” and right now the trend is up, although, we would not term this a raging bull market. The market has been trending up since last October and it appears to be a market where no one wants to sell rather than a market where everyone wants to buy. The stock market stands ready to jump on any news that appears positive. New job creation for July jumped to 163,000 from two sub 100,000 months in May and June. Although 155,000 people gave up looking for work, and the unemployment rate inched up to 8.3%, the market viewed job creation as good news and rewarded investors with a 200 point rise. At its recent meeting the Fed, after acknowledging tepid growth, said they “stand ready to act.” Following the same game plan, the European Central Bank also said they

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“stand ready to act.” What neither party said was how they would act. It would appear that the only way they can act is by printing more money. Hard to believe we (and Europe) can print our way out of our fiscal problems. Nevertheless, the stock market took heart that the Fed would come to the rescue. The Fed is a big reason for the advance in stock prices. They have kept interest rates so low that investors are seeking income and hopefully some price gains in conservative high yield stocks. We can only hope that the Fed is not creating another bubble. More than likely individual stocks find their own high and low and move more laterally, a condition which is happening with amazing frequency. The good news is that corporations are lean and mean and have good cash reserves so earnings should at least be stable and dividends secure.

Moody’s credit rating arm recently cut its credit rating outlook from Aaa to negative for three of Europe’s most stable countries – Germany, the Netherlands and Luxembourg. Greece could default as early as this month. This could even be construed as a positive as it would eliminate a major uncertainty and allow the European Union to move forward.

Dog Days odds and ends: With all the attention on Solyndra and other failed green energy companies, actual progress is being made in a host of other alternative energy sources. Synthetic gas fermentation shows great promise. Start-up companies and some large corporations (Procter & Gamble) are showing promise working with ethanol, butanol, acetic acid and methanol. These projects of course are funded by private enterprise. This is where major breakthroughs will occur.

With the heat wave still persisting across the country, the doomsayers have awakened. Some are predicting a 1930s dust bowl with food shortages and a depressed economy lasting for years. Well, food prices will likely rise near term but new farming technology will prevent another 1930s disaster. We have come a long way and learned much since the 1930s.

Random Thought for August 2012: “There are no constraints on the human mind, no walls around the human spirit, no barriers to our progress, except those we ourselves erect.”

Ronald Reagan – 1980s

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