THE DANA VIEWPOINT

August 11, 2014
Dow: 16,565

INVERSION

Webster defines inversion as reversal of the usual order of words, as in the placement of the subject after an auxiliary verb in a question. Bet you forgot that one from high school English. No fear. Wall Street has come up with a new meaning: a company re-incorporating in a country outside the US, primarily to avoid paying our high (35%) corporate tax rate. This could be anywhere in the free world. This has been going on for some time but at such a slow rate that not much has been written about it until last month when Pfizer attempted to purchase AstraZeneca, an Irish pharmaceutical company. Pfizer would then re-incorporate in Ireland and pay a much lower corporate tax rate (25%). The deal fell through but eyebrows were raised on Wall Street. Then old line Walgreen Company decided to merge with Europe's Alliance Boots. Walgreens was looking to save over $4 billion on its taxes over the next five years. Enter the Washington political bully pulpit to call Walgreens un-American. That was enough to stop Walgreens in its tracks. Shareholders were stunned with that news plus Walgreens announcing that they expect earnings to drop 26%, or $2 billion annually by 2016. The common stock promptly dropped 3.5%. The White House then got into the act by announcing it might "materially change the economics of inversion so that companies will make different decisions." At this point there appears to be no legal statute to prevent corporate inversion. Secretary of the Treasury, Jack Lew, wants to find legal ways to prevent companies from completing inversions. Stay tuned as it promises to be an interesting confrontation.

The stock market seems to be doing its own version of an inversion. We may be in the midst of that long awaited correction in stock prices. The long-term trend in stock prices is still up. There is little speculation and the pullback has been orderly. Even the tech stocks have been consolidating their gains from last year. The stock market needs to correct and consolidate from time to time. It is a good time to review your allocation and make sure you are comfortable with your positions. Remember, the trend is your friend and the long-trend is still up.

With so much going on here in the USA, plus Russia and the Middle East, China has been somewhat neglected. Analysts know that their growth rate is slowing from double digits to about 7.5% this year. The elephant in the room for China is their commercial and residential real estate bubble. They have row upon row of beautiful new apartment buildings and commercial buildings – all empty. Yet the population is still optimistic and they continue to build. They are relatively new at the capitalism game and will soon realize that nothing goes straight up. When the bubble bursts, it will reverberate around the world. After the initial shock worldwide, markets will stabilize and China will somehow sweep the problems under the rug. Many people that came to the cities to seek their fortune will be heading back home to the farm, their dreams shattered. Somewhat

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like our recent college grads heading home to their parents basement. Very sad.

Another month - another labor report. The private sector added 209,000 jobs in July. That's the sixth consecutive month with over 200,000 new jobs added to the private sector. Good, but not great. The unemployment numbers moved up one tick to 6.2%. Over 300,000 people decided to get off the couch and look for a job, thereby, adding them to the unemployed list. The labor participation rate was up a tick to 62.9%. Wages increased at an annual rate of 2%, just keeping up with inflation. Surprisingly, our GDP grew at an annual rate of 4% in the second quarter. It looks like the first quarter GDP of -2.1% was impacted by the weather, making the six month growth about 2%. Good but not great. Investors have become complacent about the monthly labor numbers, expecting them to be good but not great, and look to their economic data in making investment decisions.

Slack. That's the Federal Reserve term for the gap between resources we have and the resources we are using. The Fed acknowledges that this gap has closed significantly in recent months. If the gap continues to close rapidly, inflation pressures will build. Prices will rise and companies will need to hire more workers. This would finally fuel wage gains. The Fed is watching the labor market slack, and Fed Chairwoman Yellen still sees plenty of room for improvement there. The consensus at the Fed favors keeping interest rates low until they see stronger signs of improvement in this sector of the economy. The Fed has a history of re-acting rather than acting, so we will probably see a continuation of low interest rates until next year.

Random Thought for August 2014: As of January 2013, there were sixteen people left in the world who were born in the 1800s, according to the Gerontology Research Group. With dividends reinvested, US stocks have increased 28,000 fold during their lifetimes.

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