



THE DANA VIEWPOINT

December 11, 2006

Dow: 12,332

AS GOOD AS GOLD

Well, that may have been true of the dollar until we went off the gold standard in the 1970s. It seems that the French were taking all the dollars that US troops were spending in Vietnam and rushing to turn them in for gold. Then President Nixon was informed that we were running low on gold, and he had to close the window thus rendering the dollar only as good as anyone perceives it to be. That perception has taken a beating recently, as the dollar has fallen about 11% against the Euro just this year. Part of this is due to foreigners wanting to diversify into other currencies. The other part is the fact that interest rates are being raised by the Bank of England, the Bank of Japan and European Central Bank. This puts more pressure on our Fed to raise rates to keep foreigners financing our deficits. Investors in dollars must be concerned about a further drop in the dollar as they cannot continue to lose money in this manner. On the other hand, none of the other major currencies in the world is backed by anything other than good faith either. We are still the largest and strongest economy in the world, and although the value of the dollar may decline further, we do not foresee a collapse.

On the positive side, the weaker dollar will make our goods and services cheaper overseas thus stimulating our exports and helping to narrow the trade gap. Those companies that stayed home rather than invest millions of dollars in overseas plants will be major beneficiaries. In addition, instead of traveling to Europe on vacation and spending \$6 on a cup of Starbucks, Americans will stay home and spend their money here. Further, with a weaker dollar more foreigners may decide to vacation here and spend money.

You may have noticed recent strength in the price of gold and other commodities (notably crude oil). A weaker dollar makes commodities more expensive because it takes more dollars to buy the same amount of these assets.

US Treasury Secretary, Henry Paulson, recently said, "A strong dollar is clearly in our nation's interest." Several previous Treasury Secretaries have expressed similar views. Coincidentally, Secretary Paulson is preparing for a trip to China, accompanied by Fed Chairman Ben Bernanke and five cabinet members. They will be engaging the Chinese on a number of economic issues including a revaluation of the yuan. It will be interesting to see if anything positive comes of this historic meeting.

(CONTINUED ON REVERSE SIDE)

The Fed meets on Tuesday (we will be at the printer), and we expect no change in rates. The Fed still expresses more concern about inflation than slow economic growth. The Fed is determined to keep core inflation (minus food and energy) near 2%. Congress seems to have forgotten that they passed the Full Employment Act shortly after World War II that stated a goal of 3% inflation and 3% unemployment. The full employment goal now seems to be 6% unemployment. In any case, core inflation is currently below 3%, and the unemployment rate is 4.5%, both acceptable numbers. The new jobs created number came in today at 132,000 which is above expectations. We are creating more jobs than we are losing; it's just that the new jobs being created are in the service sector and that does not make headlines like GM laying off 38,000 workers. The definition of a job is gradually changing as we become a nation of self-employed entrepreneurs or people contracting out their services.

In short, the economy is fine and inflation is under control. Money is the engine that drives the economy, and the world is awash in money right now. Interest rates are low on a historical basis – 6% is more the norm over a long period of time (dating back to the Roman Empire actually).

Have you been to the movies lately? Hollywood seems to be falling all over itself producing anti-business films. The irony here is that the actors and those producing these movies are making the obscene amounts of money that they are criticizing. Sort of like biting the hand that feeds you.

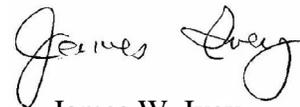
Oops! We neglected to cite our source in last month's letter about the auto bubble in Venezuela. It was from the New York Times.

It's that time of year again, and we extend our best wishes to all of you for a happy and peaceful holiday season.

Random thought for December 2006: Every day more money is printed for Monopoly than the US Treasury. Some may wonder if there is a difference.



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