



## TAPER TALK

Up until now, the threat of the Fed starting to taper off on printing money and buying bonds has been just talk. Dennis Lockhart, President of the Atlanta Federal Reserve Bank, had plenty to say after the last Fed meeting. Talking about the Fed's balance sheet (near \$4 trillion) Lockhart said, "At the moment, I don't think we are in the danger zone. The exit will be manageable when the time comes." He went on to say that there was "a fair amount of uncertainty related to the longer term consequences of growing the balance sheet." He continued saying there "was plenty of time to prepare (for tapering) which was likely to be years ahead of us." He also said that the Fed would remain very "accommodative." The stock market likes those kind of comments. But, a funny thing has happened on the way to the Forum – economic data has picked up.

1. Jobless claims for November dropped under 300,000 for the first time since the Fillmore administration (it sure seems that way).
2. New jobs report for November came in at 203,000 and 196,000 of those new jobs were in the private sector.
3. The unemployment index dropped to 7.0%, a five year low.
4. Manufacturing growth is at a 2.5 year high.
5. Home sales continue to rebound despite higher mortgage rates.
6. Auto sales have been robust.
7. Consumer confidence is improving.
8. Consumer spending has risen, albeit modestly.
9. Wages have risen, also modestly.
10. Retail sales have been mixed, but are bound to escalate the last week before Christmas.

Now, can we trust that this data coming out of Washington will continue to improve? Probably not, but hey, good news is good news.

There is bound to be much taper talk at the next Fed meeting (December 17-18). The Fed will not want to rain on anyone's Christmas, so they will likely carry the \$85 billion bond purchase into next year. This is a win/win for the equity market. If the November economic data holds/improves in December and into next year, it will be good news for the economy and equity prices. If the data falters, the Fed will continue its bond purchases, which the equity market likes also.

(CONTINUED ON REVERSE SIDE)

Has anyone been paying attention to inflation lately? The latest CPI (Consumer Price Index) indicated inflation at 1% , hard to believe if you shop for groceries or gasoline. The Fed's goal has been 2% inflation. Core inflation is running at a 1.7% rate (inflation minus food and energy). There are some policy makers that would like to see core inflation higher than 2%, maybe even 5%. They say that this would create more spending and more investment. In the current sluggish economy, corporations are hoarding cash, and consumers are paying down debt. Expectations of higher prices would spur corporations to expand and consumers to buy. Then, of course, the Fed would have to keep inflation from escalating too far. The Fed has seen the toll deflation has taken on Japan and they certainly do not want to go there so they would be pleased to see inflation inch upward.

***Santa comes early to Washington.*** In a rare bipartisan moment, Democrats and Republicans came together and reached an agreement on the Federal budget, and all the more amazing, they did it before the January deadline. Paul Ryan (R-WI) and Patty Murray (D-WA) came together on a deal in secret meetings that would allow more domestic and defense spending in the near term while adopting deficit reduction measures over a decade to offset the costs. While not a blockbuster deal, it is a step forward and averts another budget crisis for at least two years. The deal has not passed the House and Senate as of this writing but appears likely to do so before Congress people break for Christmas. Taking notice of the pension problems in Detroit and Chicago, the budget plan cuts \$12 billion from civilian and military pension benefits over ten years. That's not much, but it is an indication that Congress is willing to review this third rail. All in all a positive step forward.

Hard to believe another year is drawing to a close, but time and investing stop for no man/woman and there will be little time to catch your breath before 2014 arrives. We would like to take this opportunity to wish everyone a ***Merry Christmas and a very Happy New Year!***

**Random Thought for December 2013:** "There are two things that are more difficult than making an after dinner speech; climbing a wall which is leaning toward you and kissing a girl who is leaning away from you."

*Winston Churchill*

APPROVED FOR DISTRIBUTION TO CLIENTS. *Dana Investment Advisors welcomes any comments to their newsletter and is more than willing to discuss or explain any aspect of the letter. This newsletter is provided for general information only and is not intended to provide specific advice or recommendations for any individual or entity. This is not an offer, solicitation, or recommendation to purchase any security or the services of any organization. The foregoing reflects the opinions of Dana Investment Advisors.*

*If you would prefer to have our newsletter e-mailed, please send your e-mail address to [newsletter@danainvestment.com](mailto:newsletter@danainvestment.com).*