



## BLACK GOLD

Over the decades oil has made more millionaires than gold. Due to the expense of finding and extracting oil, wildcatting is pretty much a thing of the past and exploration and production is left to large corporations or sovereign states. OPEC (Organization of Petroleum Exporting Countries) was formed in 1960 to coordinate the oil production policies of its members in order to secure a steady income for them all. OPEC controlled the price of oil by regulating supply. A weaker dollar in the early 1970s reduced OPEC's revenue. They raised prices and created the "oil crisis" here in the US in 1974. There were several price spikes in the '80s and '90s. The price of oil dropped dramatically during the financial crisis of 2007-2008. Since that time, the world of oil has changed dramatically. New technologies have increased oil production and have rendered price more of a supply/demand issue and less of an OPEC issue. Oil prices are currently at \$65 a barrel, down from \$110 a barrel as recently as this past June. Venezuela and Iran are screaming at OPEC leaders to do something as roughly 40% of their revenue comes from the sale of oil. These countries failed to diversify their economies thinking the good times would roll on forever. OPEC is content to let the price of oil drop to \$60 a barrel. At that price they feel that those companies using the new technologies cannot extract the oil profitably, and OPEC would resume its leadership in the oil business. Will this work? The International Energy Agency forecasts that US production will surpass Saudi Arabia's output of 9.7 million barrels a day and overtake Russia's 10.3 million barrels a day sometime next year, making the US the world's largest oil producer.

More importantly, how does this impact our economy? Cheaper oil prices mean cheaper gas prices at the pump and cheaper heating bills. This means more money in consumer's pockets. This translates into more consumer spending at a key time for retailers fretting over holiday sales. For industries, the obvious beneficiaries are airlines and shipping companies, both of which have high energy costs. Cheaper energy costs will lead to increased employment numbers as businesses expand.

Speaking of jobs, the private sector added 321,000 new jobs in November. The economy has added 2.7 million jobs in the last twelve months. Wage gains have been running about 2% annually, barely keeping up with inflation. Average hourly wage gains for November were up \$ .09 to \$25.66 an hour. The unemployment rate remained at 5.8%; however, 119,000 more people entered the workplace so that is still a positive number.

All in all, the economy is improving and even the mood in the country seems more upbeat. The stock

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market is certainly in a good mood and has been since March 2009. It has been said that the stock market predicts what is ahead, so maybe there are more good tidings in our future. Investors continue to buy common stocks as they still offer the best potential returns. Analysts are saying we are also seeing an influx of foreign money entering our stock market. That would point to the strength in the blue chips over secondary stocks.

Those who forget history are doomed to repeat it. That phrase has been attributed to many, most recently Jack Kennedy. Somebody should remind Congress. It has only been about ten years since the government agencies known as Fannie Mae and Freddie Mac led the way into the world of subprime loans – no money down, no credit checks, no job necessary. The banks followed later and have been blamed ever since. Well the government can't sue itself. When the famous Willie Sutton was asked why he robbed banks, he replied, "Because that's where the money is." Well, it's easy for the government to sue the banks because there is money there, and they cave in pretty easily rather than go to court. Now the government is putting Fannie and Freddie back in business and telling them they can back mortgages originated with 3% down. Yes, 3%. It's been less than ten years and already the government has forgotten how we got into this mess.

In spite of all the turbulence our society has witnessed this year, ours is still the greatest country on the planet. The freedoms we enjoy are unmatched anywhere, and foremost among those freedoms, is the freedom of speech and the freedom to follow the teachings of our own religious beliefs. So at this time of year, we wish all of you, no matter what your personal beliefs, a ***Happy Holidays and a great New Year!***

**Random Thought for December 2014:** "It doesn't matter how big a ranch ya' own, or how many cows ya' brand, the size of your funeral is still gonna depend on the weather.

*Harry Truman*

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