THE DANA VIEWPOINT

MO´

February 7, 2013
Dow: 13,936

As in momentum. If you watched the Super Bowl last Sunday, you saw Mo´ in action. The Niners were being blown out by the momentum driven Ravens until the thirty-four minute blackout. After play resumed, Mo´ turned against the Ravens with a vengeance, as the Niners rallied from a twenty-two point deficit to close within two points. The Ravens were then able to neutralize Mo´ and battle on a level playing field to win with a last minute goal line stand. Momentum plays a part in almost all walks of life. Right now Mo´ has got the bull by the horns and is pulling the stock market to new recovery highs. As an old Wall Street saying goes, "never stand in front of a moving train." At times Mo´ can overcome logic or common sense. Stock markets also have been known to "climb a wall of worry," and there is plenty for investors to worry about today. First there were the economic concerns in Europe that have moved to the back pages, but have not been resolved. They will no doubt return to the front pages maybe even before the end of the year. More worrisome for us are the economic problems of debt, deficits, slow growth and entitlement reform. The stock market is choosing to ignore these potential problems while keeping a wary eye out for new developments in these areas. There are several positive factors underlying the current market strength.

1. This is a broad based rally with most market sectors participating on an orderly and rational basis.
2. We are not seeing much speculation, which normally manifests itself in higher P/E's in smaller, speculative stocks. This will come at the end of a bull market.
3. There is still heavy skepticism among "professional" investors as to the staying power of the market advance.
4. Investment clubs (amateur investors) are dwindling in number as these investors are being scared out of the stock market by all the uncertainties. These clubs and other individual investors avoid investing in stocks at the end of extended flat to declining stock markets (1930s, 1970s and 2000s).
5. The current market advance seems to be mirroring the economy. Even though fourth quarter GDP came in at -0.1% we should see full year 2013 numbers near 2%. That is not an outstanding number, but it is positive. Stocks are also moving forward at a slow and orderly pace.

This is not to say that the stock market will blow through previous all-time highs but will have corrections along the way to eventual new all-time highs.

(CONTINUED ON REVERSE SIDE)

The US Postal Service is once again planning to end Saturday mail delivery. The current plan is targeted for August. The USPS claims they will save $2 billion annually. That hardly seems worthwhile considering they lost $15.9 billion in 2012. In addition, USPS officials say that 7,000 of their 32,000 post offices are losing money, and they believe that they have 35,000 excess workers and tens of thousands of unneeded machines. The USPS has lobbied Congress for needed reforms, but Congress will not act. Perhaps the only solution is to privatize the USPS. Other countries have done this with positive results. UPS makes money. FedEx makes money, why not a corporate post office. Congress claims they can't cut spending. Well, here's a good place to start. Make money on the sale, save $16 billion a year of taxpayer money, and preserve Saturday delivery.

The Justice Department filed a civil lawsuit against Standard & Poors and its parent McGraw-Hill for fraud. The Justice Department claims that S&P committed civil fraud when it issued high credit ratings on mortgage-related securities prior to the financial crisis of 2008. Interestingly, the other credit rating agencies (Moody's and Fitch) who also maintained high ratings on these securities were not included in this suit. These agencies have been approved by the government to rate these securities. The Justice Department argues that many financial institutions lost money because they relied on the high ratings from these three government approved credit raters. The irony here is that the government has been blaming the banks for the financial crisis and now they are claiming that the banks have been the victims of this fraud. S&P reduced its rating on US credit following the debt-limit impasse in 2011. Moody's and Fitch did not follow suit. Now, you can read into this anything you like. What concerns us is S&P issued an opinion on credit quality. Any research reports on stocks or bonds coming from a brokerage firm are also opinions. Does this mean that the Justice Department can sue these firms if one of the recommendations (opinion) they put forth happens to decline in value? Every day trillions of dollars are traded in stocks and bonds based on opinions. Someone wins and someone loses. Investing is not a risk free environment. Should realtors be sued because they sold a house that declined in value? Where do you draw the line? It was Congress more than anyone that caused the housing bubble by encouraging the two big government sponsored companies, Fannie Mae and Freddie Mac, to keep issuing and buying subprime mortgages until they held about 60% of the mortgage market. The government has deep taxpayer pockets and they can sue anyone. S&P claims it is willing to settle with the Justice Department.

Random Thought for February 2013: **"**True genius resides in the capacity for evaluation of uncertain, hazardous and conflicting information." - *Winston Churchill*

Winston Churchill

Henry Ford

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