



February 10, 2014

Dow: 15,935

DIVORCE: WALL STREET STYLE

The employment numbers for January were reported Friday, and they were not particularly good. The Bureau of Labor Statistics reported 113,000 new jobs, up from 75,000 in December. This is the lowest two month total in three years. The unemployment number dropped to 6.6% from 6.7% in December. We are almost at the Fed's "magic" employment number of 6.5%. Tell that to the millions of Americans who can't find a job or are working a part-time job. The employee participation rate actually ticked up to 63%, still hovering near the lows of the mid-1970s. The stock market didn't care about the lackluster numbers, it promptly advanced 186 points. The stock market marries itself to some economic data or statistic and when that data fails to produce it quickly divorces itself. In the past, the stock market has been married and divorced from the Thursday money supply number, interest rates and inflation. Recently, the market was married to QE1, 2, and 3. The Fed, however, is cutting back on bond purchases and the market had a messy divorce dropping 300 points in one day. The market is now courting earnings, and as long as earnings or revenue meet or exceed estimates, the market is happy. It can turn quickly, however, if earnings disappoint (witness Twitter and 3D printing). Even a former lover like Amazon can suffer the scorn of the market.

The trend of the stock market is still up and so far is invulnerable to disappointing news. The Dow peaked at 16,600 in January and everyone is looking for that magic 10% correction which would take the Dow down to 15,000 give or take 100 points. So far the Dow has corrected to 15,400 and may bounce around for a while searching for a solid bottom. Now is the time to do your research and find stocks and industry groups that have solid earnings. The advance is unlikely to be as broad as 2013, so investing will require more perspiration and inspiration.

What could go wrong? Civil strife in the Middle East could cascade into a much larger war or the kid in North Korea could push the wrong button. However, none of that is predictable so it is best to protect yourself with a well-diversified stock and bond portfolio. China is a different story. You cannot believe all the economic news being reported by their government, but they cannot hide everything either. What happens in China is important because they are now the second largest economy in the world. It does not appear they are facing a residential and commercial real estate bubble somewhat similar to the one we faced in 2007-08. Borrowing costs are rising for Chinese corporations which could lead to lower corporate profits and a slowing of overall economic growth. Chinese companies have already amassed corporate debt of about \$12.1 trillion compared with \$12.9 trillion for US businesses (according to Standard and Poors). These are

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the two largest industrial nations on the planet. China is projected to surpass the U.S. this year. Think about that - \$25 trillion of debt. How can it all be repaid? We need strong economic growth from both these countries to pull the rest of the world economies up. This will require some bold thinking by world leaders.

It is impressive to see individual states taking action on their own rather than waiting for bailouts from the Federal government. North Carolina corporate CEOs informed the governor that they have jobs available but can't find workers. The government cut back on unemployment benefits and surprise, surprise, people went back to work and the unemployment rate dropped. Other states are taking similar initiatives with varying rates of success. It is heartening to see some politicians lean into the wind and do the right thing. Hopefully, Detroit can do what is necessary to climb out of bankruptcy without harming local and national taxpayers.

Well, another Super Bowl, another blowout. Defense wins. Defense won last year and it won again this year. The commercials weren't much better as it was often hard to tell who was advertising. The Winter Olympics are on and Russia messed up the opening ceremonies when one of the circles failed to light. For TV viewers, however, they replayed the rehearsal lighting and most people didn't know the difference. Even so, the opening ceremony was spectacular. Putin has enlisted 40,000 security guards and waived off any outside help controlling potential terrorist attacks. Punxsutawney Phil saw his shadow and that means six more weeks of winter. Incidentally, he has a 39% rate of being correct. They should reverse his projections. After the hard winter much of the country has experienced, let's hope it's only six more weeks.

Random Thought for February 2014: "Congress' approval rating has dropped to 12%. The other 88% are withholding judgment until Congress actually does something."

Jay Leno (we will miss you)

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