THE DANA VIEWPOINT

POST TIME

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The financial markets by themselves do not recognize time. It doesn't matter if it is August 9 or January 2. Time does, however, matter to investors. There are always tax considerations, window dressing, estate planning and numerous other factors that coincide with the end of the year and the beginning of a new year. For many (particularly mutual funds or investment advisors) it is a horse race. Anyone in the investment business is judged on performance. In order to retain and attract new clients one must consistently outperform the popular market indexes. So here we are again – it's post time.

In our approach to asset allocating to the markets, we place a heavy emphasis on macroeconomics. Although we look at day to day economic data, we prefer to smooth out these daily fluctuations to arrive at a longer term perspective. The markets are a marathon, not a sprint (unless you are a trader). Babe Ruth made the Hall of Fame by hitting home runs mixed in with many strikeouts. Al Kaline made the Hall of Fame by hitting singles and doubles mixed in with fewer strikeouts. Because today's economy and markets are global in nature, they are much more volatile in nature, and it takes a steady hand at the rudder to make safe passage through the choppy waters.

So, what does the macroeconomic picture look like going into 2011?

The Election: The results of the November election should be a wake-up call to politicians of all stripes. Americans are upset with the direction of the economy, the huge deficit, run-away spending and high unemployment. It didn't take Congress long to respond. They extended the current tax rates which removed a huge uncertainty overhanging consumer and small business spending plans for the next two years at least. This will not reduce Federal tax receipts as it is not a tax cut. In fact, it may increase tax revenues as it will stimulate more spending and investing. Kudos to Congress for ending the year on a positive note.

Corporate Taxes: On January 1, Canada cut their corporate tax rate from 18% to 16.5%. They plan to cut this rate to 15% by 2012. Canada is currently enjoying a positive trend of investment, economic growth and job creation. Japan is considering cutting their corporate tax rate which is currently the highest in the free world. The average corporate tax rate in Europe is less than 25%. The US has the second highest corporate tax rate in the free world at 35%. Congress should reduce this rate to at least 25%. This would encourage corporations to unleash the $2 trillion dollars they currently hold in cash and liquid assets. This would be real stimulus to the economy and would stimulate a surge in job creation. The December jobs report is in, and it indicated that 109,000 new non-farm jobs were created. That is up from 39,000 in November. The trend is positive, but we need

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much more. Analysts say we need 150,000 new jobs each month just to stay even with new people entering the job market. Reducing the corporate tax rates would encourage corporations to stay home and create new jobs here in America. So long as profits are encouraged instead of taxed, the natural outcome is job creation.

Energy: Our dependence on foreign oil grows daily and the average price for a gallon of gas is now over $3 in most parts of the country. At this rate, we are looking at $4 a gallon and possibly higher if the economy really heats up. This being a particularly cold winter across most of the planet it is causing further hardship on the elderly and others living on a fixed income. New technologies developed over the decades would allow us to extract energy in a safe and environmentally friendly manner. Nuclear energy is an inexpensive and clean burning source that would alleviate our need for fossil fuel. We have the resources, now we just need Congress to free up some of the sources.

Interest Rates: Interest rates move in long-term cycles with short-term volatility. Government bonds actually had a negative yield in 1938 and then began a long-term uptrend culminating in the early 1980s. The trend for the last thirty years has been down.   The next trend may be up again and interest rates could be higher at year-end.

Inflation: Somewhat benign currently unless you factor in food and energy. If you can live without those two items, then you are not impacted by inflation. Inflation has jumped to 5% - 6% in China, and they are raising interest rates and increasing bank reserve requirements to slow it down. We will import some of that inflation, plus the running of the printing presses by the Fed will cause inflation to rise by the end of the year.

All in all, we look for a positive year and are much more positive for the decade ahead.

Random Thought for January 2011: "I always avoid prophesying beforehand, because it is a much better policy to prophesy after the event has already taken place."

Winston Churchill

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