



September 7, 2011

Dow: 11,139

THE MONEY PIT

A few years before his passing a reporter asked George Raft (*Hollywood star 1930s and 1940s*) where he spent all his money. He replied that, some went on women, some went on wine, some went at the race track and the rest I spent foolishly. Maybe twenty-five years from now a reporter will ask a retired Congress person where the money was spent in the early years of this century. His reply probably would be: some we spent on failed stimulus plans, some we spent on subsidies to favored industries, some we spent policing the many regulatory bodies we created and the rest we spent foolishly.

The Department of Energy was formed by President Carter in 1977. It was a good idea at the time, what with our first oil crisis and long lines at the gas pump. The budget for this department is \$26.4 billion for fiscal 2010. They have over 50,000 employees. Have we resolved our energy problem? The Department of Education has a current budget of \$69.9 billion in discretionary spending. Every year the budget grows and every year more students fail to graduate from high school. The US Postal Service is reporting a \$9 billion loss for the recent fiscal year. These are but three money pits that the super committee could look at when considering budget cuts. At least the Postal Service is considering solutions. They would consider retiring 120,000 employees and stopping Saturday deliveries. Washington, we have a problem. It is a problem that will require bold changes in the way legislators spend our money. We pay these 535 representatives extremely well. It is time for them to start earning their benefits.

Dancing with the Czars. President Obama has agreed to lighten up on the regulations hindering economic growth. There have been too many regulatory agencies created without Congressional approval that are infringing on our economic and cultural freedom. A twelve year old cannot even set up a lemonade stand in her neighborhood without being harassed by regulators demanding she file the proper papers and pay a fee. There is a proposal to create an agency on Long Island, NY to make sure migrant sheep herders have adequate housing and recently someone floated the idea that ugly people should be accorded benefits because they are at a disadvantage in society vs. the beautiful people (you cannot make this stuff up).

Enough already. If Washington would just get out of the way businesses could get the economy moving again. There is over \$2 trillion on corporate balance sheets just waiting to invest. Congress can criticize businesses for not creating jobs, but it is not the responsibility of businesses to create jobs. It is their responsibility to create a profit which leads to job creation. There can be no jobs without profits. Remove the burdens of regulations and uncertainties over taxes and we will see the \$2 trillion put to good use.

(CONTINUED ON REVERSE SIDE)

Another timeline. Life does not work on a timeline. Every day is an uncertainty and life is what happens while you are planning for the future. War does not have a timeline. It's over when one side wins. The economy does not have a timeline either. It moves up and down at its own pace. The Fed recently decided to put a timeline on interest rates. They will keep interest rates near zero until mid-2013. Not to question the collective intelligence of the Fed, but how can anyone see that far into the future? For the first time since November 1992 there were three dissenting voices at the last meeting. Richard Fisher, who seems to dissent frequently, said the Fed should never follow a policy that would prop up the stock market. Charles Plosser of Philadelphia felt the Fed policies were supporting stocks, traders and investors. This is not the stated goal of the Federal Reserve. Nor is it to control interest rates. The Fed's mission is to make sure there is enough money in the system and keep inflation at a reasonable rate. Well, they have certainly provided an ample supply of money and too much money chasing too few goods is the cause of inflation. So why is inflation so relatively tame? There is another factor in the equation and that is velocity. There is an abundance of money in the system but it is not moving. If the economic clouds were to lift, and they will eventually, the oversupply of money will result in inflation and it could be rapid inflation. In the meantime, the Fed's policy of low interest rates will not and has not stimulated the economy. Zero net non-farm jobs were created in August. Likewise, QE1 and QE2 have not boosted economic growth and we certainly do not need a QE3. The Fed has nothing left, and it is not their job to stimulate the economy. Policy decisions coming from Washington will be instrumental in determining our economic recovery.

Intentionally or not, Fed policies are propping up our stock market. With the daily bombardment of bad news around the globe you would think equity prices would be in a free-fall. However, corporate earnings are relatively strong and we are still the safest haven for investor money. Even with the downgrade of our Treasury debt by S&P, investors still feel confident in our ability to weather the storms. On some days short treasuries actually go negative and investors end up paying the government to hold their money. That hasn't happened since 1938.

Random Thought for September 2011: "Nothing is more senseless than to base so many expectations on the state, that is, to assume the existence of collective wisdom and foresight after taking for granted the existence of individual imbecility and improvidence."

Frederic Bastiat 1845

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