THE DANA VIEWPOINT

THAT WAS THE DECADE THAT WAS

January 11, 2010
Dow: 10,588

Wow, what a decade. People probably say that every decade. The 20s saw an economic boom and a car in every garage. The 30s saw a severe depression. The 40s saw major war. The 50s witnessed a war, a new high on the Dow Jones Industrial Average not seen since 1929, a move to the suburbs and mostly a tranquil period. The 60s were a time of turmoil with the Vietnam War, assassination of two Kennedys and Martin Luther King. We had hippies, student protests, the summer of love and other socio-politico events. The 70s brought a severe recession and a new economic term – stagflation. We lived through 20% interest rates, 10% unemployment and 15% inflation. Americans were held hostage for 444 days in Iran. The 80s ushered in supply-side economics. The economic boom of the 80s carried into the 90s and ended with the peak of the hi-tech bubble in 1999. The 00s were fraught with peril, starting with the destruction of the twin towers in New York in 2001, followed by the war in Iraq in 2003 and an ongoing war on terror. The stock market took a major hit after the 9/11 tragedy but recovered to make new all time highs only to fall again as the housing market collapsed, culminating in financial panic and fears of a depression. We also witnessed the emergence of China and the other "Asian Tigers" as economic powerhouses. Other nations around the globe also embraced capitalism and have enhanced the quality of life almost everywhere. Every decade has its flat earthers predicting the apocalypse, and we are seeing those predictions already. Well, we don't believe it. Consider what we have been through the last nine decades and even the last three centuries. Americans are resilient and innovative and have always shown the resolve to make it through and do even better than before; we have done it in the past and will do it once again.

The recovery is underway. It will be rather tepid at first mainly because of uncertainty. Economic data will be mixed, causing fluctuations in the market place, but those indicators will smooth out and the economy will prosper. The strength in the recovery will depend on the resolution of the uncertainties. The three main uncertainties as we see it are:

1. **Debt.** Numbers being bandied about run into the trillions of dollars, some being projected out two years and others ten years. It is difficult to grasp these numbers when we are talking trillions. Against that, considering $50 billion for this program or that program doesn't seem like much, but $50 billion here and $50 billion there does add up. Initially, the money the Federal Reserve pumped into the system was necessary for recovery. But it is not possible to spend our way out of a recession. When banks once again feel confident in making loans and individuals purchase more, then

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businesses will expand and new businesses will take root, and this action will cumulatively breathe life back into the economy.

2. **Interest rates.** Near-zero interest rates will not stimulate a strong economic recovery. Japan tried it in the 1990s to no avail. We have had periods of time in the past where we have had much higher interest rates and the economy expanded nicely. Low rates are particularly tough on the elderly living on a fixed income. Low interest rates were a big part of the problem in the housing market as it resulted in sub-prime loans that are still defaulting. The mission of the Federal Reserve is to make certain there is enough money available to keep the economy moving forward. Interest rates should be a function of the market place – supply and demand. Paul Volcker, Federal Reserve head during the Reagan administration, knew this and he allowed rates to rise, knowing they would hit a level where demand for money would drop and interest rates would drop also, and that is exactly what happened in the 80s.
3. **Inflation.** Rising prices caused by too much money chasing too few goods equals inflation. Interest rates are not a cause of inflation, they are the effect, and any time you treat the effect of a problem it becomes your next problem. Once again, there is a plentiful supply of money currently available that once unleashed will be the cause of inflation. How much inflation will depend on the Fed's ability to control the money supply. Some inflation at this point is good unless it gets out of hand. We feel some inflation is inevitable, but when and how much is the uncertainty.

It is our belief that these and other uncertainties will be resolved, and America will have a positive upcoming decade.

Random Thoughts for January 2010:

"Everything that can be invented has been invented."

Charles Duell, Commissioner for the US Patent Office in 1899

"The more we invest, the more we invest. Knowledge grows on itself."

Anonymous

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