THE DANA VIEWPOINT

*January 9, 2014*
*Dow: 16,445*

# A LOOK AHEAD

Prognostication may be fun, especially at the beginning of every calendar year, but it is best not to bet the farm or your retirement portfolio on your own or some "expert" forecast for year-end. The world is a big and busy place with many cross currents affecting the marketplace. The only certainty is that the stock and bond markets will fluctuate. However, one must have a game plan and constantly review the factors that could change that plan. Some of the factors that will affect the economy and the marketplace this year are as follows:

***The job market.*** High employment leads to a happy and positive society, one that enables its people to buy a house and luxury items and necessities and to send their kids to college. It also enables people to start their own business and companies to expand and hire more people. The labor market has recovered very slowly since the depths of the recession. The market created 187,000 jobs per month in 2013. Encouragingly, the market created 200,000 jobs in October and 203,000 jobs in November. The unemployment rate has dropped from 8.3% to 7.0% in the last two years. Even though the labor participation rate continues to hover near a decades long low of 63%, that indicator may have seen its low and should increase. Corporations are sitting on about $2 trillion in cash and pent-up demand will push that money into job creating ventures.

***Industry sectors.*** The housing and oil and gas industries have propped up the economy and the job market in the last year. The housing market still has some steam left, but growth will probably not match last year's growth. The recovery in the housing market has been somewhat uneven with strong growth in Texas, Oklahoma, Florida and coastal regions in California. This should balance out as other areas improve. We certainly can use gas for heating this winter. We expect this industry group to continue to add to economic and job growth. As the economy continues to grow, you can expect the manufacturing sector to pick up steam. The technology sector is always front and center during an economic recovery and is once again. New discoveries in 3D technology and robotics are two new growth areas, but companies in these industries are speculative and carry high price/earnings ratios. Banks and other financial stocks are coming out from under the dark cloud of the housing collapse and should be able to come out from under the myriad of regulations placed on them. Drug stocks are always popular with investors because of our aging demographics. Government regulations result in high research costs, but there are always new drugs in the pipeline. Overall, most industry sectors

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will participate in the continuing economic recovery.

***The Federal Reserve.*** The Fed quietly passed its 100th birthday having been signed into law by Woodrow Wilson on December 23, 1913. The Fed is no longer the independent agency it was designed to be and although it has become a political tool for both parties, it still carries some economic clout. Janet Yellen was just approved as the new head of the Fed starting February 1. She replaces "Helicopter" Ben Bernanke who will go down in history as the "great stimulator" having added $4 trillion to the Fed's balance sheet in an effort to keep our economy afloat. Janet Yellen will probably not stray too far from current policy. The Fed has shown some confidence in our economic recovery by reducing the amount of monthly bond purchases from $85 billion to $75 billion. The stock market 'fed' off this stimulus last year, but as the economy improves the policy will become less and less important.

***Interest rates.*** As the economy improves and the Fed cuts back on bond purchases, interest rates have and will continue to rise, albeit at a slow pace. The Fed has kept interest rates near zero to stimulate borrowing to aid the economy. Businesses will borrow at almost any level if the economy looks good and now they are sitting on a pile of cash and will not need to borrow much. Many companies have already borrowed at low rates and tucked the money away waiting for the opportune time. The time is now.

Most stock indicators point to a positive year, but don't expect 30% returns again.

**Random Thought for January 2014:** "The stock market has risen 30% for the year representing a gain in paper wealth of $5.2 trillion. That's produced 56 all-time highs, second only to 1995, which had 91.

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