THE DANA VIEWPOINT

January 15, 2015
Dow: 17,320

Lucky 7

If you had bought the Dow Jones Industrial Average on March 9, 2009 and just held on you would have increased your investment by 170% (not including dividends). The Dow bottomed on March 9, 2009 at approximately 6,500 and closed on December 31, 2014 at about 18,000. That's six consecutive years of gains for the Dow with only one major correction (about 16% from May to October in 2011). Who says the Democrats are bad for the stock market? So the question now is can the Dow make it seven years in a row? There are several uncertainties facing the stock and bond markets as we head into 2015.

Interest Rates: Hard to believe, but the Federal Reserve has not raised short term interest rates in nearly a decade. The Fed is hinting strongly and analysts are expecting the Fed to raise short rates by mid 2015. Normally rising interest rates can put a halt to rising stock prices and in this case stock prices have been rising for almost six years. The Fed is good at stirring the pot. They created a bond buying stimulus program (Quantitative Easing I, II and III) that supposedly propped up the economy. That's debatable, but without a doubt it aided the stock market with all the money added to the economy, not to mention the $4.5 trillion added to the Fed's balance sheet. Analysts and investors worried over what would happen when the Fed terminated the QE program - not to worry, the stock market went on to make new highs. Many investors lost money in the bond market by anticipating a rise in interest rates. It doesn't pay to speculate on future Fed actions. Interest rates will probably rise this year, bad news for bond investors as bond prices fall when yields rise. Nevertheless, at this point US Treasury rates are among the highest yielding government bonds in the developed world. As for common stocks, a rise in interest rates may present a buying opportunity as there is certain to be a knee-jerk negative reaction in stock prices. A quarter or even a half point rise in Fed Funds will not stall the economy. In fact, after further review, it may be considered a positive because the Fed would be saying all clear for the economy. In addition, with the Fed's concern about low inflation, rising interest rates would add to inflation. So do not worry about a miniscule rise in interest rates. There are plenty of other things to be concerned about (terrorism at number one).

Dollar: The dollar has been putting on quite a show lately, making new highs against other currencies.

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This is a half full/half empty concern. On the one hand a strong currency attracts foreign money to our economy and our stock and bond markets. It also puts us back in the top spot as a safe haven for money and the rest of the world views us in a much better light. It wasn't that long ago that world financial centers were ruminating about China's currency taking over the top spot. The half empty crowd is concerned that our export business will drop. That will be true, but we are pretty much a self-sustaining economy and will not be hurt that badly. Stocks of international companies may suffer so check your portfolio's asset allocation. Half full is the better option.

Foreign Economies: It's been pretty quiet over in Europe, what with everything else going on around the world. However, members of the EU (European Union) are still struggling with deflation and recessions. They are all blaming "austerity" for their stagnant economies. However, economic data reveals that even EU government spending as a share of GDP is higher today than it was in pre-crisis 2007. For the EU members, government spending hit 49% of GDP in 2013. That's up from 45.5% in 2007. In Greece it went from 46.8% in 2007 to 59% in 2013 and Greece is facing a critical election on January 25 when they decide whether to stay in the EU. At this point the far left party, Syriza, is leading. This victory would mean big government with more taxes and more spending. What austerity? Japan is in its third decade of stagnant growth and they are looking at more stimulus. If it doesn't work, keep doing it. Russia's economy is hurting also and the ruble is collapsing due to sanctions and the strong dollar. China's economy is slowing and they are facing a real estate bubble both residential and commercial. These problems should not have a major impact on our economy, but will slow it somewhat.

Random Thought for January 2015: According to Albert Einstein, if honey bees were to disappear from earth, humans would be dead within four years.

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