THE DANA VIEWPOINT

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THE NEW NORMAL

The June employment numbers have been released and most media outlets have termed the numbers as solid, good or encouraging. Any good investment advisor will go beyond the surface numbers to get a clear picture of the reality. Because we live in the age of rapid technology we are easily overloaded with data. However, some numbers do stand out:

- 195,000 new private sector jobs were created in June
- 7.6% unemployment rate in June remained unchanged
- 135,900,000 – total non-farm US employees
- 138,000,000 – total non-farm employees at the end of 2007
- 130,000 full-time private sector jobs created this year (household survey)
- 557,000 part-time private sector jobs created this year (household survey)
- 63.5% - the employment participation rate which was up from 63.4% in May but still near the lowest rate in decades
- 16.1% - unemployment rate for those aged 18-29

These are not solid numbers based on recoveries from previous recessions. However, this may be the new normal based on uncertainties facing business with expanded regulations and the Affordable Care Act (or parts of it anyway) set to start October 1. Employers are scrambling to become informed of the best way to address these hurdles. Many companies are choosing to hire part-time employees (working less than 30 hours per week) to avoid paying for health insurance or other benefits. This is obvious if you look at the number of full-time vs. part-time jobs created this year. Throw in the fact that the Federal Reserve may be cutting back on stimulus money and one may think this is bad for the stock market. Every market is somewhat different and responds to different data. This stock market is choosing to ignore the real job data and accepting the fact that this is and may be for some time a slow growth recovery. Corporations have upgraded their technology, bought back company stock and hired part-time employees to boost productivity and to enhance earnings. Most businesses are smart and creative enough to adjust to what the marketplace gives them, and for most investors, this is enough to encourage them to

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buy common stocks. As long as the economic data remains flat or slightly positive it will be viewed as good for stock prices. Bonds are different. If the Fed continues to allow the free market to determine interest rates, these rates will rise and bond prices will fall. Generally speaking, when interest rates rise, stock prices fall. However, interest rates are coming off such a low level this will not apply unless interest rate increases continue to accelerate. So the investment strategy would be to keep your stocks long and your bonds short (2-5 year maturities).

What is happening in the oil patch? Crude oil has jumped from $93 a barrel to $107 a barrel (7-16-13) mostly because of the turmoil in Egypt and the possibility of the Suez Canal shutting down. The oil tanker explosion in Quebec has raised concern about shipping by rail. The shale oil boom has been a bonanza for the rail lines that transport oil – Union Pacific, CSX and others. The Association of American Railroads has stated that crude oil shipments by rail shot up from 9,500 carloads in 2008 to 233,811 carloads in 2012. Pipeline capacity was unable to handle this increase. However, even with this increase in rail transport, pipelines still transport about 90% of crude and petroleum products within the US according to the Energy Department. Transporting by rails is more flexible than pipelines as they can vary the types of petroleum products much easier. Also, there are few pipelines on either coast. The biggest dangers of rail transport is that the trains travel through heavily populated areas where as pipelines generally skirt populated areas. We need both if we are even serious about becoming energy independent.

No more salt, no more trans-fat, no more 16 oz. sodas. What's next? How about the government controlling your thermostat and the temperature of your refrigerator? The EPA recently added to its Energy Star Efficiency requirements an "option" that would allow your energy providers access to your refrigerator to control temperatures during peak energy hours. It's an option now but be wary.

Random Thought for July 2013: Including dividends, the S&P 500 gained 135% from March 2009 through January 2013, during what people remember as the Great Recession. It gained the exact same amount from 1996 to 2000, during what people remember as the greatest bull market in history.

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