



THE DANA VIEWPOINT

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## ***HAVING YOUR CAKE AND EATING IT TOO***

*June 12, 2006*

*Dow: 10,792*

Life is a series of trade offs, which means that the majority of the time, you cannot have your cake and eat it too. We all must make choices and then accept the responsibilities of the consequences. So we ask the Federal Reserve Board, what's it to be, economic growth or low inflation? Just last week Ben Bernanke, Chairman of the Federal Reserve, declared that recent inflation trends were "unwelcome" and were at or above his measure of acceptable price increases. His comments sent shockwaves throughout global stock and bond markets. Suddenly, it seemed like Mr. Bernanke was willing to risk an economic slowdown by pushing interest rates higher at the next meeting on June 28. That would be the 17<sup>th</sup> consecutive increase in interest rates in the last two years.

The American economy is the engine that has been driving world growth. So the implications will be bad news for everyone. As we have said in past market letters, the sole job of the Fed is to keep the economy growing. They do this by making enough money available for investing in plants and equipment or money for new businesses. It is the control over money supply not interest rates that determines inflation. In 1971 we unofficially went off the gold standard when the government stopped redeeming gold for dollars. This allowed the Fed to print money as freely as they wished, and we have been printing money like crazy ever since. This has been the primary cause of inflation and can be seen by measuring the purchasing power of a dollar today vs. thirty years ago.

Inflation took a brief holiday in the early part of this century as cheap goods from China and the rest of Asia raised the spectre of deflation. The stock market collapse also took money (inflation) out of the economy. To thwart this deflationary threat the Fed printed more money. The economy led by the housing industry recovered as did the stock market. And now the Fed wants to halt inflation and cool off a hot economy by raising interest rates. Manipulating interest rates will not accomplish either objective. First of all, by all historical standards interest rates are still somewhat below normal. Secondly, the economy is flush with cash, and as long as there is money, the economy will boom, and we will have some inflation (held down by cheap goods from China). So maybe we are currently having our cake and eating it too.

(CONTINUED ON REVERSE SIDE)

Memo to recent graduates! Do not read the media: It may be injurious to your job prospects. Non-farm payrolls came in at 75,000 for May, well below expectations. The naysayers in the media jumped all over this as an indication that the economy is slowing. Don't you believe it. Through the year ended this May, 1.9 million jobs were created and over the past thirty-three months, 5.3 million jobs have been created. The unemployment rate stands at 4.6%, the lowest in five years. However, if you look deeper, you will see some more meaningful numbers. The Labor Department indicates that 288,000 new jobs were created by self-employed owner operators of new businesses. Year-to-date, that number swells to 1.2 million. Total employment in the US is at a record high of 144 million. Average hourly earnings in the May jobs report is running 3.7% above last year's level. Productivity gains also continue to rise, keeping pace with earnings at 3.7%.

More cake. China is continuing to struggle with capitalism. It is hard to find accurate data, but by all accounts their banking system is a house of cards with a vast majority of loans in default. Most of their state owned banks would be in default by US bank regulations. They are being kept afloat by vast quantities of money being invested by US sources. They also continue to be plagued by worker revolts for higher wages and benefits. Meanwhile US companies are getting lean and mean. The playing field is leveling as we are becoming more competitive and China less so. This is good for all countries as competition will keep quality up and prices down.

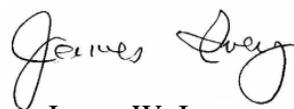
Even more cake. It seems like every graduating class worries that everything has been invented, and there are no opportunities. Look at how many new opportunities have been and are continuing to be created by the technology boom. The next opportunities may come from the energy sector as we search for alternative sources for home and work.

### **Random thought for June 2006:**

There are no guarantees in life, only opportunities.



Michael L. Dana  
Chairman of the Board



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