



June 9, 2010

Dow: 9,899

LOOK FOR THE SILVER LINING

“Was I deceived, or did a sable cloud turn forth her silver lining on the night?” Milton, 1634. The economy keeps chugging along, albeit at a slow pace. The media likes to pounce on any negative piece of news and blow it out of proportion. Last Friday the Labor Department released employment numbers for May. The initial positive reaction was 431,000 new jobs were added. The news quickly soured when it was discovered that only 41,000 of these new hires were in the private sector. The rest were temporary jobs created by the government to conduct the 2010 census. Yes, we were somewhat disappointed also as this is usually the last piece of the puzzle defining a full fledged economic recovery. The silver lining is that it was the sixth positive number in the last seven months, and it looks even better when you consider the loss of 600-800 thousand jobs just eighteen months ago. Other economic victories have been small but positive also. The average hourly workweek increased as did the average hourly wage. We have expected this recovery to be slower than normal due to the severe credit crisis, but as long as the economic data remains strong, momentum will build for a more rapid recovery down the road. Federal Reserve Chairman Bernanke expressed similar thoughts this week when he said the economy will probably plod ahead in the coming months, producing limited growth. He also said the debt crisis in Europe, which has rattled the stock market since April, was unlikely to seriously harm the American recovery. He further stated we will only see a slow reduction in the unemployment rate. The Fed also released their Beige Book findings which is a snapshot view of economic activity in the nation’s twelve regional areas. It is a gathering of information from local businesses and economists in each of the regions. The latest survey showed manufacturing, retail sales and housing all growing in each of the regions. At the low point in the recession all twelve regions were reporting shrinking economic activity. In addition to this data, interest rates are low and inflation is tame. Importantly, the money supply is growing and there is a plentiful supply of money in short term bonds and money market funds just waiting for better investment opportunities. As momentum builds in the economy, this money will flood into investment opportunities that create real private sector jobs. As an investor it is important to keep your eye on the big picture. Daily news items are causing extreme volatility in the market place, and

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investors focused on these daily news items will be whipsawed in this market environment.

The recent oil spill in the Gulf of Mexico is a real tragedy, and if anything positive can come out of this, it should be a re-evaluation of drilling on dry land. We have millions of barrels of untapped oil and gas reserves in the mid and western US, not to mention Alaska. New technology would allow us to develop this precious resource without harming the environment. We need fossil fuel to run our factories, heat and cool our homes, move goods and services across country and to diminish our reliance on foreign oil. Green energy is coming, but it could be decades away. By tapping our own resources we would also create tens of thousands of jobs which would spin off into tens of thousands more jobs in related industries. Nuclear energy can also be further developed which would create more jobs and lower our energy costs.

The European Union (EU) is still trying to contain debt problems amongst its members - first Greece and then rumors of Spain, Portugal and Italy. Now Hungary reports their government has been “cooking the books” and they can’t pay their bills. Hungary is not even a member of the EU. The good news is that these countries are implementing austerity plans to return to a stable fiscal position.

Well, America will shortly celebrate its 234th birthday and we hope many more. It has been quite a ride. Who amongst the founders of our country could have imagined what they created. Is it possible that such men of intellect, leadership and courage could ever be assembled again? So, here is a July 4th toast to these men that made it all possible, and, of course, to the men and women along the way who sustained it and made it grow.

Random Thought for June 2010: “It is incumbent on every generation to pay its own debts as it goes. A principle which if acted on would save one-half of the wars of the world.”

Thomas Jefferson

All data included in this letter was found in various articles in the *Wall Street Journal*, *Investors Business Daily* and *Casey’s Daily Dispatch*.

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