THE DANA VIEWPOINT

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Dow: 16,940

MELT-UP

It is said that water only runs downhill. With the spring thaw we are having a melt-down. But, any good plumber can make water run uphill. Just like investors can make stocks run uphill no matter what the obstacles. This stock market is in the midst of a melt-up. Almost every day it ekes out a new high and most corrections are short lived. The professional investors on Wall Street confess to being nervous, while on Main Street, investors are confident in owning stocks. Much of this of course is due to the Fed holding interest rates down. It is difficult to find fixed income investments with a decent yield. Stocks, at this point, offer a better return both through dividends and capital appreciation. The best approach in this melt-up economy and stock market is to hold a well-diversified portfolio as stocks rotate from the oil patch to industrials to finance companies to pharmaceuticals. The bond market on the other hand is showing some concern about the economy as investors both here and abroad shift to purchasing US Treasury bonds. So, the bond market is saying trouble ahead, and the stock market is saying all clear. In the meantime, economic data remains mixed. Research by *Investors Business Daily* indicates that in times like this the bond market is usually right 80% of the time. The focus over the next month will be on second quarter GDP after the first quarter was revised to a negative number. Optimists are saying first quarter numbers were negatively impacted by the severe winter weather.

The heat is on not only in the US but in Europe and China as well. The European Central Bank last week cut a key interest rate below zero (yes, you read that correctly). Shades of the late 1930s when yields on short Treasury bills fell below zero. Investors were paying the government to hold their money. Will Rogers opined that he was not as concerned about the returns <u>on</u> his money as he was the return <u>of</u> his money. The reason for these interest rate cuts is the concern that low inflation could lead to deflation. Rates were lowered to prompt banks to lend more money to stimulate the economy. Our Fed is not saying much, but you have to believe there is still some concern about deflation and they are prepared to take any steps necessary to prevent that.

China is having problems also. They are lagging behind us as it appears they have hit our 2007-2008 period. They are facing a property slump. They incurred a 9.9% drop in housing values in the first four months of this year. Construction starts fell 24.5% over the same period. Human nature is the same all over when it comes to inflating bubbles. China is also pondering interest rate cuts. Economic growth in China is now below their targeted 7.5%. Imagine that, only 7% growth in the China economy down from those heady double digit growth days. Vince Lombardi once said that it was easier getting to the top than it was staying at the top.

Thomas Piketty, a French economist, recently released a book on income inequality in the US. This book, *Capital in the Twenty-First Century*, is 685 pages of ideological hype lacking in solid economic research according to the *London Times*. He believes that we need to tax the rich more heavily. His argument is based primarily on the Gini

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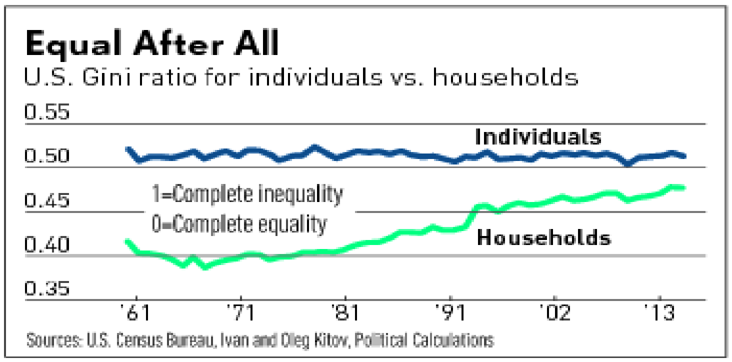
ratio, a measure of how incomes are dispersed across society. A look at a chart of Gini ratio for individuals shows that it is virtually at the same level as it was in 1960. What skews the data is the fact that there are more households today than in 1960 and the average number of people in those households has dropped from 3.4 to 2.55 meaning fewer earners per household. Economic data, or any data for that matter, can be used to prove a point. If there is income inequality today – and of course there is – it stems primarily from low interest rates pushing investors into stocks. Those with high income obviously earn more than those with a smaller base of capital. There will always be fluctuating income inequality, but taxing the rich didn't work in the 1930s, and it will not work now. It is the risk takers that generate most business ventures and raise employment levels that grow the economy.



Jobs. Another 200,000 plus private sector jobs were created in May. Not spectacular but healthy. Total jobs now have reached the peak level since the recession hit in late 2007. Unfortunately, the US has 1.6 million fewer jobs in the higher paying manufacturing sector and 941,000 more jobs in the accommodation and food service sectors than when the recession began. At least we are past the recession peak. It took seven years but we got there and momentum should carry us higher.

Random Thought for June 2014: There is a company in Switzerland called Algordanza that will turn your ashes into a diamond for your family.

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