



March 9, 2010

Dow: 10,566

JOBS, JOBS, JOBS

Ben Bernanke recently said that the Federal Reserve is watching the job market closely. Well, the February jobs report came in last Friday and indicated that we lost 36,000 nonfarm jobs last month. The overall unemployment rate remained flat at 9.7%. Approximately fifteen million Americans are looking for work. If you are not looking for work, you are not considered unemployed. How does anyone calculate how many people are not looking for work? The Bureau of Labor Statistics (BLS) compiles these numbers each month. Are you ready for this? The numbers are based on a survey. About 400,000 businesses and government agencies are asked how many jobs they added and cut each month. The unemployment number is also a survey of citizens (are you working, are you not working or are you not looking for work?). Nevertheless, survey or no survey, it pays to heed these numbers as investment decisions are made with these numbers in mind.

Some economists will view these numbers negatively, stating that the economy has lost jobs every month in the last two years except for one month – November 2009. They will further add that the BLS added 15,000 census takers to the payrolls bringing February's number to 51,000 lost jobs as these are not permanent jobs. We prefer to look at trends. In late 2008 and early 2009, we were losing over 400,000 jobs per month. Now we are down to losing 35,000-50,000 per month. We expect employment numbers to turn positive in the months ahead. The recession is over; retail sales have been stronger than expected, and the housing market is stabilizing in most parts of the country. Those areas of the country that were grossly overbuilt are still lagging but will be pulled up by the recovering economy. The biggest factor in job growth is simply the fact that corporations cut employment to the bone and increased productivity to the point that any recovery in the economy will necessitate new hiring. The strength of the recovery will hinge on confidence in the direction of our deficits and tax rates.

Where are the jobs? According to the BLS, jobs added in February were 12,000 in hospital, nursing and other health care sectors, 7,000 in building materials and garden supply, 8,000 in computer services and 9,400 in arts, entertainment and recreation. Jobs lost in February were 64,000 in construction (what a surprise), 18,000 in government at all levels (now that is a surprise) and

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10,000 in financial services. This is a partial list of course. The bottom line with jobs is that we have stopped the bleeding and now the other side of the equation is to start creating new jobs. Most people work for small companies and we need to incentivize existing small businesses to hire and entrepreneurs to start new businesses.

Hard choices – a tale of two countries. By now everyone is somewhat familiar with the fiscal problems in Greece. Greece has been running a deficit as a percentage of its GDP since 2000, recently reaching 13%. This has been in violation of rules set forth by the European Union (EU). It is simply a history of deficit spending, poor financial practices and open attempts to circumvent and hide their violations of their agreement with the EU. Of course, the Greek government is blaming speculative traders for causing their problems (sound familiar?). In fact, it is the speculators that are keeping the economy alive by buying their bonds. Greece has implemented an austerity package with across the board spending cuts. This, however, has met with strikes by workers in both the private and government sectors. This will only add to their fiscal problems. Ireland, which had been running a surplus as a percentage of GDP until they got caught up in the worldwide recession last year, has also implemented an austerity package that seems to have more teeth as the growth in their GDP rebounded smartly in the fourth quarter last year. Sure, there is discontent in Ireland over the austerity measures (cuts in wages and services), but for the most part the citizens are taking responsibility and taking a pro-active approach to get their economy moving forward. The whole world has had to swallow some bitter pills the last two years. Those that adapt and make the necessary adjustments will recover sooner.

Random Thought for March 2010: “Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.”

Winston Churchill

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