



BULLQUESTER

March 12, 2013

Dow: 14,436

Well, we survived Y2K and the fiscal cliff. We are now in the process of surviving the sequester. This is turning out to be the government who cried wolf. Just about the time investors get complacent about dire warnings from the government there will be a real crisis; a 2% cut in spending on a multi-trillion dollar budget is not an economic crisis. It is more of a political crisis as Congress plays Russian roulette with our pocket books. It would have been more effective if Congress had taken a scalpel and cut numerous frivolous spending projects instead of using an axe to just cut 2% across the board. At least it's a start in the right direction. We have had tax increases this year, now we need spending cuts. In any event the stock market is not worried. After the sequester hit on March 1st the stock market (Dow Jones Industrial Average) promptly marched to new all-time highs. Interestingly, it took the market seventeen months to fall from its peak on October 9, 2007 to its bottom on March 9, 2009 and four years to march to a recovery high this month. But that is par for the course as panic selling is a strong force and investors are slow to forget the pain of market losses and therefore slow to return. Normally a recovery from a dramatic bear market takes a longer period of time to recover. The peak in the bull market of the 1920s took until 1953 to make new highs, and the bear market of 1973-74 took until 1983 to recover. This recovery has been aided in large part by the Federal Reserve keeping interest rates so low for so long that investors feel compelled to look for high dividend paying common stocks. Eventually investors will search for capital appreciation as they become more comfortable holding stocks. This scenario has played out many times since the gatherings under the buttonwood tree in lower Manhattan. Human nature doesn't change much. Free enterprise is a strong force and has and will continue to overcome any obstacle in its path. The bull is in charge for now.

How about that jobs report? The private sector created 246,000 new jobs in February and the unemployment rate fell to 7.7%. Mark Twain once said, "There are lies, there are damned lies and there are statistics." These numbers are only surveys, but even if they are volatile, they are showing some improvement in the economy so we will cheer with the glass half full crowd.

What's happening in the oil patch? Gas prices are spiking up again, hurting the middle class more than everyone else. It's not so much a lack of oil as it is a lack of refineries. The cost of meeting government regulations has halted any construction of new refineries. The promise of natural gas is real, but no one wants to invest in a resource that would need construction of thousands of pumps throughout

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America plus the cost of converting autos to accept natural gas. So it looks like oil will trump natural gas for the foreseeable future. Hollywood is doing its best promoting anti-fracking movies and documentaries. Matt Damon has been touting his anti-fracking movie, *Promised Land*, which apparently has been partially funded by Dubai. We have seen no real evidence one way or the other about fracking's impact on the environment. It sure has done wonders for the economy of North Dakota and Pennsylvania. There are rumors that the President may allow the XL pipeline to be constructed. That would add 20,000 to 30,000 new jobs and help reduce gasoline prices.

This is the year of the black snake in China. This year is meant for steady progress. Focus and discipline will be required to meet your goals. So far this year, statistics paint a picture of mounting inflation and slowing economic growth. Analysts are estimating that China's economic growth will slow to 7-7.5% this year. China's economy grew 7.8% in 2012. In addition, China is facing a real estate bubble. Property sales have jumped 77.6% from last year's level in terms of value. China's leaders have witnessed our real estate bubble and are determined to keep a property bubble from happening. The government has implemented a 20% capital gains tax on property sales. Industrial production is flat so far this year and retail sales ominously slowed to 12.3% year over year in the first two months compared to a 15.2% gain in December. Imports fell 15.2% in February while exports rose 21.8% in February. In sum, China is feeling the worldwide slowdown in economic growth while trying to keep a lid on inflation and real estate speculation. They will need all the focus and discipline they can muster to continue to make steady progress.

Random Thought for March 2013: In 2012 the Greek stock market (ATHEX Index) outperformed the Chinese stock market (Shanghai Composite) by forty-eight percentage points. Go figure.

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