



## IT'S THE WEATHER, STUPID

This phrase echoes James Carville's brilliant, "*It's the economy, stupid*" political statement during the 1992 presidential campaign that helped unseat George H.W. Bush. No doubt global cooling in the first quarter of this year was partly responsible for the meager 0.1% growth in GDP. It's okay to view the glass as half full, but if you are running a business or investing money sometimes you have to take a bite of the reality sandwich. That was a scary number compounded by the Fed continuing to empty the punch bowl. Fortunately, this was tempered by some soothing remarks from the Fed that economic activity has picked up recently, and that the cold weather did impact the first quarter GDP numbers. They also stated that it will be appropriate to maintain the current target range for Fed funds for a considerable time after the asset purchase program ends. The Fed has seemingly learned not to rile the stock and bond markets.

Also helping to stabilize the markets was the decent April jobs report. The private sector added 288,000 jobs in April (getting close to the "magic" 300,000 number). The unemployment number dropped to 6.3%, below the "magic" 6.5% number that the Fed and economists had been looking at for years. However, the Fed recently stated that a 6.5% unemployment rate was no longer a monetary tightening trigger, and that they are looking at much more comprehensive employment data. Perhaps the labor participation rate (LPR) is on their plate. Last month's LPR fell to 62.8%, the lowest rate ever. Some of that is due to baby boomers retiring, but 800,000 people left the workforce last month (*Investor Business Daily* May 5). Another increasingly watched number is the U-6 unemployment number. This number counts not only people without work seeking full-time employment, but also counts marginally attached workers and those working part-time for economic reasons. Marginally attached workers include those who have gotten discouraged and stopped looking, but want to work. You can see how much economic data is survey constructed and how this can make it volatile and hard to measure. At any rate, the U-6 unemployment rate is now at 12.3%, down from a high of 17.1% in 2010. Economic numbers can drive you crazy. It can also lead to that dreaded disease, "paralysis by analysis" that leads to indecision. Watching the direction of the markets can alleviate the procrastination. Right now the longer trend in the stock market is still up. The Dow Jones Industrial Average finally joined the S&P 500 Index this year in making a new all-time high last week. Despite economic headwinds, investors still feel comfortable owning stocks over low interest rate bonds and the market does not appear to be overvalued on a price/earnings basis. High beta technology stocks have been beaten up recently, but they were somewhat ahead of themselves. Energy stocks are on the move now continuing the

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sector rotation currently pervading the market.

It's the taxes, stupid. Governor Perry of Texas continues his tour of America, luring companies in high tax states to move to the low tax state of Texas. He recently lured Toyota from Torrance, California to Plano, Texas (suburb of Dallas). Toyota plans to move its sales headquarters and 3,000 professional jobs to Plano. Chief Executive Jim Lentz stressed Toyota will be linked to a business friendly environment, two major airports, affordable housing and "zero income tax." According to the Tax Foundation the state and local tax burden is 50% higher in California than in Texas. Texas has also plucked off Raytheon, Titan Laboratories, Pacific Union Financial, Oracle and dozens of others for similar reasons. Texas of course, leads the nation in job creation. Other states are getting the picture. Wake up Congress.

In what would appear to be an extreme move, Pfizer has made an offer to purchase AstraZeneca, a British pharmaceutical company. Pfizer is obviously interested in AstraZeneca's line of cancer drugs, and its research into Alzheimer's drugs. However, a side benefit could be that Pfizer could use tens of billions of dollars in cash that would otherwise be taxed here in the US, and to take it a step further, they could incorporate in England, escaping US taxes altogether. Many corporations, of course, already have parts of their sales overseas in countries that have lower tax rates. The US now has the highest corporate tax rates in the free world. Before anyone gets angry at corporations trying to please shareholders, stop and realize that individuals are doing the same thing in moving from heavily taxed states like New York and California to tax friendly states (no state income tax) like Texas and Florida. Wake up Congress. The tax code needs a serious overhaul.

**Random Thought for May 2014:** "The trouble with life is you're halfway through it before you realize it's a do-it-yourself thing".

*Anonymous*

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