THE DANA VIEWPOINT

May 15, 2015
Dow: 18,273

“Double Double”

Toil and trouble fires burn and stock market bubbles (apologies to Mr. Shakespeare). Well, the Fed recently weighed in on that very topic in a meeting with Christine Lagarde, the managing director of the IMF (International Monetary Fund). Ms. Lagarde asked Janet Yellen, Chairwoman at the Federal Reserve, about the Fed’s policy of low interest rates leading to bubbles in financial markets. Ms. Yellen’s reply was that “equity market valuations at this point generally are quite high.” The stock market lost 180 points after Ms. Yellen’s comments, but cooler heads prevailed and the market regained most of its losses by the end of the day. In the area of prognostication, the Fed does not have a very good track record. They had been projecting 2.0% - 2.25% GDP for the 1st quarter of this year which came in at 0.2%. Back in 1996, Fed chairman Greenspan made the comment that equity prices were showing signs of “irrational exuberance.” The S&P 500 gained over 100% over the next three years until early 2000, and was still above its December, 1996 level as it bottomed in late 2002. Then in the mid 2000’s, the Fed assured us that housing prices were not overvalued. So is the stock market in or approaching a bubble status?

According to FactSet, the S&P 500 is now trading at 17.5 times the last 12 months earnings up from 16.5 times a year ago. The 10 year average price/earnings ratio for the S&P 500 is 15.8. You might draw from this evaluation that stocks are not cheap, but they are far from the bubble top in late 1999/early 2000. Some biotechnology and social media stocks may be trading a bit above their recent average, but the rest of the equity market has been advancing in an orderly manner. In fact, you might refer to equities as in a rotational bull market. The Dow Jones Industrial Average first approached 18,000 last December and has been trading recently in a range of 17,700 to 18,100. We had two retracements early in the year that took the Dow down to near 17,000, but each subsequent pullback in the Dow has been at a level higher than the one before, a good sign that investors have cash to invest and have confidence in the stock market and the economy.

A good sign of this confidence came last Friday with the release of the April job numbers. The private sector created 223,000 new jobs in April, not great, but a relief over March’s number of 120,000 new jobs (which was adjusted down to 85,000). Investors seem satisfied with this new normal – not a spectacular 300,000, but a steady 200,000 plus, coupled with a 2% plus growth in GDP.

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There is some concern over stubbornly low wage growth and low productivity in the economy. Small businesses create most of the new jobs and are having some difficulty obtaining funds for expansion, but their bigger problems are the myriad of new regulations. The Wall Street Journal states that this administration has twice set the annual record by issuing more than 81,000 pages of regulations. The Kauffman Foundation, which tracks new businesses, says its data shows 2013 was the third consecutive year to show a decline in entrepreneurial activity in the United States. It's a testament to people who can walk through all the regulations and start a business. Big businesses on the other hand have easy access to funds; for the most part they have plenty of cash on their balance sheets. Rather than expand their current business or start a new subsidiary and face all the regulatory problems, they simply go out and buy an existing business. Other monies on big businesses balance sheets are going into financial assets (stock buybacks) rather than capital investment. This may account for some of the weakness in overall productivity.

Elsewhere, China cut interest rates for the second time in 6 months. A worrisome economy and the heavy debt burdens of companies and local governments were cited. Rapid expansion of the last several years has left officials concerned about the mountain of debt that has built up. Sound familiar?

In England, David Cameron and the conservative party won an unexpected easy victory over the labor party. Voters apparently decided they were in favor of growth rather than redistribution of income. Note to Americans: English voters rewarded the conservative party for reducing corporate taxes from 28% to 20% and implementing welfare reform that shifted more people into the work force, resulting in stronger economic growth.

Random Thought for May 2015 According to a study by Harvard professor David Wise and two colleagues, 46.1% of Americans die with less than $10,000 in assets.

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PRESS RELEASE

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May 18th, 2015

FOR IMMEDIATE RELEASE

Dana Investment Advisors Wins Impact Manager of the Year Award

On May 7th at the 2015 Envestnet Advisor Summit, Envestnet, Inc. in conjunction with *Investment Advisor* magazine recognized the winners of the 11th Annual Separately Managed Account Manager of the Year Awards. Dana Investment Advisors was recognized as the winner of the inaugural Impact Award for excellence in socially responsible investing, for its **Socially Responsible Equity Strategy**. "This strategy debunks the myth that impact managers may sacrifice return for investing in a good cause. Their strategy incorporates best of class environmental, social and governance impact criteria and has a 15-year track record of consistent, superior investment performance" said an Envestnet|PMC analyst. Dana's Director of Equities and Portfolio Manager, Duane Roberts said, "It is very rewarding to be recognized for this award. When we started managing these portfolios 15 years ago, SRI wasn't as mainstream as it has become today. To be awarded the inaugural Impact Award speaks to the continued dedication our firm has to this space." Duane Roberts was there to accept the award on behalf of Dana Investment Advisors. CEO, Mark Mirsberger, added, "Winning in back-to-back years, with different strategies, highlights the consistency of our investment process. The SRI space is ever evolving and our talented team has done a great job in staying at the forefront of this movement with dedication and hard work." The July 2015 issue of *Investment Advisor* magazine, will profile the award winners.