



THE DANA VIEWPOINT

November 10, 2006

Dow: 12,108

HOLY GRIDLOCK BATMAN

We have much to be thankful for as we approach the holiday season. Mostly, we can be thankful that the elections are finished. The psyche can take only so much of the incessant negative TV ads and e-mails. So now with the Democrats controlling the House and Senate can we expect gridlock? Sure, but we always have gridlock, and as long as we have democracy there will be bifurcation (been waiting years to use that word). Just as the Republicans were ecstatic in 1994, it is now the Democrats turn. However, neither party should get too full of themselves. Exit polls show President Bush's favorability rating at 42% but that of Congress as a whole comes in at 35%. We now have to hope that Congress as a whole will tackle the important problems facing us today – keeping the tax cuts in place, immigration, free trade and Social Security reform. Everyone is talking nice right now, but that can change if the new Congress goes off on a witch hunt and wastes two years and taxpayer money trying to impeach the President.

The stock market is trying to sort out what industries could be impacted by the Democratic Party, and so far we have seen slight declines in pharmaceutical and defense stocks. However, we believe it will be business as usual in the US, and after some short-term consternation the economy and the stock market will continue to perform admirably.

Every once in a while someone has the courage to speak the truth and accept responsibility for actions that have created problems. Richard Fisher, President of the Federal Reserve in Dallas, confessed recently that the Fed erred by keeping monetary policy too easy for too long in 2003 and 2004. In worrying too much about a possible deflation, they kept interest rates lower and longer than they should have. He further stated that they underestimated the rate of inflation, causing excessive speculation in the housing and other markets. Mr. Fisher also conceded, "Most economic data are inherently backward looking, often to a disconcerting degree." Wall Street economists didn't get it either as they were cheering on the easy money policy. Now the Fed has a real dilemma. Do they tighten money to restore price stability or do they cut rates to ensure continued economic growth. It all gets down to the money supply, and there is plenty of that available. Corporations are flush with cash,

(CONTINUED ON REVERSE SIDE)

and interest rates on a historical basis are still low. The Fed also underestimated the positive effect of the 2003 tax cuts. The Fed needn't focus so much on interest rates as on the money supply. A little tightening there would slow inflation while not endangering economic growth.

A new bubble on the horizon? The automobile market in Venezuela. With all the oil money coming in, Hugo Chavez is spending on projects that filter down to salary gains in Venezuelans' pockets. Normally people would invest in houses, but with inflation running at 15.5% (October number) houses are too expensive. Cars have become the investment of choice. A 1999 Jeep Cherokee in decent condition may sell for \$6000 in the US, but in Venezuela it will bring \$15,000. A 1992 Toyota Camry is worth three times its Kelly Blue Book value. Also, it doesn't hurt that gasoline sells for twelve cents a gallon. GM, Ford and Toyota are capturing the largest share of this market, and even with their rapid investments, production is still about 20% behind demand. All this and Chavez is still in trouble with elections coming up in December. This too will end badly.

According to Investor's Business Daily, Since the tax cuts took effect in 2003, the economy has added \$4.26 trillion in real output, \$14.4 trillion in net wealth and 5.8 million new jobs, while productivity has grown 10% and business investment 24%. Since 2000, total consumer spending has increased \$1 trillion, nearly \$8,000 per household, after adjusting for inflation. The Dow Jones Industrial Average is hitting new all time highs. America passed 300 million in population. We should celebrate. We breathe cleaner air, drink cleaner water, earn higher incomes, have more leisure time and live in less crowded housing. We have much to be thankful for. Happy Thanksgiving to all!

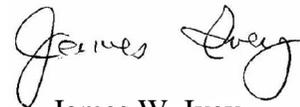
Random thought for November 2006:

"Politics is not a bad profession. If you succeed there are many rewards, if you disgrace yourself you can always write a book."

Ronald Reagan



Michael L. Dana
Chairman of the Board



James W. Ivey
President

Dana Investment Advisors welcomes any comments to their newsletter and is more than willing to discuss or explain any aspect of the letter. Feel free to call us at 262-782-3631.

If you would prefer to have our newsletter e-mailed, please send your e-mail address to newsletter@danainvestment.com. If you would like to be notified when our portfolio managers will be broadcasting in the media, please send your e-mail address to media@danainvestment.com.