



DILEMMA

This is a Greek word for a problem offering two possibilities, neither of which is practically acceptable. One in this position has been traditionally described as “being on the horns of a dilemma,” neither horn being comfortable. This is sometimes described as finding oneself impaled upon the “horns of a dilemma,” referring to the sharp points of a bull’s horns, equally uncomfortable (and dangerous). To invest or not to invest? That is the question. Hamlet had a dilemma like analysts and investors today, although he was speculating on death, and we are only talking about money. This decision may seem like life or death to some. On the positive side, economic data has been improving, albeit slowly. Corporate earnings are continuing to beat estimates even if corporate estimates are conservative. The jobs report for October was the best in months with 204,000 new jobs created. One month does not make a strong market. If that number can be followed by similar 200,000+ numbers in the coming months it could encourage those unemployed and not looking to re-enter the job market. The closely watched labor participation rate dropped further to 62.8% - the lowest level since 1978. Furthermore, a recent survey showed that 39.4% of working age Americans do not work, living on entitlements – welfare, unemployment, disability and/or food stamps. That is why job creation is so important. Improving job numbers would encourage more people to look for work and make our economy more productive. The Affordable Care Act enters into the employment number also. Employers are wrestling with the consequences of this act in making decisions on hiring full-time, part-time or job sharing employees. Another economic factor for investors to consider is the fundamental value of equities. Currently, stocks in the S&P 500 index are trading at an average price to earnings ratio (PE) of about 16 times this year’s earnings. This is slightly below the historical average. Stocks can trade in a range of 20+ times earnings to a low of less than 10 times earnings. Based on slowly improving economic data and fundamental analysis, the market appears to be fairly valued.

Wouldn’t it be nice if stocks just traded around fifteen times earnings year after year? Investors then could work up an earnings estimate and multiply by fifteen for a projected stock price. That obviously doesn’t work for the simple reason that human emotions enter into any investment whether it be stocks, bonds or real estate. Emotion (and greed) drove stock and real estate prices to extreme levels in 2008 which was mercilessly terminated in a stock and real estate decline the same year. Many may recall the investment frenzy of 1999 when many high tech stocks were breathing helium and trading north of one hundred times earnings. The IPO market was so hot that a new company filed an offering and in its prospectus boldly stated that they had no product, but would use the funds to find a product. We saw the same froth in the market in 1972 and 1966. Of course, the granddaddy of them all was 1929 when stock prices reached exorbitant levels. The devastation in stock prices was compounded

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by 10% margin requirements and the Dow Jones Industrial Average did not surpass its 1929 high until 1953. Most stock market averages have now reached recovery highs since bottoming in March of 2009.

So what's an investor to do? We are seeing small investors coming back into stocks by looking at increased additions to stock funds and by reading comments in the press that small investors are feeling comfortable owning stocks again. Many of these same people until recently vowed never to own stocks again. Does that mean it's time to head for the exits? Have we reached extreme levels in stock prices? Has the re-entry of the small investor indicated a market top? NO, emphatically. Yes, there are signs of speculation in the IPO and OTC (over the counter) markets, but nothing like previous market tops. That is yet to come. This market advance has been orderly with most activity in big "blue chip" stocks with speculative activity in social media (Facebook and Twitter) and business media stocks (LinkedIn). Activity is also heating up with 3D printing stocks. These are not recommendations, but merely examples, and they are very volatile. This market will continue to advance as long as interest rates are low and the Fed keeps buying bonds. That will be a problem down the road.

It was interesting to see Christmas displays in stores the day after Halloween. Retailers are fearful every year that sales will be weak, but every year they are higher than the year before. You may question the commercialization of Christmas, but the holiday season is a time of giving and Americans have always been a nation of givers and not just to our own. This is a wonderful time of the year and we hope you all have a joyous season.

Happy Thanksgiving!

Random Thought for November 2013: "We could certainly slow down the aging process if it had to work its way through Congress."

Will Rogers

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