



AMERICA SPEAKS

Americans went to the polls November 4th and said, “We are not happy.” Exit polls indicated that the number one cause of this unhappiness is the economy. On the surface the economic numbers look good, but not great. For the ninth consecutive month the private sector has created over 200,000 new jobs and the unemployment rate has dropped to 5.8%. However, the labor participation rate at 62.8% is still at the historic lows of the 1970s. Many newly created jobs are part-time and working Americans are feeling the pinch in the pocketbook. While 2.6 million new jobs have been created since last year, a recent *Investor’s Business Daily* poll revealed 43% of Americans feel we are still in a recession. Wages grew 2% in October from last year. Unfortunately inflation is running at 1.7%, eating up most of that gain. Real household income is near an eighteen year low. Some economists are pondering whether or not we are in a permanent slump. Two economists, Paul Krugman and Larry Summers, even have a name for it – “secular stagnation.” So while this is not intended to be a political letter, politics does play a big role in the investment world. Someone once said that you may forget politics, but politics will not forget you. So while Americans have sent a message and voted the Republicans control of both houses of Congress, let’s hope they realize that with this vote comes responsibility. There is much work to be done and some things should be able to be accomplished fairly easily:

1. Push the President to sign the Keystone XL pipeline bill. It has already passed through all regulatory agencies. This will create hundreds of well-paying jobs, improve our energy infrastructure, and make it easier to transport Canadian oil to the US.
2. Repeal some of the onerous regulations that have come out of the Dodd/Frank bill. Regardless of what some people say, corporations and businesses do create jobs. We need to make the regulatory environment more business friendly.
3. Make changes in the tax code. Congress has done its best to stifle business expansion with the highest corporate tax rate in the free world (35%). Contrary to what many (most) people in Congress think, tax revenue can increase with increased economic activity when taxes are lowered (note the Kennedy, Reagan and G. W. Bush tax cuts). Also, companies would have less of an incentive to move their headquarters overseas for lower tax rates.
4. Something needs to be done about the Affordable Care Act. It may be the biggest cause of “secular stagnation.” It is definitely the biggest factor in corporations creating part-time jobs or eliminating employee benefits. The Supreme Court has agreed to hear arguments on a couple of lawsuits involving the potential re-

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writing of the law. If the Republicans don't take responsibility for pushing hard for real economic stimulus they will be looking at Washington from the outside again after the next election.

QE: R.I.P. The Fed met and as planned closed the door on the QE3 bond purchase program, or did they? Instead of letting the bonds mature, they will reinvest the proceeds in new bonds keeping their balance sheet holding \$4.5 trillion in bonds. The Fed cited economic expansion and labor market improvement as reasons to end the program. However, because inflation is running below their 2% target (1.7% currently), they will keep interest rates near zero for some time. The plunging oil prices and the strong dollar will help keep the inflation rate low. Don't expect much news from the Fed until early next year; they should have little impact on the markets until then.

And how about those oil prices? Oil prices have plunged about 30% since last June (\$109 to \$77 a barrel). This has not gone unnoticed by investors as they have pushed the Dow Jones Transportation Index up 15% from its October lows near 7700 to a current level of 9070. Companies like FedEx and UPS that use gasoline will obviously benefit from lower gas prices and it comes at an ideal time with holiday shipping about to pick up.

The other major stock market indices are keeping pace. The Dow Jones Utility Index is acting like an index of growth stocks making new highs as the Fed keeps interest rates low and investors are looking for income. As utility companies borrow large amounts of money, low interest rates improve their bottom line and they are able to reward investors with increasing dividends. Of course, the Dow Jones Industrial Average and the S&P 500 continue to make new all-time highs as corporate America is still the best place on this planet to invest.

Can it be the holiday season already? If you were out shopping for Halloween costumes and candy you probably saw some Christmas decorations. Every year retailers whine about low sales but every year their sales are higher than the year before. No matter how sluggish the economy is, Americans have big hearts and the spirit of giving is always there.

Once again we want to wish all of you a **Happy Thanksgiving**, a joyous family get-together without the pressure of gift giving.

Random Thought for November 2014: “The more you read and observe about this politics thing, you got to admit that each party is worse than the other. The one that is out always looks the best.”

Will Rogers

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