



October 7, 2010

Dow: 10,948

## SMORGASBORD

Today's investor has a smorgasbord of reasons to buy common stocks. Some of those reasons are as follows:

1. The National Bureau of Economic Research recently reported that the recession ended in June 2009. Okay, so they are only fourteen months late. The stock market, as usual, anticipated this in March 2009 when it commenced a major rally that lifted stocks off a serious oversold level. Economic data so far this year has been mixed, but it does indicate a recovery however slow it may be.
2. The job market has stabilized and although new job creation is slow it nevertheless indicates that companies as a whole are finished paring back employment.
3. Earnings have been strong - reflecting worker layoffs over the last two years and investment in new technologies that have increased productivity and led to higher profit margins. These factors have led to strong earnings gains and price appreciation in industrial companies like Caterpillar, Cummins and Eaton (these are not purchase recommendations). Companies providing the technology for the productivity gains have also benefited.
4. Investors (particularly those retired and living on fixed income) are increasingly looking to dividends to offset low interest rates on CDs or Treasury Bills. This adding price support to high-yielding common stocks like ATT and Verizon (once again – these are not purchase recommendations).
5. According to several Wall Street analysts, corporate balance sheets today hold about \$2 trillion in cash as a result of employee reductions and improved productivity. Also, according to Charles Schwab (*Wall Street Journal, Saturday, October 2, 2010*) there is more than \$7.5 trillion of deposits in FDIC insured accounts at commercial banks and savings institutions, earning virtually nothing and doing nothing. Individuals and companies are uncertain what the federal government and regulators will do come 2011. Oliver Stone has it wrong – money does sleep sometimes.

(CONTINUED ON REVERSE SIDE)

6. Imagine if the cloud of uncertainty were removed what the impact of this cash hoard would do. Imagine existing businesses expanding and hiring employees back. Imagine new business being created and new jobs emerging. Imagine the impact on stock prices as investors opened their wallets. Imagine the impact on the economies of the rest of the world as America resumed its role as the engine of growth. Imagine the veil of apathy in the US being lifted. Imagine the bright future for the next generation and the next. Just imagine – it can happen.

Currency wars. Because the economy is truly now global, countries will be adamant about protecting their currencies so that they may be competitive in this world market. The US has been jaw boning with China for some time now to get the Chinese to let the value of their currency rise so that our products and services will be better able to compete in this world economy. China has allowed a couple of token increases in their currency, but there is no way they are about to give up their competitive edge. Japan has made moves also to hold down the value of the yen against the dollar. The Bank of Japan just announced plans to buy its bonds to expand its money supply. That move is intended to help limit the surging value of the yen against the dollar and the yuan. This will make their imports more attractively priced in the world market. Ben Bernanke at the Fed is considering phase two of quantitative easing by buying more US bonds for the same purpose. Expect other nations to follow, and the dreaded “T” word is even being threatened. Yes, tariffs, that was tried in the early 1930s and only helped to extend the Depression. This could be the next economic “bubble” and may lead eventually to one world currency, but that doesn’t appear imminent. The exchange rate for currencies will continue to rest on the shoulders of the US for some time. More on this in future letters.

### **Random Thought for October 2010:**

**Thought #1:** The Cuban model doesn’t even work for us anymore.

*Fidel Castro – an interview in **Atlantic** magazine*

**Thought #2:** To paraphrase Ben Franklin, we have the best economic system among the advanced economies, if we can keep it.

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