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NUMBERS GAME

The numbers were flying fast and furious during the first presidential debate. It would be difficult even for economists to separate fact from fiction let alone the average person on the street. There was even disagreement among the “experts” the next day. It would seem to be best to ignore the numbers and look to the overall economic proposals put forth by the candidates. Like Forrest Gump, that is all we have to say about that.

Two days later we were hit with another round of numbers. The unemployment numbers dropped from 8.1% to 7.8% in September. This is a drop of ½ percent from 8.3% in August. The conspiracy theorists were out in full force on Friday and over the weekend. How could the unemployment number drop that fast in two months when the private sector only created 250,000 jobs over that same time period? That’s only about half the job creation we need just to stay even to offset new entries into the job market. Where do these numbers come from anyway? There are two sources. The first one is a survey of approximately 60,000 households. They are contacted to find out how many Americans are working. The second source is a survey of about 141,000 businesses. They are contacted to see how many jobs they created. The household survey is the one used to calculate the unemployment number. In September, the household survey indicated an 873,000 leap in employment, the largest increase in thirty years. The survey further confirmed that 582,000 of those jobs were part-time and that the number of people working part-time increased to 8.6 million in September from 7.7 million in March. However, the labor participation rate increased 0.1% to 63.6%, still the lowest since 1981. In the final analysis, rest assured, that if these numbers end up being revised, it won’t be the first time this has happened. Any investors making investment decisions based on government numbers - beware.

What’s the Fed to do? Just when they agreed to an open ended QE3 the favorable unemployment numbers were released. Do they pull back their \$40 billion of additional monthly asset purchases or do they wait for next month’s data and what about the outcome of the election?

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Most likely they will wait as they surely know these numbers can be volatile. At their last meeting the Fed voted 11 to 1 to continue additional stimulus and rate accommodation. They also promised to continue this program until 2015. Well, something will surely give before 2015. One bright spot could be the housing market. Prices appear to have bottomed in most parts of the country and the supply of houses has been reduced substantially. More numbers: For the fiscal year ending September 30, the Treasury Department said that our budget deficit was \$1.1 trillion. That's down \$207 billion from fiscal 2011. The Fed in the meantime has grown their balance sheet to \$2.8 trillion from \$877 billion in August 2007. In the face of these numbers, the rate of inflation remained around 2%. It is not just the money supply that causes inflation. It is the velocity of that money. There is an abundance of money both being created by the Fed and sitting idle on corporate balance sheets. When it appears that the economy has turned up, this money will come pouring forth, and we will see inflation in all areas of the economy, not just gas and food. Other nations appear to be watching our Fed print money with no inflationary effects and are cranking up their printing presses (Japan, the Asian Tigers, Eurozone). Stay tuned for worldwide inflation.

Why has the price of oil been dropping recently? Slowing economies around the world have reduced the demand for oil. An abundance of natural gas in this country has replaced the use of oil in some cases. Fuel mileage increases for new automobiles plus a reduction in driving is another reason. Prices at the gas pump have dropped from over \$4 a gallon to \$3.80 recently. So why has the price of gas spiked up to \$4.65 a gallon in California? The state's stringent environmental laws restrict gasoline from being imported from any other state. California bans the use of MTBE and replaces it with ethanol. Other states can use MTBE. The EPA has stated that California is the model for the rest of the nation. Just another hurdle for the economy.

Random Thought for October 2012: "Get the facts or the facts will get you. And when you get them, get them right, or they will get you wrong."

Thomas Fuller 1732

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