THE DANA VIEWPOINT

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This Is Not Your Father's Stock Market

There have been volatile periods in the stock market before, notably 1929, 1987, 2000, 2007, and 2008, but nothing encompassing so many investors around the globe and so much money. Past volatile periods have at least been somewhat orderly and dragged out over longer periods of time. Part of it is due to the mentality of today's investor. With the advent of computers and program traders, investing has taken on a much shorter time horizon. Many investors are simply looking for a quick point or two move in a stock price and they are out. They can't really be called investors. Third quarter earnings reports are starting to come out and you can expect the volume of trading to increase as speculators buy and sell stocks based on these earnings. Pity the poor company whose earnings disappoint as they can expect a drop in the price of their stock. Several hedge funds have closed this year because they made bad bets on the direction of stocks or the market in general. This too shall pass.

Already there are real investors coming back into the market place. You can see it in the quality of securities leading this market up. They are for the most part blue chip stocks – Clorox, Procter & Gamble, Kimberly Clark, and even General Motors. Also, we had what technical analysts would call a "selling climax" Friday, October 2nd. The jobs report was released before the market opened that day and the number was discouraging to say the least. The market promptly dropped 200 points then recovered that 200 and added another 200 points for good measure. The uptrend in stock prices has continued to Columbus Day. The former favorites for traders – Google (now Alphabet), Facebook, Amazon and health care stocks in general have not fully participated. Speaking of Google, instead of saying "Google it," do we say "Alphabet it?" Somehow that doesn't sound right.

It would be great to see real investors using real fundamental analysis return to the stock market. In the meantime, what does the investment landscape look like? As mentioned, the September jobs report was not good. The private sector added 143,000 new jobs and the unemployment rate stayed the same at 5.1%. The employee participation rate dropped to 62.4% as 350,000 workers dropped out of the workforce. The Fed, in their infinite wisdom, declared that full employment is no longer 5.1%, but 4.9%. If the data doesn't meet your target, change your target. Some cynic suggested that the Fed raise interest rates, so if we get into a recession they will have room to lower rates to stimulate the economy. The Fed

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has used lots of ammunition and its monetary policies have done little to stimulate the economy. Fiscal policies are a better or worse stimulant. The Dodd Frank legislation added over 2,500 new government regulations, which have gone a long way in hindering new and existing business. Stringent fiscal policies have led to the slowest economic recovery from a recession since World War II.

Former Fed chairman Ben Bernanke has just released his memoir titled *Courage to Act.* It should probably be titled *Courage to React*. The Fed has a history of reacting as they are doing now by waiting for those 19 gauges on their dashboard to signal it's time to raise interest rates. In his book, Mr. Bernanke believes he and the Fed deserve credit for avoiding a depression. It's debatable whether Fed policies stimulated any recovery. They just added $4.5 trillion to their balance sheet and to date they have no plan to eliminate these assets. So far, investors seem comfortable with the slow recovery and will continue to buy equities in lieu of low interest rate bonds.

Taxes are the other fiscal lever that can help or hurt the economy. Right now the U.S. has the highest corporate tax rate in the free world at 35%. Some candidates in the presidential race have proposed tax plans that reduce corporate and personal taxes. Others in the race have proposed increasing taxes. Some in congress believe lowering taxes would mean less revenue for the government. On the surface this would seem to make sense, but in reality the opposite is true. When Kennedy, Reagan, and Bush cut taxes, revenues to the government eventually increased. Lower corporate taxes spur businesses to expand, which increases their profits, which are then taxed. In addition, corporations will hire more people who will have more money to spend. They will pay taxes on their earnings and will boost consumer spending. Also, corporations will stop moving their headquarters overseas to countries with lower tax rates. Our fiscal policies need to be more business friendly to create new revenue streams. Politicians talk about tax reform every year, especially in election years, but it is just talk. We need action to get this economy rolling again.

Random Thought for October 2015 "I contend for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle"

-Winston Churchill

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