



THE DANA VIEWPOINT

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ANTICIPATING THE HEREAFTER

Someone once said about Denver: If you don't like the weather, wait an hour. Stock and bond investors are buffeted daily (almost hourly) by strong winds blowing out of government and corporate economic offices. Yesterday (September 6) the Labor Department suggested that the threat of higher inflation had not diminished and that it might take more monetary restraint to hold prices down. The Labor Department found that unit labor costs increased more sharply in the first half of this year than the government had anticipated. Traders of course rushed in to sell stocks and bonds. Just three weeks ago, the government released figures showing wholesale prices rose less than economists had forecast in August and that consumer prices were in line with estimates. At last month's meeting, the Fed committee said it believed inflation pressures were "likely to moderate over time." Does yesterday's data suggest the Fed will now raise rates again? Probably not at the October meeting, but there is still a chance of a rate increase at the following meeting if the recent wage increases continue. It's not over until the fat lady sings.

What's happening in China? Well, for one thing, they just increased interest rates for the second time in four months to 6.12%. They said investment growth has been too rapid, credit too abundant and trade surplus too big. Communists, excuse us, Chinese officials are also concerned about too many bad loans at state owned banks. Investment in fixed assets has also been rising too fast. There are just too many empty sky scrapers. We should just call this the "too much economy."

We are not anti-China. In this global economy all nations should prosper. It's just that China, as a semi, pseudo, quasi capitalist nation is and will continue to encounter growing pains like we did in the 19th century. China claims that its economy is growing at a 10% annual rate and that its GDP is now at \$1.3 trillion. That is 10% of our GDP and less than one third that of Japan. Even little Taiwan with twenty-three million people to China's 1.3 billion has an economy half as big as China's. In sum, China has a long bumpy road ahead.

We continue to be amazed at how much money American banks and corporations are throwing at China, and how eager Wall Street is to peddle the increasing number of IPO's (Initial Public Offerings) emanating in China. Some American corporations are closing their Chinese production facilities and returning home. Others have stayed home and are upgrading their domestic facilities. Still others, (Japan and Germany) are building production sites here to take advantage of our skilled labor force and reasonable

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wages. Toyota has even started exporting cars from America.

Another potential problem for China is our real estate market. With the housing boom cooling off, we can expect homeowners to slow refinancings that have been a major stimulus to our consumer driven economy. This would cause a sudden downturn in demand for the very products that China exports here. China could then be forced into a major over supply situation resulting in layoffs at its factories at a time when workers are demanding more. This in turn would reduce raw material costs and inflation. Perhaps, however, we are anticipating the hereafter and should focus more on the here than the after. Not hourly, weekly or monthly but something a little further out.

Is the consumer dead? To paraphrase Mark Twain: The reports of my death have been greatly exaggerated. The consumer has been given up for dead many times in the past only to rise like the Phoenix. Consumer spending still accounts for two thirds of our GDP and that level should remain relatively constant. Consumers can be very imaginative. However, the biggest boost to the economy we feel will come from corporations as they strive to increase productivity to become more competitive with the rest of the world, China in particular. Expect a new boom in spending on new technology.

With all the terrorist threats in the world today, we expect a boom also in defense spending. The UN is too weak-kneed to do anything about Iran or North Korea, and it would be very unpopular at this time for the US to take drastic measures, so the last alternative would be to boost our defense mechanisms. Look for more spending on research and development of radar missile systems. The US and Israel are jointly working on a laser cannon that would accurately intercept nuclear tipped missiles. This will open up whole new industries.

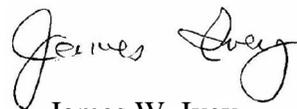
So, while the gloom and doomers focus on the hereafter, there are fortunately those focused more on the here to prevent the terrorists from bringing the after too soon.

Random thought for September 2006 - Continued from August:

French Corporation: You have two cows. You go on strike because you want three cows. You go to lunch and drink wine. Life is good.



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