



September 6, 2012

Dow: 13,047

TOUGH LOVE

A reporter once asked George Raft late in his career what happened to all the money he made as an actor in the 1930s, 40s and 50s. George replied that he spent some on women, some on wine, some at the race track and the rest he spent foolishly. Now let's suppose you are Mr. and Mrs. Middle Class. You have a pretty good job, but your wife was recently laid off from her job. You have a daughter, who is a sophomore in high school and a son starting the seventh grade. You just maxed out your credit card buying clothes and school supplies for your kids. Now, along comes a major shoe manufacturer introducing a \$315 tennis shoe endorsed by a major league athlete, who makes a mega-million dollar salary. Your son, of course, really wants this pair of shoes. You are obviously hesitant, but reflect on the sacrifices your parents made in order for you to have a better life than they had. You reflect on the state of the economy and the odds of maintaining your job. You know realistically it would be foolish to buy those shoes and that it would be difficult to rationally explain to your seventh grader the economic principles involved. In the end, you and your wife decide it is time for tough love. You say no to the shoes knowing it is best for your son in the long run, if he can learn the discipline of your actions. You also know that you will be dealing with an angry child in the near-term, but you will accept that in the hope that your son (and daughter) will learn the lessons of responsibility and discipline that will make them better parents and more productive citizens. That is just a microcosm of the macrocosm now playing out in the world.

Now imagine if you are Greece (or Italy, or Spain or others), and you have spent decades giving your people lavish health care benefits and retirement plans that allow your people early retirement with generous benefits. A noble plan, but a plan without much foresight. You have maxed out all your credit lines, and revenues coming into your coffers are not nearly enough to pay all these benefits. Is it too late to apply tough love? Perhaps, as it is difficult to take something away that your people have become so dependent on that they will riot in the street if you try and take it away or reduce it. What do you do? Large cuts may result in anarchy and a lost generation of rebuilding out of the rubble. You can go to your neighbor and ask for help. Initially, your neighbor is sympathetic and because he has his finances in order he agrees to help. However, after you ask for help the third time, your neighbor and his constituents start to grumble. Why should they pay for your foolish spending when they sacrificed early on to keep their financial house in order? Can anyone not see the final result of this Greek tragedy?

(CONTINUED ON REVERSE SIDE)

It's time for tough love in America. The greatest economic and democratic country in the history of the world does stand at a crossroad. Fortunately, we have a huge economy and one that is flush with cash just itching to be deployed. We also have a strong and talented work force capable of being retrained and refocused. It will be up to the next Congress and administration to work together and provide the right environment that will foster a strong economic expansion. Washington will also have to show they are capable and responsible parents showing tough love to curb the expanding debt and put people back to work. The American people want to work. They want to provide for their families, and they want to be a part of future American exceptionalism.

The Fed held its annual economic symposium in Jackson Hole, Wyoming, Friday, August 31. Nothing new came of it. The Fed still stands ready with additional accommodation as needed. The stock market has been treading water waiting for the Fed to implement further stimulus via QE3. Be careful what you wish for. Ben Bernanke is known as a student of the Great Depression and he must recognize that one of the major contributions to the length and depth of the depression was the fact that the Fed took money out of the system to stem speculation. The result was an economy starved for money when it needed it most. The Fed seems intent on not letting that happen again. Perhaps they are moving too strongly in the opposite direction, feeling that they would rather deal with inflation than deflation.

Amazing fact: Chinese stock market, after rallying 70% from its March 2009 low has now traded back down to that level, while our Dow has doubled since March 2009.

Late news: The jobs report for August was just released. It shows that the economy created 96,000 non-farm jobs and the unemployment rate fell to 8.1%. The numbers indicate that 368,000 people left the work force, allowing the unemployment number to drop from 8.3%. A new number that economists have been looking at is the labor participation rate (the percentage of population employed). That rate dropped again to 63.5%, the lowest in over a generation. You can spin this number anyway you want, but in the final analysis, we are still in the throes of a slow economic recovery and we remain so at least into next year.

Random Thought for September 2012:

“Doing nothing is hard to do – you never know when you are finished.”

Leslie Nielsen

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