

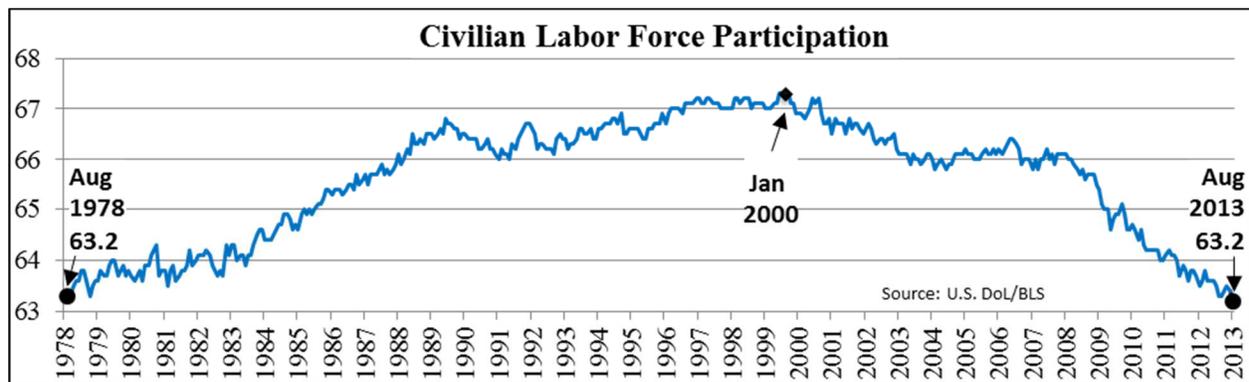


## HO-HUM

Another month, another anemic jobs report. At the risk of sounding redundant, here are the numbers for August:

- 1) 169,000 new jobs were created; analysts had been expecting 190,000
- 2) Private sector jobs created in June and July were revised down 74,000
- 3) Unemployment rate dropped to 7.3%
- 4) 312,000 more people dropped out of the job market
- 5) Labor participation rate dropped to 63.2%, the lowest since the summer of 1978

(See chart)



What is interesting about this chart is that it has continued to decline even after the recession formally ended in June of 2009. “60 Minutes” attributes a large part of the unemployment problem to technology. On their September 8th show they discussed jobs being replaced by technology and in particular robots which have now invaded (no pun intended) the surgical procedure market. This is true of course, but it has always been true since Gutenberg invented the printing press in 1445 up through the Industrial Revolution with the advent of tractors, assembly lines, the cotton gin and hundreds of other inventions that replaced human effort. In all of these instances the new technologies spawned newer jobs (note Steve Jobs and Bill Gates). There is no reason to believe this won’t continue to happen.

In spite of all the uncertainties facing investors and Americans in general, the stock market continues to advance with intermediate and short-term corrections. The markets seem to have adjusted to our slow growth, stagnant employment economy. Corporations are coming to grips with our new regulatory environment and the costs associated with the Affordable Health Care regulations. Unfortunately for many workers it means accepting

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a part time job or two as companies search to reduce expenses. Some analysts believe three out of four new jobs being created are part time. The end result is that most companies will continue to increase earnings albeit at a slower pace, and some companies will do extremely well. In other words, stock selection will be extremely important in this market.

With all the attention focused on Syria, Congress has scarcely begun to debate the looming debt crisis due to hit on October 1st. We will be facing another possible government shutdown unless the debt ceiling is increased. Congress always seems to come to a solution first with some creative accounting by the Treasury Department and then by raising the debt limit. When will Congress realize they can't raise the ceiling to infinity, and push obligations on to the next generation? They will raise the limit to escape the ire of government employees and social security beneficiaries.

*The Fed who cried "taper."* The Federal Reserve continues to threaten to stop or cut back the amount of bond purchases each month. Every time they do this, the stock and bond markets react negatively so the Fed rescinds its remarks, and all is well again until the next meeting. October is getting to be an interesting month as it often has in the past. Stock investors are worried that if the Fed pulls back on more money creation they will lose what has been a prop under the market. Bond investors are concerned that a taper will start a rise in interest rates (which it has) and thus a decline in bond prices. Higher interest rates are often accompanied by lower stock prices. Well, higher interest rates will not necessarily dampen the economic recovery. Investors have become so accustomed to low rates that they forget that historically the economy has performed well with higher interest rates. In fact, higher rates may push people to buy that house before rates go higher. By the same token, companies may decide it's time to expand their business and add inventory before rates go higher. So do not be afraid of higher interest rates or the Fed's taper policy. They just might return the markets to normalcy.

**Random Thought for September 2013:** "When there are not rich people everyone will be poor."

*James Dines*

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