THE DANA VIEWPOINT

September 9, 2014
Dow: 17,013

UPON FURTHER REVIEW

It must be the football season. Players are subject to instant replay both on and off the field now. If the referees don't get it right, there are plenty of hidden cameras and iPhones around to capture the reality which makes all of us subject to further review and that would include Congress and the Federal Reserve. The employment numbers were released last Friday and showed an increase in new private sector jobs of 142,000 for August after a string of six months with over 200,000 new jobs. A disappointment to investors and the stock market did a swoon for all of an hour. But upon further review, it was considered a positive by investors as now the Fed would have to continue its accommodative stance toward the economy, which may or may not enhance economic recovery and job growth, but it certainly enhances stock prices as the stock market continued its climb to new heights. History, or those who write it, will have to be the judge as to whether the Fed's actions (low interest rates and QE1, QE2 and QE3) prevented us from falling into a depression. It would appear that the Federal Reserve has gotten a little full of itself by thinking it can micro-manage the economy by printing vast amounts of money and keeping interest rates near zero for an extended period of time. Japan has tried these gimmicks for the last three decades to no avail as their economy continues to sputter. The Fed's policies, Congressional regulations, and the Affordable Care Act have contributed much to stand in the way of a true economic recovery. The growth we are witnessing is probably due to the true genius of business. Business has had to overcome the onerous regulations imposed by the Dodd-Frank bill and the uncertainties imposed by the Affordable Care Act. The full impact of these two bills will not be felt until next year. In spite of this we are starting to see some strong signs of growth in the manufacturing sector of the economy. This sector provides high paying jobs which we desperately need.

How about the Fed and its low interest rate policy? Investors and economists seem to be of a similar mindset, that high interest rates would hold back the economic recovery and deliver a death blow to the stock and bond markets. Let's take a look at the other side of the coin. With interest rates having been so low for so long, corporations have borrowed in excess of what they need to fund operations. They have used additional funds to buy back corporate stock and to increase dividends to shareholders. Economists and analysts estimate that corporations have more than $2 trillion dollars in cash on their books. If the Fed loosens its grip on interest rates many of the companies would decide that it is time to employ at least some of that money and expand their business. This would also create new jobs, new salaries, new spending money and new taxes for the government (to cover past spending). Higher interest rates are not necessarily a

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deterrent to economic growth. Remember the 1980s with double digit interest rates? Economic growth was pretty strong during that period. Many of you may remember paying 10% or more on a mortgage back then, but that didn't keep you from buying a house. You had a good job and felt secure. We need cooperation from Congress and the Fed to make this happen. ***Free the Entrepreneur*** should be our slogan going forward. It's time for Congress and the Fed to push the instant replay button, set their egos aside, and objectively review the path we are on.

Home of the Whopper? It used to be the good old USA. But now Burger King is planning to buy Tim Hortons Inc. domiciled in Canada. In addition to any other benefits, Burger King can move its headquarters to Canada. They will then be paying about 26% in corporate taxes compared to about 40% here. That's a whopper of a savings. Burger King announced the purchase price at $11 billion. Guess who is financing $3 billion of this inversion acquisition? None other than Warren Buffett's Berkshire Hathaway Inc. That must have been hard to swallow for the current administration.

How about our dollar? As our Fed gets closer to closing out the QE, Europe and Japan are moving in the opposite direction by further loosening monetary policies. The Wall Street Journal's dollar index is up 3.4% in the last two months. It's at its highest level since July 2013. It wasn't that long ago, that experts thought the dollar could be replaced by the Chinese Yuan as the reserve currency of the world. Our economy may be somewhat sluggish, but it is better than the rest of the world. Our financial system may be flawed, but it is the best and most resilient in the world.

Random Thought for September 2014: Including dividends, the S&P 500 gained 135% from March 2009 through January 2013, during what people remember as the ***"Great Recession."*** It gained the exact same amount from 1996 to 2000, during what people remember as ***"the greatest bull market in history."***

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