December 16, 2015
Dow: 17,749

Hut 1, Hut 2, Hut 3

HIKE! The Fed has just raised rates for the first time in almost a decade. The November jobs report showed the private sector adding 211,000 new jobs. Once again, not great, but good. October's jobs report was increased to 298,000, the highest of the year. Still no inflation and no significant wage growth. The unemployment rate stayed at 5%, and the labor force participation rate even ticked up to 62.5%. A quarter of a point increase will not halt our economic recovery. The European Central Bank had been advising the Fed to go ahead and raise rates. While the Fed's recent action removed the uncertainty regarding the timing of the first increase in interest rates, the markets will now grapple with the issue of how far and fast rates will rise in the future. Now the Fed should be quiet for a while and monitor the markets' reaction to the increase.

Equity investors received a slap in the face from the ECB on Thursday December 3rd. While the ECB announced that they would expand their bond purchase program and cut an already negative deposit rate to stimulate lending, investors deemed it was not enough and hammered stock prices here and in Europe. Investors will be closely watching the movements in the U.S. dollar versus other foreign currencies, as the increase in the value of the dollar versus most major currencies has created significant headwinds for U.S. exporters and multi-national companies.

What's happening in the oil patch? There is certainly a glut of oil and natural gas in the marketplace. Much of it has been brought on by new drilling technologies augmented by a slowdown in consumption because of the worldwide economic slowdown, particularly in China. Much to the chagrin of other OPEC countries, Saudi Arabia has refused to cut drilling to increase the price of oil. If their objective is to let oil prices decline to a level that would squeeze out some U.S. drillers, it is working. Financially weaker drillers in the U.S. have been filing for bankruptcy left and right, and now Kinder Morgan, a major pipeline firm, has announced a 75% cut in its annual dividend. Expect more such cuts, including among the major oil firms, as companies struggle to stay solvent. Dividend investors beware.

Believe it or not, we are still in the midst of our year-end rally. October is generally considered a bad month for the stock market, but investors should really look at October in a positive light, as it is a place where the bear goes to die, and in many instances it is the springboard for a year-end rally. After topping out at 18,400 last May, the market commenced a slide to 15,500 in September (down about

(CONTINUED ON REVERSE SIDE)

15%). After a good rally to 17,900 in early November, we have stayed near that high. Nobody said it would be a smooth ride. It's not a strong rally, but it is our rally. If you look at a good cross section of stocks on a daily basis, you could conclude we're in a bear market with many stocks in a downtrend that began early in the year (IBM, American Express, Monsanto just to mention a few), and that doesn't even include the major correction in oil and oil related stocks. It has been a very selective rally. Technology stocks have held their own and in many cases are making new highs. The large cap blue chip stocks are advancing, indicating a preference by investors for safety. The performance of a select group of mega-cap companies has created headwinds for many active managers, as some of the current market leaders currently command significant valuation premiums relative to the overall market.

It has been a record year for mergers and acquisitions. Most recently Dow Chemical and DuPont have announced plans to merge. Through early December, merger and acquisition activity has totaled $2.2 trillion this year, compared to $1 trillion in 2013. Expect more volatility from now to year-end as investors adjust portfolios preparing for 2016.

Stock buybacks: Many high profile companies have been buying back their shares and increasing dividend payouts. Apple, Microsoft, Nike, Boeing, Wells Fargo and others have been repurchasing shares of their stock since the beginning of the year. Nike recently announced a $12 billion buyback program with a 14% increase in its dividend payout. Apple bought back $36 billion in fiscal 2015 in addition to $45 billion in fiscal 2014. Why are corporations doing this? Many have a huge amount of cash and are being pushed by activists to return unused resources to investors. Others want to boost earnings per share (net income divided by fewer shares equals higher earnings per share and, hopefully, a higher stock price). However, on the flip side, corporations could be using their excess cash for product development or to expand their business and create jobs. In spite of this, look for corporations to continue to repurchase shares, and look for investors to hang on every quarterly earnings report.

Best Wishes for a Happy Holiday Season - Your friends at Dana

Random Thought for December 2015: Barrels of oil -- when the first oil wells were drilled, they had made no provision to store the liquid, so they used water barrels. That is why to this day we speak of barrels of oil rather than gallons.

15800 W. BLUEMOUND RD • SUITE 250 • 53005-6026 • P.O. BOX 1067 • BROOKFIELD, WI • 53008-1067 • 262.782.3631 • FAX 262-782-0581
365 ERICKSEN AVENUE.N.E. • SUITE 312 • SEATTLE, WA • 98110-1888 • 206.855.8781 • FAX 800.560.6227

E-Mail: dia@danainvestment.com
Web Site: www.danainvestment.com