THE DANA VIEWPOINT

February 12, 2016
Dow: 15,974

What, Me Worry?

Remember *Mad Magazine* and Alfred E. Neuman? He looked like a guy who didn't worry about anything – clearly not someone invested in today's volatile stock market.

The ups and downs of equity markets and oil do have investors confused. And some of the underlying data is confusing. The January jobs report was released February 5th, and it was contradictory to say the least. The government reported that 151,000 new jobs were created in January. That's less than the 262,000 jobs created in December. However, the unemployment rate dropped to 4.9% and even the employee participation rate ticked up to 62.7%. This is surprising because of all of the layoffs in the oil industry, not to mention the financial and retail sectors. Walmart, the nation's largest employer, is closing 154 stores with thousands of layoffs. In addition, the GDP number for the fourth quarter was reported at 0.7%. That was well below the Federal Reserve's estimate of 1.5-2.0%. Wages increased 0.5% which is a number the Fed likes to look at as it is a precursor to inflation, which the Fed hopes will increase. Much of that wage increase may be due to the fact that twelve states adopted the new higher minimum wage standard on January 1st.

The Fed's reaction to this has been muted. They didn't say as much as usual. Unfortunately for them, the news broke bad with regard to the EU (European Union) and other countries adoption of more stimulus and lower interest rates, even negative rates. However, they have another month to review another jobs report and some inflation numbers before their next meeting in mid-March. Instead of the telegraphed 2 - 4 interest rate hikes this year, we are back to a guessing game with the Fed.

Oil: The price of oil moves up and the price of stocks moves up, and the next day oil prices and stocks move down. At $30 a barrel, will oil companies be able to manage their debt and continue to maintain their dividend payouts? Chevron and Exxon have steadfastly vowed to keep paying their dividends. Conoco (not a major oil company) relented last week and cut their dividend by 66%. The White House wants to charge the oil companies $10 for every barrel they produce. This will result in more job losses and bankruptcies, not to mention the fact that the oil companies will pass on the extra cost, and it will hit the consumer at the pump. Of course, the airline and trucking industries will also be hit as the price increases filter down throughout the economy.

Falling oil prices are having a negative impact around the world, not just in the US, China, and Russia. Putin gets it. President Putin plans to sell off several state-owned companies to private enterprise, as he said they could be better managed in the free market system. He also plans to sell to the public state-owned

(CONTINUED ON REVERSE SIDE)

shares of these companies. He plans to raise $13 billion through this process. Horrors! Free enterprise in Russia! He has obviously watched the success of two Baltic free market countries, Estonia and Latvia. Turmoil in the oil patch may convince other countries to adopt similar strategies. Argentina finally ran out of OPM (other people's money), and recently voted out their socialist government and voted in a free market leader. Brazil and Venezuela could use the same strategy.

Regulations: Our government has stifled the development of new and existing businesses with an overabundance of regulations, higher marginal tax rates, and more limited deductions. The Dodd/ Frank bill alone added over 2,500 new business regulations and more are coming. Corporate taxes are too high (highest in the free world). Lower corporate taxes would prompt more businesses to expand and hire more people. It would also stop inversions, where a company either buys or is bought by a foreign company so they can establish a foreign headquarters and pay corporate taxes at that country's lower tax rate. Johnson Controls estimates they will save $150 million by merging with Tyco and establishing residency in Ireland where the corporate tax rate is 12.5% versus our 35%. Money is plentiful and interest rates are extremely attractive. We just need Congress to adopt a more congenial attitude toward business.

Our Congress recently passed a bill allowing us to export our oil for the first time. This will help our economy and may help stabilize the price of oil. Alfred E. is probably right not to worry. Free enterprise works. The turmoil in the oil market will sort itself out, and we will all have learned something from it.

The bottom line: The beauty of the free market system is that if you don't micro-manage it too much, it self adjusts. Investors became too complacent during the six year bull market while not paying attention to the problems that were unfolding. Now we are experiencing the corrective measures that are necessary to establish the foundation for the next bull market. In the meantime, do your homework, adjust your portfolio, and adopt Alfred E. Neuman's philosophy.

Random Thought for February 2016: "If the Sahara took up socialism, there would be a shortage of sand."

Milton Friedman, Pulitzer Prize winner and Economist