



THE DANA VIEWPOINT

August 8, 2016

Dow: 18,529

The Dog (and Donkey and Elephant) Days of Summer

As the presidential election begins to take shape now that the party nominees have been confirmed, we are discouraged by the tone. Every election cycle it seems like the pundits declare that “this is the most consequential election ever” and “the political parties have never been more divided.” These statements are usually thinly veiled hyperbole, but we do wish that the nation could have an honest debate on policies and priorities. Regardless of the reason, there was enough unhappiness with the status quo to drive the candidacy of Donald Trump. The race on the Democratic side was also more interesting than expected with Bernie Sanders winning 23 out of the 57 primaries, albeit in many smaller states. Real Clear Politics’ polls list unfavorable ratings above 50% for both Clinton and Trump. Well, somebody has to win, even if most of us aren't happy.

So what is with the economy? Economists expected second quarter GDP growth above 2%, but the initial report was just over 1%. Wages have been increasing, personal consumption has been strengthening, and the housing market is still healthy, with prices rising at a moderate rate in many areas of the country. In prior recoveries, GDP growth above 3% was deemed healthy; in this tepid recovery, it is difficult to get a sustained period with growth over 2%. Over the last seven years, GDP growth has exceeded 3% in only one out of four quarters. Ask six different economists and you will get six different reasons for the more sluggish growth. Some of the reasons listed include high debt levels coming out of the recession, global economic weakness, a strong dollar, lack of animal spirits, progressive tax policy, increased regulation, etc.

As far as the U.S. equity market goes, it has paid to hold your stocks and your nose. This has been one of the more unusual periods in stock market history. The S&P 500 reached an all-time high in July, after five successive quarters of lower year over year reported earnings. While the U.S. equity markets may look a little expensive and risky, they appear to be the best pick of a tough harvest when compared to all the other markets around the world. The good news over the last few months seems to be that the Fed will remain on the sideline for a while longer. Also, earnings expectations seem to be low enough for the second quarter that a slightly greater than average number of companies are exceeding those reduced expectations. Nevertheless, real earnings and sales growth are rare commodities in this market, and we continue to refine our portfolio

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construction using companies that we believe have the right combination of growth and valuation on a forward looking basis.

The summer Olympics are upon us, and usually there are some human interest stories that come out of the games that serve to bring us together globally. The Olympics bring to the fore those noble human ideals of striving and sacrifice for a goal. Excellence in anything seems to be an underrated quality these days. There are the more well-known Olympic sports like swimming, track and field, and basketball that get most of the coverage, but did you know that slalom canoeing, mountain biking, and trampoline are also summer Olympic sports? Athletes train for decades in these sports as well, striving to be the best in the world despite the obscurity of their sport. These less popular sports are where we see the pursuit of excellence for excellence's sake, the true ideal of the Olympics. So this August, try and find time to watch one of these less popular events, appreciate the sacrifice those athletes have made, and be glad the political conventions are over.

And don't ask what we think of the race walking.

Random Thought for August 2016: The third party presidential candidate that received the largest portion of the popular vote was Theodore Roosevelt in 1912 (he had already completed two presidential terms in 1909). He won 27.4% of the votes cast running as the Progressive "Bull Moose" party candidate, and survived an assassination attempt in October of that year right here in Milwaukee.

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