THE DANA VIEWPOINT

Downshifting

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There was a large amount of downshifting the day before Memorial Day at Indianapolis and Charlotte as the Indy 500 and the Coca Cola 600 held their annual Indy Car and NASCAR races. Taking a backseat to these events has been the downshifting occurring in our economy. The first quarter report on our Gross Domestic Product (GDP) started at 0.5% and the first adjustment placed it at 0.8%. In any case, this was a downshift from the Federal Reserve's 2.0% annual estimated rate. Then came the next downshift with the jobs report for May. A bit of a shocker when the Labor Department reported that the private sector added a paltry 38,000 new jobs in May. This was the weakest performance since September 2010. The Labor Department also reduced March and April's report by 59,000 new jobs. For the past 3 months job growth has averaged 116,000, a sharp downshift from the 219,000 average over the prior 12 months. The unemployment number dropped from 5.0% to 4.7% largely because of the millions of people who have left the job market having given up looking for a job. In May alone 458,000 people left the job market. In addition another 468,000 people are working part time, but would rather have a full time job (Labor Department numbers). The employee participation rate measures the number of people above age 17 who are eligible to work and are actually working. This number downshifted to 62.6% from a recovery level of 63.0% two months ago. It will be difficult for the administration, Congress and the Fed to spin these numbers.

Consider the Fed. They want to raise interest rates. Unfortunately, they have overestimated growth in GDP every single year since the recession ended in June 2009. The positive spin has to be that at least our economy is still growing while the rest of the world is not. Recent analysis by economists point to downward estimates for economic growth throughout the free world. Central bankers across the globe have been trying all kinds of gimmicks to stimulate their economies, starting with printing money and cutting interest rates to negative levels. Does money have value anymore? Our money does. With negative interest rates in Japan, their investors are flocking to buy our treasuries. Toyota recently sold a 3 year bond with a yield of 0.001%. Even Janet Yellen said a while back that the Fed is out of ammunition in terms of stimulating the economy.

Does all the turmoil in the world's economy negatively impact our stock market? Regardless of the impact, investors continue to focus their attention primarily on dividend paying stocks. There has

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been concern in some quarters that we may be in a bubble with stocks likely to crash. This stock market is not anything like the high tech bubble of late 1999 - early 2000. At that time, we had a euphoric IPO (initial public offering) market. New issue stocks in the technology sector were trading on air with little or no earnings. In fact, in one new issue the prospectus stated they had no product or service, but were going to use the money raised to find a product or service. Of course the stock traded at a premium on the initial offering. Then there was the financial and real estate bubble of 2006-2007. People were buying houses and "flipping" them for a quick profit. Other people were buying a house simply because they believed housing prices would continue to rise and they would never see those current prices again. Congress didn't help by trying to get all Americans into a house whether they could afford it or not. We are not seeing this kind of euphoria currently. After a volatile 2015 and a scary correction in January and February, the stock market has settled down and become more orderly. Bullish sentiment is not overly optimistic. Investors are still buying stocks (mostly dividend paying) but the mood of investors is more subdued, along the lines of, "I need the dividend income or capital appreciation, but I am not entirely comfortable being fully invested." Stock market crashes are not born out of this kind of attitude. Corrections yes, but not crashes like 1999-2000. So stick with a sound investment approach of quality and diversification.

There are a couple of interesting factors for investors to consider this month:

1) Stock buybacks are halted for many companies beginning this week until early July during earnings reporting season, basically to halt any insider buying.
2) England votes on June 23 on whether to stay in the European Union or not. Hard to say how investors will react one way or the other. If they vote out, expect a negative reaction at first followed by a recovery.

Random Thought for June 2016: "If you find yourself in a hole, stop digging"

-Will Rogers

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