THE DANA VIEWPOINT

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Get Outta Dodge

Another month, another jobs report. The labor department indicated the economy created 160,000 new jobs in April, well below analysts' expectations. For the first four months of this year the U.S. is averaging 192,000 new jobs per month. We averaged 229,000 new jobs monthly for all of 2015. The unemployment rate stayed steady at 5%. The Fed and investors want to believe that number is accurate, but for those unemployed or working a part time job below their skill level to pay the bills, it is no consolation. Fed chairwoman Yellen says we need 100,000 new jobs each month to cover people entering the job market for the first time. Some economists say we need to create closer to 200,000 new jobs monthly to cover new employees. New job gains are coming from higher skill sectors such as engineering, tech, and medical fields. The manufacturing sector created only 1,000 new jobs and this is an area of general concern for the economy. Job layoffs in April were the highest in seven years as employers struggle to maintain earnings growth. A semi-bright spot was that wages increased 0.3% in April and are up 2.5% from a year ago. The Fed is hoping that this will lead to an increase in inflation, which would lead to higher producer and consumer prices and would allow them to start raising interest rates in a normal economic cycle. Interest rate cycles generally can last 35-40 years. The last time interest rates were this low was near the end of World War II. They then rose until the early 1980's. After that they declined steadily until now (about 35 years).

Add the recent report that our GDP rose at a paltry 0.5% in the first quarter and it's not a very rosy picture. This number will be revised twice more before the final number and these revisions have an uncanny way of being revised upward. In addition, China has reversed course and is now pumping money into Chinese businesses that are on the verge of bankruptcy. The products these companies produce will be added to the glut already there keeping deflationary fears alive. So is it time to "get outta Dodge" as Marshall Dillon would tell the bad guys in Dodge City, Kansas? That phrase has come to mean is it time to get out of a seemingly bad situation.

So is it time to give up on the US economy and exit financial assets? The answer is a resounding NO! Most businesses seem to find a way to increase sales and earnings no matter how many regulations and taxes Congress can place in front of them. For example, the Department of Labor issued new guidance today on overtime pay for salaried employees earning less than $47,476.

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This will lead to many unintended consequences and raise costs and regulatory burdens on many small businesses and not-for-profits.

In addition to the resilience of the equity markets, the bond market remains a healthy environment as short term yields have risen and returns all along the yield curve have remained positive in 2016. The so-called bubble that has existed in Bondland for the last 5 years is being engineered by the Fed as they attempt a very soft landing. So while you can turn on your favorite financial network and likely hear the hourly prediction of doom and gloom for the markets, the fact is the world hasn't ended and most predictions have been proven wrong the last eight years. The best course of action is to maintain an appropriate diversification of asset classes for the long haul rather than attempting to time the market in any way. America is a great country and we got this way through hard work and being able to adapt to changing trends. It's not time to "get outta Dodge".

Speaking of getting outta Dodge, we are in the middle of the European version. Will the United Kingdom leave the EU? The betting markets (PredictIt) currently have the odds at only 30%, but U.K. polling shows the split at 40%/40%, with 20% undecided. The British show a strong independent spirit, and they did not join the currency union when it started in the late 1990's. Although the British see benefits from not being tied to the problems of Europe, especially the southern countries, there are also significant risks. Trade could certainly be hampered, and costs could increase. London is also the financial center of Europe, and the effect on markets cannot be accurately projected. One thing is clear - the trend towards integration in Europe seems to be swinging back towards increased sovereignty.

Random Thought for May 2016: **"**Don't worry about avoiding temptation. As you grow older it will avoid you".

-Winston Churchill

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