THE DANA VIEWPOINT

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All Hallows Eve

The ancient Celtics held a festival every October 31st to celebrate the conclusion of the harvest season. The Celtics believed that on this day the deceased returned from the dead to create mayhem throughout the land. During the festival many Celts wore masks and various costumes so the deceased would not recognize them. If only it were that easy to hide from our Halloween specters!

There is a belief on Wall Street that October is a time for mayhem in the stock market, and it is true that many an October has seen a major sell-off in stock prices. Such mayhem took place in October, 1929, when the stock market suffered its most devastating loss in history, culminating in a disastrous day on October 29 which forever became known as “Black Tuesday”. There have been many other bad days on Wall Street in Octobers past, most recently in 2014 when the Dow Jones Industrial Average dropped 460 points intraday, before recovering half of the day’s loss. And what was the reason given for that drop? It was the uncertainty over actions at our old friend, the Federal Reserve. On the other hand, October can be viewed in a more positive light. It is a month where many bear markets have gone to die, and it has been the springboard for many year-end rallies (2014 being a good example.) So is the glass half full or half empty? Deceased bear markets past may no doubt cause worry and mayhem this October.

We need to look no further than the financial sector. The banks are taking it on the chin – again. Whenever the Justice Department needs money they seem to sue a bank for mortgages written during the bull market in housing as they can’t very well sue themselves. The two government agencies, Fannie Mae and Freddie Mac, insured a large portion of the mortgages in the US in 2006-2007 and many of them were sub-prime, but they were bailed out by the taxpayers and are back in business and being encouraged by Congress to be more lenient in their underwriting of mortgages. These agencies are back to owning approximately $700 billion of mortgages in the US, and insuring a much larger number – deja vu all over again. Then there is Deutsche Bank of Germany. They have made some bad loans in recent years and have seen a large drop in their stock price. Enter the US Justice Department. They are considering a fine against the bank in the amount of $14 billion for mortgages written before 2009. The bank apparently has $18 billion in capital. Many hedge funds hold money at Deutsche Bank and some have been withdrawing money to protect themselves. Even rumors of a lawsuit this size could cause a run on the bank. It would not be a happy ending for many investors or for the financial world in general. Now enter Banco Monte dei Paschi di Siena (can’t write that more than once) considered to be the oldest bank in the world, founded in 1472. It is Italy’s third largest bank. For centuries it has been a source of jobs, credit, wealth and pride. Now they are facing bankruptcy. The U.S. has some banking problems as well, but not nearly the magnitude of

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Deutsche Bank or that other one in Italy. Of course it doesn't help our financial system when you have a maverick CEO at Wells Fargo Bank and where employees are accused of opening accounts without client permission. Wells Fargo quickly agreed to a $185 million fine. That fine goes to the Consumer Finance Protection Bureau (too late for them to do anything about Wells' violation), the Comptroller of the Currency, and the Attorney for the city of Los Angeles. Who decided where that money goes? Anyway, it's another black eye for the banking industry. It is difficult for banks to make a profit in this environment of low interest rates, negative interest rates and other monetary gimmicks being tried by central bankers around the globe. It is not working. Emphasis should be placed on fiscal policy. No matter how much things change, they remain the same.

The private sector created 156,000 new jobs in September. A year ago and even earlier this year that was considered a weak number. In fact the Fed even said that we needed to create 200,000 new jobs to keep pace with new people entering the market place. Now the Fed is saying 156,000 is an OK number because it shows the job market is moving forward and that we are keeping pace with new entrants in the market place. What gives here? The Fed wants to have their cake and eat it too. Every Fed meeting sees more and more members speaking out. It is very discouraging to investors. Last year the Fed said they could probably raise short term interest rates 4 times this year. We are still waiting. The Fed must feel under pressure to raise rates after their poor economic and interest rate projections. Well, no increase at the next meeting – too close to the elections. Mid-December looks good and the Fed should do it just to relieve the pressure that has built up all year. It will not stall the economy, and it will give the Fed and investors some breathing room. The stock market wants to move higher, and it will once the Fed removes the frustration of no action.

Random Thought for October 2016: The International Monetary Fund (IMF) recently reported that non-financial sector debt in the world is $152 trillion or 225% of global GDP, Public debt is at 85% of global GDP.

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