



---

THE DANA VIEWPOINT

---

*September 30, 2019*

*Dow: 26,917*

## **Dollars and Sense**

We need more of both. The U.S. and global economies need more dollars in circulation, and our political leaders need better judgement (sense). Did President Trump cross the “high crimes and misdemeanors” line in his call with the Ukrainian President? Will it make political sense for the Democrats to push forward with an impeachment inquiry and vote? The political stakes have ratcheted higher for both parties with more than a year to go until the general election. We don’t have a call yet on who it will benefit and who it will hurt, although Joe Biden had already been falling in the polls and the prediction markets relative to Elizabeth Warren. If there is slippage in the economy prior to the election, she has positioned herself to be the beneficiary. Polls released recently are as expected; about 4 in 10 think the President should be impeached, 4 in 10 do not, and 2 in 10 say it is too soon to tell. The battle is for those “swing thinkers.” Some say they are not thinkers at all, since their opinions can vacillate, but that is where both parties think they have an advantage. The Democrats think the issue and the timing are right to ramp up talk of impeachment. The President believes that ultimately he will be vindicated and this will again be seen as a witch hunt. Get ready for more outrage overload from both sides. It appears the markets may have become dulled by the constant political outrage, as they have not moved much on the new political developments.

What has changed in the market over the last few weeks is the leadership. The areas of the market that had been outperforming, including technology and high valuation stocks, some with no earnings, have begun to falter. Stocks that had been underperformers, including many value and dividend stocks, have begun to outperform. If we use the Russell 1000 Value and Growth indexes as proxies for these stock categories, the growth index has generated double the return of the value index over the last five years. For the first eight months of this year, the growth index led the value index by more than 9%. In September, that gap has been cut in half, to less than 4.5%. Why is this important? A healthy market does change leadership periodically, or at least shows a reversal of trends when one class of companies or market sector significantly outperforms another. To use a sports team analogy, many winning teams have a few superstars, but those teams cannot win consistently if many other players are far below average. When one class of companies significantly outperforms the other, eventually that gap has to close. If it closes by the leaders falling significantly, you have a falling market. If it closes by the old leaders pausing and the laggards beginning to outperform, there may be more market gains to come. Economic

(CONTINUED ON REVERSE SIDE)

indicators have also begun to surprise on the upside, indicating that many participants have become too pessimistic about the economy and the markets. We root for a healthy market where there is not a huge divergence between the haves and the have nots.

We have saved what may be the least interesting topic for last, which is the recent tumult in the repo markets. The repo market provides a place where banks and brokerage houses can borrow and lend to each other on a short-term basis, collateralized by securities, usually U.S. Treasuries. When strange things happen in this market, it is frequently referred to as a problem with the “plumbing” in the market. The repo market allows institutions with securities to use them as collateral to borrow cash, so plumbing is actually an appropriate metaphor. Late in September the rate on repo loans began to rise significantly, indicating a shortage of dollars to loan. While weak treasury auction demand, declining treasury prices and high quarterly tax payments received the blame, the New York Fed did not address the problem immediately by adding dollars to the market. Was this a more ominous sign of things to come? We don’t think so. The New York Fed could have been less clumsy in addressing the need for dollars, and they have said they will address the need better in the future. We will watch the issue going forward.

Good news still exists: the S&P 500 closed within half of a percent of its previous all-time high in September, the Fed thought it prudent to provide another rate cut, and many broad economic indicators are stable to rising. We will continue to mind the dollars entrusted to us and be on the lookout for adjustments that need to be made to our strategies.

**Random Thought for September 2019:** "Which future do you want? Do you want the future where we become a space-ranked civilization and are in many worlds and out there among the stars? Or one where we are forever confined to Earth? And I say it is the first."

Elon Musk - Starship Rocket Unveiling 9/28/19

APPROVED FOR DISTRIBUTION TO CLIENTS. *Dana Investment Advisors welcomes any comments to their newsletter and is more than willing to discuss or explain any aspect of the letter. This newsletter is provided for general information only and is not intended to provide specific advice or recommendations for any individual or entity. This is not an offer, solicitation, or recommendation to purchase any security or the services of any organization. The foregoing reflects the opinions of Dana Investment Advisors.*

*If you would prefer to have our newsletter e-mailed, please send your e-mail address to [newsletter@danainvestment.com](mailto:newsletter@danainvestment.com).*