THE DANA VIEWPOINT

July 30, 2020
Dow: 26,314

New Normal

"New normal" is a term that has been used to describe the economic circumstances that existed after the 2007-08 recession. Large amounts of personal wealth and capital were lost as housing values plummeted, stock prices fell, and jobs were lost. It took the stock market five years to recover, the housing market ten years, and the number of employed Americans seven years to reach their prior peaks. The term itself is oxymoronic: can something that is new be normal? We are dealing with much that is new this year – none of it seems normal.

We now have experienced four full months of the work from home economy. Surveys indicate that in early May, 70% of the workforce was working from home some or all of the time. By late July, roughly half of the country was still working from home some or all of the time. We would have doubted that such conditions could exist for this long without seriously impairing the long-term health of the economy. Huge amounts of fiscal stimulus dollars have offset the pain, but that flow of dollars is unlikely to continue at its current level, and Congress has not yet agreed on the form or delivery method for additional support. The S&P 500 is flat for the year and reached a new five-month high last week. The NASDAQ index is up 15% for the year. Does the performance of this year's leaders in the market make sense? Google just became the fourth U.S. company to reach one trillion in market capitalization. Apple, Microsoft, and Amazon have now all rocketed to $1.5 trillion in market capitalization. In almost all past market environments where large companies have moved to high price to earnings ratios, they have gone through ten- to twenty-year periods where their stock performance has been flat. While we own and like these stocks, we will remain active and defensive within our allocation as we think its "Buyer Beware" for passive index investors getting historically high position concentrations.

We are at another key turning point in the battle against COVID-19. The confirmed caseload has increased significantly, mostly in southern states. Although the increased caseload has put pressure on the healthcare system, daily deaths are down from the levels of April and May. Still, daily deaths have moved up in the last week, and some areas of the country have imposed increased restrictions. School openings are the next challenge; some large districts will begin with remote learning. This will have economic implications as we can expect that family routines will be further disrupted during the coming school year.

(CONTINUED ON REVERSE SIDE)

COVID-19 appears to be the election issue that the Democrats have chosen to run on. With COVID-19, the new normal is always a moving target. If cases are increasing and fear and economic dislocation is worsening, it would seem to erode significantly the benefits of incumbency. If conditions are improving as we move towards the election, the incumbent politicians will try and play that factor to their advantage. Politics is like the markets in that the direction of change, or the perception of the direction of change, is usually more important than the current condition. There has been little that is normal in the Trump presidency, so why should this be a normal election? Biden has done a good job staying out of Trump's way, but his potential weaknesses are readily apparent. Because of the cross currents of COVID-19 and societal upheaval, we find this election very difficult to handicap, even though we are less than four months out.

We are excited that our clients and consultants are finding new ways to combine some of our strategies to create robust portfolios for the current environment. Our Limited Volatility Strategy is low risk but still yields more than comparable investments. It can be combined with the Dana Preferred Stock Strategy, which yields over 5%, in a ratio that meets clients' needs for income and security. Our newest equity strategy is the Unconstrained Equity Strategy, which focuses on disruptive companies with high growth prospects. As the Strategy has the freedom to hold a higher cash position in periods of market stress and currently holds concentrated positions in several disruptive technology companies, performance has been very compelling in the first six months of the year. Some investors have paired this strategy with an allocation to one or more of our other equity strategies to create a slightly more opportunistic equity portfolio.

These are dynamic times, and we are excited by the challenges we face. The investment landscape is far different than it was six months ago. Know that we are here to help you succeed in these times.

Random thought: " He who is unfit to serve his fellow citizens wants to rule them."

- Ludwig von Mises

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