



BAD NEWS BULLS

June 9, 2011

Dow: 12,124

It's been said that the stock market climbs a wall of worry. The bear market touched a bottom in March 2009 and proceeded to rise about 85% to a high in April. We are now in the midst of a correction from that high, but the overall trend remains positive for equities. Not so much so for the economy. Well, the economy is still growing, albeit slowly. At this stage in a recovery the economy should be recovering more rapidly. The economic news is not getting better:

1. The May jobs report indicated that 54,000 new private sector jobs were created. Economists had forecasted 170,000. We need 150,000-200,000 new jobs monthly just to keep up with the new entrants into the job market.
2. Unemployment increased to 9.1% and this number does not include those unemployed who have given up looking for a job.
3. Housing prices in the US dropped 4.2% in the first quarter to the lowest level since the financial crisis began.
4. Gas prices at the pump are still over \$4.00 a gallon in many parts of the country.

Does this mean we have turned bearish? Not by any stretch of the imagination. However, we can't be just whistling through the graveyard. We must analyze all the data and make decisions. We concluded some time ago that the stock market uncoupled from the economy and went into bull market mode regardless of any bad news on the economic front and with good reasons:

1. Corporations have taken the last two years to clean up their balance sheets, increase productivity and build up a cash hoard for expansion and acquisitions. Some companies are even borrowing money at current low rates to add to their cash positions.
2. Investors, likewise, have cleaned up their balance sheets and are sitting on more than \$1 trillion in money market funds waiting for the bell to ring on a more rapid economic recovery.
3. Investors, especially retirees, simply cannot live on the current low income bonds are generating and are increasingly looking to higher yielding stocks.
4. With all the turmoil in the world today, US equities are the safest and best place to be invested.

So, what is the holdup? In a word, uncertainty. Corporate and investor cash hoards are sitting idle because:

1. Uncertainty over the outcome of Obamacare. Businesses are reluctant to add employees without knowing the cost of this legislation. This will probably end up in the Supreme Court, causing further delays and uncertainty.
2. Uncertainty over taxes. Will the Bush tax cuts be extended beyond 2012?
3. Uncertainty over the extent of new onerous regulations on business and investing.
4. Uncertainty over the moratorium on drilling for oil and gas in the gulf and political instability in the Middle East.

(CONTINUED ON REVERSE SIDE)

A wise soul once (maybe twice or more) told his employees, “I don’t want to hear excuses, I want to hear solutions.” Well, some solutions have been proposed and not everyone will agree on all the points, but it should be a starting point for discussions leading to solutions. The biggest elephant in the room would be the national debt and deficit. Families across the country over the last two years have faced similar problems and have sat down at the kitchen table and worked out solutions. Sell the boat, eat out less, no more expensive vacations, cut clothing allowance, etc. Tough decisions, but necessary to survive. Why can’t Congress do this? Are they too big and cumbersome or is it because it’s not their money, it’s our money?

The President has met with leaders in the three parties and also with business leaders across the country. Some solutions to stimulate the economy and create jobs have come from these meetings:

1. Make the previous administration’s tax cuts permanent.
2. Remove the moratorium on drilling for gas and oil. Exxon just discovered an oil field in the Gulf of Mexico that contains some 700 million barrels of oil equivalent, one of the largest finds of the last decade. This would not only create thousands of jobs but would lower the cost of gas at the pump and reduce our dependence on Middle East producers.
3. A restructuring and simplification of the tax code that would level the playing field for all taxpayers.
4. Medicare and Social Security have been discussed, but that is a third rail and we don’t expect serious discussion on those issues until after the election.
5. Reduce government debt and deficit. Congress is moving on these issues and we expect some kind of legislation soon.
6. Sign the free trade agreements with Columbia, Panama, and South Korea. This would create more jobs and increase our exports.

Happy Birthday America. It’s 235 years from signing the Declaration of Independence. America has always faced up to problems and come up with solutions. The recent spate of tornadoes and floods brought out the true American spirit of helping each other and not waiting for government assistance. The world needs continued American leadership and in order to maintain that leadership we need to get our financial house in order. Can you imagine world leadership resting somewhere other than the United States?

Random Thought for June 2011: “Just because you do not take an interest in politics doesn’t mean politics won’t take an interest in you.”

Pericles 430 BC

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