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THE DANA VIEWPOINT

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*January 17, 2017*

*Dow: 19,885*

## **Make the Economy Great Again**

It was interesting watching the stock market the first Friday in January. The Dow Industrials came within 37 cents of hitting 20,000 and then backed off, followed by several more attempts to break that psychological level. Barring any extreme bad news that level will be breached, maybe before the inauguration. After the inauguration, the market may take a breather while investors monitor President Trump's success in implementing his policies to stimulate the economy. He should be able to reform Dodd-Frank, legislation that has imposed over 2,000 regulations that have shackled economic growth, and retract some of the over 2,000 executive rules signed by his predecessor. His plan for a corporate tax cut from 35% to 15% may be a bit much even for Republicans. If he can sell Congress on a 25% rate coupled with a reduction in regulation, that should be enough to encourage people to start new companies or expand their existing business. During the recent low interest rate environment, corporations have been borrowing money and using some of the funds to buy back their stock in order to boost per share earnings. They still have cash on their balance sheets, and those funds should find their way into expansion of existing businesses and creation of new businesses. If all this works we will see economic growth and the creation of new jobs. The creation of jobs will not only increase our tax base, but will help solve many of our social problems. Whether you like Mr. Trump or not, he will be our next President. He is surrounding himself with people who have been successful in other fields. Success often breeds success. Like his predecessor who had control of the House and Senate, Trump will have Republican control of both houses. He will have a minimum of two years to produce some results, especially on the economic front. If the public is not satisfied, they will return the Senate and maybe even the House to the Democrats. Anyone remotely connected to the economy should be pulling for the success of his plans.

Whatever happened to Fannie and Freddie? Well, they are still alive and kicking. Those two giant government backed mortgage companies are still writing and buying mortgages. They still control about 67% of the mortgage market. Their stocks are both around \$3.80 per share, up from about \$1.50 as recently as last November. Congress is still discussing what to do with them. They were bailed out by the taxpayers and have improved their balance sheets. Some in Congress want them to be fully backed agencies of the government and others want them privatized with no government backing. Two Senators - Mike Crapo (R) and former Senator Tim Johnson (D) - have a bipartisan proposal on the table. The proposal would wind down the companies and transfer their assets to a securitized platform owned by market participants that would have

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explicit guarantees from another government agency. Shareholders have filed lawsuits to stop the current “profit sweep” where the government takes the quarterly profits. An ultimate solution is probably a ways off as the new administration has more important issues to address.

And yes, there was a jobs report January 6th. Not a good one either; 2016 was the worst year for job creation since 2012. The government reported that the economy created 156,000 new jobs in December. However, the markets are now looking forward not backward. Even the Fed is anticipating that economic growth will push that number higher by February or March. They would like to hike rates another 0.25% this spring. Mr. Trump has set some lofty goals and it doesn't seem possible that he can deliver on all of them. Hopefully he delivers on his economic goals. We need more than the 1.8% annual growth in GDP that we have been averaging over the last 8 years.

The price of crude oil recently hit a twelve month high of \$55 a barrel on an intra-day basis and then backed off. It remains to be seen if the OPEC (Organization of Petroleum Exporting Countries) nations can hold to their production cuts. If they can, the price of oil could move to \$60 a barrel. Predicting what OPEC will do is more difficult than predicting the weather.

**Random Thought for January 2017:** Donald Trump is the fifth President that has never before served in an elected political office. The other four were Zachary Taylor, Ulysses Grant, Herbert Hoover, and Dwight Eisenhower.

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