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Have you read about the debt crisis in Europe? In Greece and Italy national debt now exceeds GDP. Spain and Ireland are not far behind. It is causing turmoil in equity markets across the globe. Meanwhile, here in America Congress pats themselves on the back for finally agreeing to their own debt solution. They must not have been reading the papers as our debt just surpassed our GDP and Standard & Poor's dropped our credit rating from AAA to AA+. Our debt is now like the Titanic waiting for an iceberg. So what did Congress accomplish? It's not clear (is anything ever clear out of Washington?) exactly what transpired. The best we can tell is Congress agreed to cuts of \$900 billion over ten years. So instead of increasing spending over the next ten years by \$8 trillion, we will only spend \$7 trillion. This would put our total debt over \$20 trillion by 2020. It is unlikely that GDP will grow enough to close this funding gap. As for the ratings agencies (S&P, Moody's, and Fitch) they are as clueless as Congress. They have never been pro-active, but always reactive. Moody's said they would cut our credit rating by 2013 if the economy doesn't pick up. What a bold statement. In the meantime the rest of the world continues to buy our debt. Well, maybe not China or Russia. Russia recently called us a parasite on the global economy and China has been scolding the US as well. Imagine if either of these two humanitarian countries was to assume global leadership. We reiterate our stance that the best and safest place to invest your money is in US stocks and bonds.

If we are to maintain our global leadership role we must address four major issues:

1. **Debt/deficit:** No question, Congress must show some backbone and get serious about some real cuts in the budget. Establishing a "super committee" to review possible cuts will not be effective. Since when can a committee of six Republicans and six Democrats agree on anything? A better solution would be to allow someone who has budgetary and business knowledge make recommendations and then let Congress vote on the proposals. This individual could be someone from Congress or even an outside business person. Congress needs to act on this quickly.
2. **Economy/jobs:** GDP for the first half grew at a 0.8% annualized rate and new private sector jobs increased by 154,000 in July. Both numbers do not inspire confidence in growing the economy and reducing the 9.1% unemployment rate. The government needs to become more business friendly. New regulations are stifling business investment. Private enterprise needs help from the corporate tax code to be more competitive in the global market. We still have the highest marginal corporate tax rate in the free world at 35%. Reducing this rate to 20% or 25% would encourage money to flow into new businesses and

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expansion of existing businesses.

3. **Tax reform:** Last year Congress established a committee to review taxes. The Bowles-Simpson Commission put forth a proposal to move to three income tax rates: 8%, 14%, and a top tax rate of 24%. They also proposed reducing the corporate tax rate to 26% and closing tax loopholes. Eliminating subsidies that distort investment would be a good idea also. These proposals were not seriously considered by Congress. They should be re-opened. Just taxing the rich will not work. FDR tried it in the 1930s to no avail. The rich didn't get that way by being stupid (well maybe some did). They just buy tax shelters or take the money offshore. We need this money here to create jobs.

4. **Entitlements:** The third rail. No one wants to touch it. Let someone outside government touch it, make proposals and let Congress vote on it. At some point all or part of Social Security will need to be privatized. We can do this without putting Grandma in the soup line. It has been proposed that anyone over fifty years old stays on the current benefit structure and those under fifty put half the payments in the government plan and half in a defined contribution plan. Chile has a privatization plan that has shown to work well. Medicare and Medicaid need to be addressed also, but with Obamacare being challenged in the courts, this will have to wait.

We have some obvious and serious problems that need to be addressed now. The good news is it's not too late. We can grow our way out of these problems with some adjustments in our economic policies in Washington.

The Fed meets while we are at the printer. They are likely to do nothing. Let's hope they don't propose additional purchases of Treasuries. We don't need to further add to our debt on a failed program.

Random Thought for August 2011: "Two percent of the population thinks, two percent think they think and 96% will do anything to avoid thinking."

George Bernard Shaw

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