



April 8, 2008

Dow: 12,576

## ***INTENDED CONSEQUENCES?***

So, okay, the Fed finally caved in as Ben Bernanke indicated that we may have a contraction in economic growth, but he expects the economy to pick up in the second half of this year. We have been and continue to be very positive on long-term economic growth. We have a \$14.4 trillion economy (gross domestic product) and it's not all connected to the financial sector. With all the negative news bombarding us daily, you would expect the stock market to be in total chaos by now. The March USA Today reported a Gallup poll showing that 57% of Americans think a depression "lasting several years" is "likely" and 79% are worried about the possibility. These people are not economists or investment advisors; they get their news from the print and video media which have been predicting a recession since 2004. The coup de grace may be a recent cover of *Business Week* with the headline "Waking Up to the Recession," complete with alarm clock. Someone once said that they don't ring a bell at the top of a market or at the bottom of a market. We would expect more disappointing news as first quarter earnings and further write-offs are reported, and there will be further volatility in the market place, but we feel the markets have discounted most of this.

Years ago we were at an investment seminar, and the speaker was talking about the media influence on the market and our lives in general. He made an analogy to the flu season. The media reports the flu has shown up in Asia and is headed this way. Eventually, it hits the West coast and starts moving across the country, and as the media trumpets this on front page headlines, everyone loads up on anti-flu medications and sits waiting for it to strike. It becomes a self-fulfilling prophecy. We are witnessing that now with lenders hesitant to lend and borrowers reluctant to borrow. The money is out there and as confidence gradually returns, the economy will pick up steam again. As stated, the economy is huge and much like a living organism that has a life of its own. Neither the government nor the Fed can control it completely, but they can help heal it and keep it moving. So far the Fed has done a good job administering to the credit crisis and preventing it from hemorrhaging. What we don't need now is for Congress to institute a raft of regulations that could hamper the economic recovery.

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Energy crisis? What energy crisis? Crude oil is once again flirting with \$110 a barrel, and it is not the American oil companies that are driving the price up. Part of the price increase comes from the huge demand from the US and emerging countries, especially China and India.. A bigger issue may be speculators. There are over 500 energy related hedge funds now operating around the world plus numerous sovereign investment funds that have borrowed billions of dollars to leverage their purchase of oil futures. This is the same tactic that financial institutions and other investors used to lose money and create chaos in the mortgage market. This too will end badly for investors, but good for consumers as the price of oil will drop dramatically. Couple this with new alternative energy sources coming on line, and we are setting the stage for the next economic boom. John Doerr, Google's first funder, says energy is the biggest business in the world, "the mother of all markets." Venture capitalists are already pouring money into alternative energy start-ups and once the current financial crisis passes (soon) we will see an acceleration of money seeking opportunities in this area. We have just seen the tip of the iceberg.

The tax man cometh. It's that time of year again to gnash your teeth. The federal tax code is now more than nine million words. The original Constitution used fewer than five thousand words. The Office of Management and Budget estimate Americans now spend more than 6.5 billion hours per year filling out tax forms. In 1913, when the income tax was introduced, there was a one page filing form and a maximum tax rate of 7%. Once again it is time to simplify the tax code, but we will probably be saying the same thing next year. There have been many ideas floated – a value added tax or a flat tax to name two and some countries have adopted one or the other.

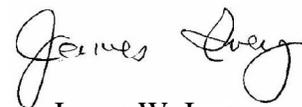
**Random thought for April:**

"The power to tax is the power to destroy"

*Anonymous*



Michael L. Dana  
Chairman of the Board



James W. Ivey  
President

*Dana Investment Advisors welcomes any comments to their newsletter and is more than willing to discuss or explain any aspect of the letter. Feel free to call us at 262-782-3631.*

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