



“DON’T SOLVE PROBLEMS, PURSUE OPPORTUNITIES”

January 12, 2007

Dow: 12,416

So sayeth Peter Drucker, author of thirty-five books, mostly on management, economics and politics. Many see globalization as a problem for the US as it has cut into our manufacturing base, and this has been painful for those people working in this area. However, that problem is not going to be solved by jawboning the Chinese into playing fair. They have the advantage today with cheap labor. This of course will change eventually, but for now our efforts should be in pursuing new opportunities. The non-farm new jobs report for December showed an increase of 167,000 new jobs. More importantly, the report showed an increasing trend to service sector jobs. In effect, we are reconstructing our economy to a more entrepreneurial base. That is where the opportunity lies, and unlimited American imagination and initiative will continue to push us in that direction.

The new Congress may decide that the only way to solve our “debt problem” is to raise taxes. However, the real opportunities lie in cutting taxes. It has been shown that lower corporate taxes result in more job creation, and lower personal taxes result in more consumer spending; both of which result in more revenue for the government. There is talk floating around Washington again to raise the cap on annual income subject to Social Security payroll tax currently at \$97,500. If the cap on this tax were eliminated entirely, it would be the largest tax increase in history. Statisticians estimate up to a \$1.5 trillion tax increase. Congress would be drooling at the thought of spending that much money. The problem is that Congress does not create jobs; private enterprise does. This “problem solving” plan would eliminate thousands of jobs and cripple the ability to create new jobs. The economy and the stock market would not view this favorably. Now if we can just force Congress to cut back spending on pork and direct more money to necessary areas of the economy. One of the main responsibilities of the government is to protect our country and its citizens. With the world teeming with terrorists, we should be spending more on defense thus creating even more jobs, and defense spending should not be outsourced lest we outsource our privileged technology.

Then there is the gnashing of teeth about the problem the housing slump created for the economy as a whole. The media only reports on those few areas where speculation in the housing market drove prices to extreme levels. It is mostly the speculators that are being burned. Most of the rest of the country did not participate in this frenzy. The law of supply and demand will take care of this problem. In the meantime,

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there are plenty of opportunities to buy houses at reasonable prices if one does their homework. Historically, low mortgage rates also add to this opportunity.

The Fed of course can't decide which problem it has – inflation or recession. We think neither. Inflation is under control, and an economy growing at 2% a year rather than 4% will not cause a major increase in inflation. Slow steady growth is called for at this time after that rapid growth of the past several years. No need to try and micro-manage the economy.

Government meddling in the pharmaceutical industry could lead to price controls. New legislation will be put before Congress on Friday, January 12 (we will be at the printer) to allow the government to negotiate drug prices directly with pharmaceutical companies. If this legislation were to pass, you can expect price controls. We have been down that road as far back as the Revolutionary War when shortages of food items caused prices to escalate further compounded by unscrupulous merchants deliberately hoarding items to increase prices. The masses revolted and demanded price controls on necessary items. Quasi controls were tried for a time but failed to stem the violence between merchants and the public. Controls were soon dropped with the argument that the controls flew in the face of the fight for freedom. Price controls were tried in the 1970s to stem the increase in the gasoline prices. That failed also as it created more shortages and long lines at the gas stations. Likewise, price control on drugs would only exacerbate the problem by causing more shortages and hindering research for new drugs. The average cost for research and development for one new drug is one billion dollars. If we are to discover new drugs to fight AIDS and cancer, pharmaceutical companies need to be allowed to make a reasonable profit.

Granted, capitalism is not perfect, but it is superior to any other system. Just look around. Who has the highest standard of living in the world, and who leads in technological and biological developments? We do because the system allows us to pursue opportunities.

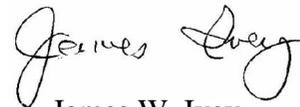
Random thought for January 2007:

Life is what happens while we are planning for the future.

Anonymous



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Chairman of the Board



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