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THE DANA VIEWPOINT

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*June 1, 2009*

*Dow: 8,714*

## ***VAT***

No, we don't mean a storage tank or a village in Hungary. A Value Added Tax (VAT) is so far being dismissed as a rumor, but where there is smoke there is fire. A VAT would apply to goods and services alike. Each company would be taxed on the value it adds to raw materials or parts it buys and manufactures or assembles into a product. Lawyers, barbers and other service oriented occupations would be taxed also. Most nations in the world, including China, now have a VAT. Even a 10% VAT would raise substantial sums of money. With Congress spending trillions of dollars into the hereafter, money to fund their various programs will have to come from somewhere other than the printing press over at the Fed. An American VAT would also appease China. China is the largest holder of US debt (they currently earn over \$1 billion a day in interest on US debt). They have threatened to sell treasury holdings on the open market which is not a likely event as the consequences could pull down theirs and possibly other economies. We suspect they want to get our attention to any potential problems, and it is not going unnoticed at the Fed or the Treasury.

At the Fed's April meeting committee members agreed that large scale security purchases were providing financial stimulus that would contribute to the gradual resumption of sustainable economic growth. They also agreed that it would be appropriate to continue making purchases (up to \$1.25 trillion). On June 3, Fed Chairman Bernanke, however, warned that budget deficits may threaten the nation's financial stability. So the Fed's strategy is working now, but eventually demand will slow and interest rates will rise, and we will have some inflation. Keep in mind that inflation is created when we have too much money chasing too few goods. That works in the stock market also. There are still several trillion dollars in liquid securities looking for a better return than that available in short treasury bills. Investors are confident that we will survive the current economic crisis and have pushed equity prices up 40% from their March lows. Now, we do not expect those kind of returns to continue, but we do believe we have seen the lows in the stock market for this cycle. From here, equity returns will be more selective.

The price of oil is up to \$66 a barrel from its low of \$34 early this year. That is still less than half of its peak price of \$144 a barrel last summer. Prices at the pump are now pushing \$3.00 a gallon and demand from summer driving will push it higher. Speculators are also behind the rise as they are

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anticipating an economic recovery possibly in the 3<sup>rd</sup> quarter, and what have we done about it – absolutely nothing. Last July the governor of Alaska was emphasizing development of Alaska’s Chukchi Sea. Estimates at that time were that there was 30 billion cubic feet of natural gas beneath those icy waters or enough oil and gas to supply America for at least a decade. *Science Magazine* recently reported that the US Geological Survey now estimates that there are 1.6 trillion cubic feet of gas or 30% of the worlds supply and 3 billion barrels of oil or 4% of the global resources in this area. Russia knows it’s there. They are located on the eastern end of the Chukchi Sea, and they have no qualms about drilling. California could ease their budget deficit by allowing offshore drilling. Modern drilling technology is so advanced to virtually eliminate environmental concerns. Add nuclear energy to this mix and we could set the next stage of economic growth.

RIP: Little Deuce Coupe, Dodge Charger, Camaro, Mustang and others. America’s love affair with cars blossomed in the 1920s and continued through the depression of the 1930s and probably peaked in the 1970s. Songs were written about cars - Hot Rod Lincoln, GTO, Daddy Took Her T-Bird Away, Pink Cadillac. Those were heady days when you “cruised the strip” or went to the drive-in or when you had your car “chopped and channeled.” Many of us maybe had a “competition Ford with four on the floor.” Now because of environmental concerns, we will be manufacturing smaller cars that run on electricity or switchgrass. The car has become more like an appliance – functional. Drive to work and back, go shopping or take the kids to their soccer games. It is the passing of an age, but that is as inevitable as the passing seasons.

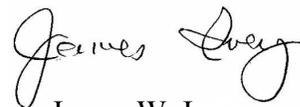
Happy Birthday America – 233 years and still ticking.

**Random Thought for June 2009:** “The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery.”

*Winston Churchill*



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