



SANTA

Santa Claus came early this year. After much haggling Congress has agreed on a deal to extend the Bush administration tax cuts for everyone for two more years. If this extension had not been passed, the ensuing tax hike would have hit Americans \$3.2 trillion over the next decade. This is money that can now be available to invest and to create new businesses or expand existing businesses. The top tax rate of 35% stays in place as do the 15% tax rates on dividends and capital gains. This will not only help to create jobs, it will also help retired Americans living on dividend income. Also included in this bill is a 2% cut in the Social Security payroll tax and a thirteen month extension of the current ninety-nine week jobless benefit. Estate taxes will stay at 35% instead of the 55% rate they were targeted at for 2011. This will give small businesses a better chance of passing their business on to heirs rather than having to file for bankruptcy to pay taxes. Passage of this legislation is still pending as of this writing but appears imminent.

A boost in retail sales is also in Santa's bag, as taxpayers will keep about \$900 billion in their pockets over the next two years. Retail sales have been up slightly this holiday season but disappointing for most businesses. The removal of the uncertainty over the size of consumer's paychecks next year should boost spending over the balance of the year. Finally, this bipartisan bill could open the door for real tax reform which is long overdue.

The jobs report for November, although positive, was another disappointment. Federal Reserve Chairman Ben Bernanke was interviewed on "60 Minutes" Sunday evening (December 5), and he said that the economy needs to grow more than the current 2.5% annual rate. At this current pace, he said that the unemployment rate would remain at a level above 9% as this rate would only absorb new people entering the job market (high school and college grads). He also believed that the Fed was pro-active in their response to the financial crisis. He feels that the chance of a double dip recession is slim, and he is 100% confident that the entrepreneurial spirit in America will pull us out of the current slow growth recovery.

The Small Business Administration (SBA) estimates that 65% to 70% of new jobs are created by companies with less than 500 employees. The majority of these companies are privately held. According to the SBA, revenues of private enterprises fell an average of 5.7% in 2008 and 4.7% in 2009. If you are a small business and your revenues are declining, you have two options; file for bankruptcy or cut your highest costs which are employees. Labor and salaries generally represent about 80% of employer costs. Currently, analysts indicate that revenues of publicly traded companies are rising while revenues of privately held companies are declining. How important is this? There are approximately 27 million companies in the US and only 4,000 to

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5,000 are publicly traded, so you can see the importance of creating a friendly economic environment for small businesses. We are indebted to the SBA and Investors Business Daily for the statistics in this newsletter. The extension of the Bush Administration tax cuts is a big step in aiding small businesses, but it is important that Congress does more. We have addressed these issues in the past letters. Cutting the corporate tax rate from 35% to 20% would be a major boost.

Also, in Santa's bag this season was the approval of the trade agreement with South Korea. This bill has been sitting in Congress since 2007. The fear is that trade agreements would cost export sales and, therefore, jobs. Not true. We have an extremely skilled work force that manufactures quality products that would be welcomed by consumers around the world. By not having trade agreements, we are fostering a tariff war. History shows that passage of the Smoot-Hawley tariff bill in 1930 led to tariff wars and was a factor in extending the worldwide global depression. We also need to sign trade agreements with Columbia and Panama. The infrastructure economy in Columbia is expanding and they have the need for high quality, earth-moving equipment. Without a trade agreement, US manufacturers of earth-moving equipment are losing sales to Canada and Japan. A trade agreement would open the door to increased revenue and the creation of jobs not only for earth-moving manufacturers but also related suppliers.

All in all, we feel that the message sent by voters in November has been well received by both parties (or is it three?) and constructive debate and ensuing legislation will get the US moving forward again.

May the spirit of the holiday season touch all of us in a benevolent way.

Happy Holidays everyone!

Random Thought for December 2010:

“Those who agree with us may not be right, but we admire their astuteness.”

Cullen Hightower

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