



THE FORGOTTEN MAN

By now you are tired of hearing about the “*fiscal cliff*,” that dangerous precipice that our economy stands on waiting to plunge into the abyss. There are several versions of this apocalyptic scenario, but the most common analysis is that:

1. We will be hit with \$1.6 trillion in tax increases over the next ten years.
2. There will be \$600 billion in increased tax revenue as part of tax reforms.
3. The government is requesting \$150 billion for a new stimulus program.
4. There will need to be \$30 billion to fund extended unemployment benefits.
5. The government is asking for more revenue by taxing the “rich”.

What will we get to offset these additional taxes? The government promises to cut spending by \$400 billion at a future date. Economists believe that all these tax increases and small cuts in spending in a weak economic recovery will send us back into a recession.

So here we have both parties in Congress arguing over how to compromise on these proposals while holding businesses and individuals hostage over the outcome. We hope not to write about the “fiscal cliff” again. It will probably be a non-event like Y2K. Congress will likely pass something, put a Band-Aid on our fiscal problems, and kick the can down the road like the Euro zone has done for the last two years. What we will end up with is a “*fiscal slope*.” There will be tax increases for everyone, entitlement programs will not be touched, and the economy will continue to be sluggish and unemployment high. As for taxing the “rich” it is a no win situation. Analysts estimate that a new tax on the rich may bring in \$80 billion. That’s a drop in the bucket compared to our \$1 trillion annual deficit and our overall national debt of \$16.3 trillion. It has been proven in the past that the more you tax something the less revenue you get. In England, 10,000 millionaires have left, and the same is happening in France. The number of millionaires renouncing their citizenship in the U.S. has been in the 100s, but you can expect that to increase. So where are all these millionaires going? If other countries start raising their taxes, the millionaires will have to start their own country – and apply for aid from the U.S.

There are many ways to escape taxes. The popular one now is for corporations to declare dividends this year while dividends are still taxed at 15%. Costco recently declared a special year-end dividend of \$7 a share. The CEO of Costco owns about one million shares. Do the math. He will keep 85% of that money this year (\$6 million) if he waited until next year he would keep about 60% (\$4.2 million). The rich will do just fine, even though they opt to stay and pay full rates. At the other end of the spectrum are those on entitlement programs. They are okay also, as they will keep their benefits and not pay taxes.

Who does that leave? The vast majority of hard working, tax paying, middle class. The forgotten man. About

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fifty years before the depression, a Yale philosophy professor, William Sumner, penned a lecture on economic policies of his day. The lecture eventually became an essay titled, "The Forgotten Man", and a 2007 book by Amity Shlaes. Sumner postulated that:

As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. Their law always proposes to determine what A, B and C shall do for X." But what about C? There was nothing wrong with A and B helping X. What was wrong was the law and the indenturing of C to the cause. C was the forgotten man. The man who paid - the man who is never thought of. He works, he votes, generally he prays, but he always pays.

These tax increases again will hurt the people who can least afford it. An editorialist in Muncie Indiana wrote in 1936, "Who is the forgotten man in Muncie? I know him as intimately as my own undershirt. He is the fellow that is trying to get along, without public relief and has been attempting the same thing since the depression crashed down on him."

The fate of the forgotten man is now being determined by a handful of people in Congress that seem more intent on "winning" than doing what is necessary to get this economy moving again, and provide the job opportunities that the forgotten man wants and so desperately needs.

The silver lining through all of this procrastination is that at least a portion of the uncertainties hindering the economy will be removed – mainly that taxes will increase for everyone. Businesses and individuals can then adjust their investment parameters and the free market can do its thing. Trust the free market. It has gotten us this far and once again will come to the rescue.

What an interesting year this has been or do we say that every year?

Wishing all of you a Happy Holiday Season and good wishes for 2013!

Random Thought for December 2012: "You cannot escape the responsibility of tomorrow by evading it today."

Abraham Lincoln

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