



March 7, 2014

Dow: 16,481

HOW TO CREATE WEALTH

Facebook (FB) recently offered \$19 billion to acquire WhatsApp, a five year old company with 55 employees. Analysts have come down on both sides as to the value of this company. The Wall Street Journal noted that ConAgra, a company with 26,000 employees, can only claim a \$12.27 billion market cap. A \$19 billion transaction will create a huge amount of tax revenue for the federal and state (CA) governments. When Facebook went public several years ago, the deficit-ridden state of California was eagerly awaiting a tax windfall that would erase a big chunk of its deficit. It didn't happen of course as the offering was botched and the stock dropped 50%, wiping out much of the potential taxable gains. There are probably hundreds or even thousands of young people today toiling away in their parent's basements or garages hoping to hit on the next \$19 billion technological invention. Individuals and not the government will dream up these ideas. Try telling Eli Whitney, Robert Fulton, Thomas Edison, Bill Gates, Steve Jobs and thousands of other entrepreneurs that the government was responsible for their innovations. The government should be encouraging this activity with tax incentives. All the government has to do is sit back and collect the tax revenue these ideas generate. They sure are good at spending this revenue. It reminds one of a story about George Raft (actor) who made millions in the movies in the 1930s, 40s and 50s. His money disappeared faster than it was coming in and a reporter asked him where all his money went. He replied that some went on women, some on wine, some at the race track and the rest was spent foolishly. Maybe the President was right when he said the deficit doesn't matter. Well, it does matter if your spending exceeds your revenue year after year. Fortunately our annual deficit has improved lately, although the President has just proposed a deficit budget for fiscal 2015 with \$3.9 trillion in federal spending.

While we are at it, let's consider revenue generated by professional athletes. Quarterbacks sign \$100 million plus contracts. Golfers make millions for just finishing in the top ten (at least if they don't play they don't get paid). How about Hollywood? It was reported that Sandra Bullock will make about \$70 million off the movie **Gravity**. Her co-star George Clooney will probably make as much or more. So the 1% doesn't just reside on Wall Street. We are a very privileged and wealthy nation. If Congress would just recognize that they have a golden goose, sit back and do their job, enforce the laws and provide a positive creative business environment, we could put more people to work and provide even more revenue to the federal and state governments.

Happy Anniversary. The bull market celebrated its 5th anniversary on March 9, 2014. Hard to believe we have been in a bull market that long with all the turmoil around the planet. The stock market is an entity unto its own. It seems to know when to advance and when to rest. So far this has been an orderly advance without too much speculation. Until you see speculation like we had in the late 1990s, this trend will likely continue.

(CONTINUED ON REVERSE SIDE)

Violence in the Middle East has not been able to stop it and Putin's action in Ukraine will not likely stop it either. A very speculative market will likely halt the bull market, but there is little evidence of that currently.

The tax man cometh. Another month to go to file taxes. Fifty years ago President Johnson signed into law tax cuts that were proposed by President Kennedy. The top marginal rate was cut to 70% from 91%. The bottom marginal rate was cut to 14% from 20% and the 22 rates (yes 22) in between were also cut. President Reagan then cut taxes in 1981 and 1986. After 1986 the top marginal tax rate was 28%. Today it is 39.6%. Each of the tax cuts spurred economic growth. The US is in desperate need of tax reform. There was a proposal for tax reform presented last week by House Ways and Means Chairman David Camp (R-MI). It looks to be a good start for bipartisan discussion but will not likely be considered especially in an election year. Hopefully Congress will take this up after the election. Reforming the tax code could go a long way to creating jobs and boosting the economy – if done properly.

If it makes any difference the economy added 175,000 jobs in February and the unemployment rate ticked up to 6.7%. The market is bored with these numbers, and they have little impact on stock prices any more. Investors know by now that we are in a slow economic recovery and have adjusted their investments accordingly.

Random Thought for March 2014: “The new 39.6% Federal tax bracket will only affect 0.7% of tax payers, but will hit 9.5% of aggregate personal income, as top-earners earn a disproportionate share of the national income!

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