



May 3, 2006

Dow: 11,379

GIBBER JABBER

Yes, those are real words meaning to talk meaninglessly or inarticulately. Ben Bernanke told Congress on April 27 that the Fed's policy-making committee might pause temporarily in its two-year campaign to raise interest rates. Mr. Bernanke said, "At some point in the future, the committee may decide to take no action at one or more meetings in the interest of allowing more time to receive information relevant to the outlook." He then went on to say, "Of course, a decision to take no action at a particular meeting does not preclude actions at subsequent meetings." What?

More gibber jabber. It must be an election year. Congressmen and women are falling all over themselves bemoaning high gasoline prices. Solutions range from giving a \$100 rebate (like using a squirt gun on a raging fire), to applying a windfall profits tax on oil companies (which would remove money that would be used to explore and drill for new oil), or to suspending the 18.4 cents per gallon federal gasoline tax (but only through September 30). As to investigating price gouging by the oil companies, well that's been done before to no avail. It's simply supply and demand. If you are looking for a scapegoat, look to China. They have been buying oil left and right for their booming economy (12% growth a year so they say), but don't blame the Chinese too much as their economy is keeping prices of manufactured goods low. Our economy is not exactly in the doldrums either. OPEC (Organization of Petroleum Exporting Countries) can share some of the blame as can consumers worldwide driving gas guzzling autos. Loved the picture on the front page of the San Francisco Chronicle, Friday, April 28 - the first photo showed House Speaker Dennis Hastert departing from a news conference on gasoline prices in a hydrogen powered car. The second photo shows him later emerging from this car and getting into a gasoline powered SUV.

As for obscene profits, Exxon Mobil reported first quarter earnings of \$8.4 billion. This news made big headlines. What didn't make headlines was that they paid \$7 billion in taxes the

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first quarter. Furthermore, Exxon Mobil, Chevron and Conoco Phillips combined earned 8 cents on every dollar of sales last quarter. High-tech firms earn more than twice that much.

The American consumer will make adjustments like they did in the 1970s to bring supply and demand back in line. In the meantime, look at Brazil. They allow offshore drilling and 80% of their oil supply comes from that source. It is estimated that in six months, offshore drilling will produce 1.9 million barrels of oil a day while they consume 1.85 million barrels. They may even start exporting some oil. They are not only helping themselves but also the rest of the oil consuming world. Now we love the environment as well as the next person, but Katrina made it clear that modern technology has a very good safety record.

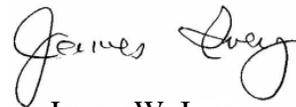
A further problem is in Latin America. Hugo Chavez is in the process of nationalizing the oil industry in Venezuela, and now Evo Morales is doing the same in Bolivia. They are basically holding a gun to our heads.

Fortunately, private enterprise is doing something about the problem. Ethanol based fuel is catching on as more companies are entering this field. The cost of ethanol is 38 cents a gallon below that of gasoline and will become even cheaper. Ford Motor is now building cars that can run on a mix of 85% ethanol/15% gasoline (called E85). They are working with some firms to convert fuel pumps to handle this mixture. Watch for this to catch on big time.

Random thought for May 2006: Gasoline - \$3.00 a gallon
Milk - \$3.00 a gallon
Starbucks 16 oz double latte - \$3.00
Beer six-pack - \$6.50
Coke six-pack - \$4.00



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