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Opinions & Facts...

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ARE MARKETS REALLY NOT SO BAD WHEN YOU HAVE A LONG TERM ATTITUDE?

Recently, a retired physician client sent us a copy of Hillsdale College's monthly publication, *Imprimis*. In case you weren't aware, Hillsdale College is a Michigan institution that sponsors conservative speakers who tell the story of free government and private enterprise all over the world.

This reprint gave a summary of a speech made by Patrick Toomey, President of the Club for Growth. Mr. Toomey is a graduate of Harvard University with a degree in government; he has served as and was member of the U.S. House of Representatives from Pennsylvania 1999-2005.

The excerpt speaks of the progress in the U.S. over the last 25 years, where more wealth has been created, more people have been lifted out of poverty, centers of living have been elevated more dramatically, and the quality and length of life has improved more than ever before in recorded history. If this is true, why do we hear nothing but negative statements from the media, both print and electronic? Let's look at the United States and see what's happened. Much of the economic growth in the U.S. has been positive for the entire last quarter century and the rate of growth has accelerated. In 1982, economic output was \$5.1 trillion. Last year it was \$11.3 trillion (In real 2000 dollars).

“What about the workers?”

The average unemployment rate in the 1970's was nearly 7%. This has been declining, on average, every decade since, and has remained below 5% since 2003, and you have to go all the way back to 2007 to find the year when America's total manufacturing output peaked. U.S. factories produced more last year than any previous year in our history. The Dow Jones Industrial Average began the 1980's at 825; today despite its recent declines, it still hovers around 11,000 to 13,000.

“So, are there any other positives?”

What's new are various unique savings programs like IRAs and 401(k)s and mutual funds. In 1983, 19% of American households owned stock; in 2005, 50% were investors. In 1989, the median family net worth was \$69,000; in 2004, it was \$93,000. Mr. Toomey goes on to point out that in the 1970's of those living below the poverty line, less than 40%

had a car, and air conditioning was virtually unheard of. In 2004, 46% owned their own homes, almost 75% owned a car (indeed, 30% owned two or more cars). Health indicators tracked similarly. Infant mortality dropped from 20 deaths per 1,000 people in 1970, to 7 deaths per 1,000 people in 2002. In 1980, American life expectancy was less than 74 years. Today it is 78.

One wonders why this fabulous growth and expansion of capital in America happened. Well, a prime reason was a major expansion in economic freedom, initially in the U.S. The expansion took many forms, three of the most important were a **dramatic reduction in marginal tax rates; a series of major deregulations; and a broad expansion of trade.**

“CUT TAXES, BUT ALSO CUT SPENDING!”

President Reagan signed the Economic Recovery Tax Act of 1981. When he did that, the top marginal rate was reduced from 70% to 50%, and by the time Reagan left office, it was down to 28% (I'll always remember that day). Later on, President Bush, the elder and President Clinton raised some taxes too much, but lowered others. President George Bush has lowered taxes dramatically, not so well in 2001, but then very effectively in 2003. As the marginal tax rates were lowered, along with taxes on capital gains and dividends, the treasury coffers begin to fill and Congress (as usual), slipped on its mask, soft rubber sole shoes, its Budget Burglar equipment, and moved easily into the coffers, removing the extra money coming in. Money is so easy to spend when it belongs to other people.

“You said *what* to the Wall Street Journal?”

In a recent interview with the *Wall Street Journal*, one of the apparent candidates for President of the United States made clear his position: “a strong government hand is needed to assure that wealth is distributed more equitably.” Other quotes from that interview refer to the keeping the capital gains tax at its present level, “I've seen no evidence that...would actually boost the economic growth and productivity.” The same Presidential candidate expressed to the Journal's panel, that he would propose more government spending on the infrastructure in this country, which reminded this writer of Bill Clinton, who also launched his bid for the White House seeking a big expansion in infrastructure spending.

However, once he was in the White House, he quickly shelved those plans when Congress rejected a proposal to steeply increase energy taxes, which he said could have been used to pay for the spending.

The *Wall Street Journal* summarized the interview with both Barack Obama and John McCain; it is outlined in a box nearby.



Obama



McCain

Energy Program	\$150 billion over 10 years on an energy-technology investment program, including wind, coal and nuclear power, if safe.	Says incentives for solar and wind distort the energy market. Strongly supports incentives for nuclear power.
Bush Tax Cuts	Let expire Bush tax cuts for people making \$250,000 or more.	Make the cuts permanent for all households.
Tax Rates	Would possibly cut corporate tax rates, as part of a broad tax-reform plan.	Plans to cut corporate tax rates to 25% from 35%.
Capital Gains, Dividends	Increase tax on capital gains and dividends for individuals earning \$250,000 or more. Propose eliminating capital gains taxes on start-up companies.	Keeps tax on capital gains and dividends at the same level.
Other Tax Plans	Up to \$1,000 in tax cuts per middle-class family Eliminate income taxes for people over 65 earning less than \$50,000.	Double the personal exemption for dependants to \$7,000. Offer taxpayers choice of a simpler set of tax rules.

“Here’s the thought of some Big Time Bankers”

In a recent report, the International Monetary Fund, presented a much prettier outlook for the U.S. economy this year and next, but said financial sector troubles and inflation expectations continued to give us problems. According to a quote from the *Wall Street Journal*, Mr. John Lipsky, First Deputy Managing Director of the IMF said this: “It seems to my colleagues and myself that all things considered, that the U. S. economy has held up well. It seems to have avoided the sort of hard landing that generally has followed hard shocks.” According to the story, the IMF expects growth to remain fairly weak through 2008 and recover gradually next year, in a slower path of growth that is often typical in recoveries.

Our experience and history tells us that the market for stocks generally is 3 – 6 months ahead of a move in the economy. No one in this office or anywhere else knows when the bottom of the market will be reached, but in the past, time has certainly been on the side of the Bulls.

One more time! “Don’t tax me, Don’t tax thee, Tax that rich guy behind the tree.”

We’re sure that you are aware by now that most of the taxes today are paid by wealthy individuals and companies. This has occurred ever since marginal tax rates for these people and companies have been lowered. As we’ve said many times in these pages, *raising* taxes on higher income individuals immediately sets off a series of “creative” tax shelters. The very wealthy have the assets to hire bright accountants who do everything in their power to keep their clients from paying taxes. *“Tax the rich” may gather votes, but it doesn’t balance budgets.* (In 2005 taxpayers in the top 5% of income paid 60% of all the individual income taxes, but reported about 36% of the income.)

“So how was it in the Old Days?”

It’s interesting to take a macro look at the history of federal taxes during the 20th Century up to present day. There has been during the 20th Century a great struggle over whether tax rates are too high or too low: from a 3% income tax in 1913; up to 60% during World War I; down to 25% before Congress and President Herbert Hoover raised taxes to 60% in 1932 and “sealed the fate of our economy for a long, long time”; all the way up to 92.5% during World War II before falling in 3 steps, reaching 28% under President Ronald Reagan, and back to nearly 40% under Bill Clinton before George W. Bush lowered them to their current level of 35%.

“Joe. Please get to the point! What should we do?”

In a volatile market such as exists today, we are strong believers in Dollar Cost Averaging.

I told a colleague of mine recently, “One day we’ll wake up and look back a couple of weeks and realize “THAT” was the bottom of the market.” It is impossible to look ahead and see it, but eventually you’ll be able to look back and see it. Thus, if we buy during these uncertain times on a monthly or weekly basis, we have a better opportunity to average our share’s cost. By investing the same amount of money when a fund’s prices are lower as you do when they’re high, you acquire more shares. **Another thing we all should be aware of: owning mutual funds that pay good dividends in all sorts of markets allows the investor to accumulate shares at lower prices when the price of the fund is down in order to acquire more shares by a particular time in the future. History tells that when the price of fund shares increase, you go up with more shares than when you started.**

OPINION

The “Consumer Reasonable Energy Price Protection Act of 2008” *How about unreasonable?*

A Pennsylvania Congressman recently introduced this new bill which threatens to dig into business profits of energy companies plus take 35% off the top with an outrageous corporate tax. The last time the government tried this windfall profit scheme was 1980. In 1990 the Congressional Research Service analysis discovered that the tax reduced domestic oil production by 3% to 6% and increased oil imports from OPEC by 8% to 16%. The soon to be appointee of the Democratic party for President of the United States, none the less pledges to lessen our dependence on foreign oil, which he says “costs America \$800 million a day.” Someone should tell him that oil imports would soar if his tax plan becomes law; and the biggest beneficiaries would be OPEC oil ministers. Our politicians should have their brains examined. They want lower gas prices but don’t want more production in our country to increase supply. They want oil “independence”, but most of the big sources have been declared off limits for drilling. They want more oil company investment into energy, but they also want to confiscate the profits from that investment. And these people want this guy to be *President?*

“What is this, water boarding?”

In a recent Congressional hearing in which the top executives of the largest oil companies were jammed in next to each other at a table facing their inquisitors, Democratic Congresswoman, Maxine Waters of California, appeared on a newscast in the evening shown shaking her finger at the executives and threatening them with nationalization of the U.S. oil industry. According to our columnist friend Nick Murray: “Except that she could not in her righteous anger, quite come up with the word “nationalization”, but sat there finger wagging and opening and closing her mouth. No one seemed incline to help her, and staffers arrayed behind her were openly laughing.”

All this has come about with \$135 oil. The mantra chanted by the left is supposedly that the United States has no energy policy, therefore the government needs to establish one. *Interestingly enough we already have one.* The operation of the *free* market. Mr. Murray points out that we should let supply and demand set price, through uncounted hundreds of millions of daily “decisions” by consumers. Here are some decisions in the first week of June: General Motors announced that it would close four SUV and truck plants; they’d add a third shift to its compact and mid-size plants in two states; and put into production in 2010 its Chevy Volt, an electric hybrid. People are driving less and people are driving slower. Others still think they are in a NASCAR race. I advise that if you drive 5 mph under the speed limit, you’d better be in the far lane or somebody will run over you.

“Look out, Charlie. Here comes a Caribou!”

The other problem, of course, is that environmentalists refuse to allow Congress to approve drilling off shore as well as in the Arctic. Take a sheet of printer paper; touch your pen to it. The resulting mark bears about the same relation to the sheet of paper as does that infinitesimal corner of the Arctic National Wildlife Refuge which may contain 10 billion barrels of oil and would be the largest producing oil field in the Northern hemisphere. This nonsense in Washington goes on and on. Drilling in the continental U.S. could immediately create millions of new jobs in energy and associated industries. And when it starts, the price of oil will immediately begin to drop. You can count on it. And don’t tell us that it would take ten years to give us relief at the gas pump. Leaders for the next decade must look ahead far further than their noses and call up the sometime dozing entrepreneurial spirit which has never failed us in a free market, democratic country.

It is past time for believers in free markets to join the energy policy debate. We haven’t the luxury of remaining silent.

That’s our take. Yours is welcome.

Joseph E. Hawley *Sammy Byrd*

Tom Hawley *John Dickens*



“DICKIE BOY, ARE YOU UP FOR A STINT IN THE PEACE CORPS?”

“SOUNDS GOOD, ALISTAIR. IS THERE AN UPPER CLASS IN THE PEACE CORPS?”