



**Y**ou have to hand it to the media... they are good at what they do. They rivet our attention to the mental image of a family sedan hurtling toward a 1,000 foot cliff with all of the obvious and immediate horrific implications.

A few weeks later, the market is sitting at a five-year high, even after the politicians missed the deadline. I wonder if the hype was overblown?!

Don't get me wrong. I'm absolutely disgusted by Washington's practices and product, and both are a big deal. The politicians couldn't act responsibly if they were hurtling toward a cliff. No one likes paying higher taxes, and all wage-earners just got a tax increase. The increased federal revenue will likely, eventually, flow from economic producers to economic non-producers. Frustrating, to say the least, especially to a supply-side economic proponent like me.

In an effort to provide historical perspective and maybe a little hope despite our shared consternation, consider the following:

- In 1932 Herbert Hoover signed a dramatic tax increase to stabilize federal revenue in the wake of the Depression. The top federal income tax rate went from 25% to 63%. The following year, the Dow increased 69%.
- In 1935 FDR pushed through a tax increase on the rich, telling Congress that "wealth...does not come merely from individual effort..." (Sound

familiar?) The top federal rate was increased from 63% to 79%. The Dow increased 48% that year, and another 25% in 1936.

- The Revenue Act of 1942 was perhaps the largest tax increase in American history, raising Treasury revenue by 70%. Yet, from early 1942 through 1945, the Dow doubled.
- The August 10, 1993 tax increase raised the top rate to 39.6% from 31%...again aimed at the wealthy. By the end of 1996, the Dow had increased 72%.

So what is my point? Just this: the U.S. economy is too complex to dogmatically insist that the market will inevitably go into a tail-spin on the heels of an income tax increase. The economic cause-and-effect relationships are more complicated than that. It could even be argued that higher taxes prompt people to work harder, pushing money into growth sectors, and spawning productivity that translates into appealing investment returns.

While I'm not prepared to predict positive returns in 2013 based on the taxpayer-disappointing legislation of January 2, I do want to encourage you all to maintain a cool investor's head in the light of history. The Dow's increase of 1.3% since January 2 is at least better than the 1,000 foot free-fall for which we were all bracing.

Sincerely,

John D. VanDyke