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A TIME FOR POLITICS
Weeding Through the Promises, Rumors, Innuendos, and Spin

As the summer began, both political parties had chosen their Presidential nominees to officially kick off the "real" campaign season. The American people started dissecting their differences in age, experiences, issue positions, personalities, communication skills, wives' likability, members of their inner circles, and so many other crucial elements that go into the making of an effective "Leader of the Free World."

And, of course, the candidates themselves attempted to make the most applicable comparisons to prior popular Presidents as each included references to JFK and/or Ronald Reagan (as appropriate) to rally the loyal troops. In typical partisan fashion, Senator McCain touted his opponent as a traditional "tax and spend" liberal, the wrong choice during this period of economic challenges. Senator Obama pegged his rival as a continuation of the previous eight years of failed policies that have led the country into recession/inflation/deflation.

A Look at the Issues

Taxes: Like any good conservative, McCain turned immediately to the "lower taxes" card, proclaiming his desire to make the Bush cuts permanent to help stimulate the economy (apparently forgetting that he had initially opposed those measures). As a "true man of the people," Obama took on the wealthy and called for higher income and social security taxes on anyone making over $250,000 (himself included). He also would aim to increase the long-term capital gains (and dividend) tax to 20+% (from 15% now), while strategically pointing out that the rate reached 28% during the Reagan administration.

With regard to **health care,** McCain will focus on the individual and incentivize folks to get insurance. Obama will turn to the government and install company mandates to bring costs down. On escalating **gas prices,** McCain flirted with the idea of a "gas tax holiday," while Obama, like most economists, opposed such a measure. Over the next few months, both men will be (over-)analyzing the daily economic releases and explaining why each is the better candidate to turn around the current sluggishness and lead the country into renewed prosperity. Of course, they may stumble along the way, but their talking points will be better rehearsed as they become more accomplished at Presidential campaigning. So, bring on those debates.

And What About Congress?

Many political analysts expect the Democratic Congress to increase its majority and attempt to exercise more power in Washington during the next two years. With the executive branch up for grabs, the Dems introduced legislation that has virtually no chance of passing, merely to be used as ammunition as the campaign season heats up. Big Oil became the latest villain with legislators proposing windfall profit taxes on record company earnings. OPEC did not escape the wrath of Congress as many legislators want to file suits over perceived price-fixing.

Despite his low popularity rating, President Bush has yet to relinquish the limelight as he blamed the Democratic Congress for the record gas prices. On that note, he too played the political game and proposed lifting the ban on drilling in certain environmentally friendly regions, knowing good and well that such an idea will be met with great resistance. He also acknowledged that such measures would have little impact on the current state of the energy sector as new drilling would take years to implement and even longer until any true results are realized. (But, it sure doesn't hurt to pander.)

How Do Markets React?

Investors look at the campaign season with an eye on the markets as they attempt to determine which candidates will be best for their portfolios. Since 1980, during the seven Presidential election cycles, the S&P 500 produced positive results during the second half of the year on six occasions as investors maintained a somewhat "bullish" mindset, while listening to the promise for the future. In fact, the only exception was in 2000, a year marked by significant uncertainty during November and December as "Bush vs. Gore" lingered on well beyond election day. The index averaged a simple 6.35% return during the latter half of the past seven Presidential election years.

S&P 500 Index

Year	Close on June 30	Close on December 31	Return	Victor
1980	114.24	135.76	18.84%	Reagan
1984	153.18	167.24	9.18%	Reagan 2
1988	273.5	277.72	1.54%	Bush
1992	**408.14**	**435.71**	**6.76%**	**Clinton**
1996	670.63	740.74	10.45%	Clinton 2
2000	1,454.60	1,320.28	-9.23%	Bush (W)
2004	1,140.84	1,211.92	6.23%	Bush (W) 2
	Average Return		**6.25%**	

While past performance is certainly no guarantee of the future, election year 1992 bears a striking resemblance to the current year. That year, the country was mired in sluggish economic times (dare we say recession) as a relatively unpopular President Bush completed the term. (Of course, he was seeking reelection, while Bush II will be leaving office.) While both Bushes had encountered initial popularity due to early successes in Iraq, they both lost some public trust and faced dire economic circumstances late in the term. A relatively unknown Democratic candidate emerged from a crowded field, delivering a message of change and optimism, while exhibiting eloquence and excellent communication skills. Likewise, the Democrats controlled Congress in 1992, just like they do today. Of course, that year Clinton went on to win the Presidency and the S&P 500 returned 6.76% from July through December 1992.

Before investors rush out to cast their votes for the Democratic newcomer, other analysts point out that political gridlock often leads to the best results for the market. Between 1994 and 2000, Republicans controlled Congress, while a Democrat resided in the White House. The markets experienced stellar returns (around 150%) during those years of economic strength and stability, with some pointing to legislative gridlock and political compromise as the primary reasons. With those thoughts in mind, some optimists hope that a McCain (R) Presidency and a Democratic Congress would yield similar results.

Then again, elections and markets can both be very difficult to predict. Investors would be wise to focus on their overall financial planning and investment management and not worry so much about the unpredictable state of politics.