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## What does The U.S. Election mean to you?

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Whew — a big sigh of relief: the markets are looking for an end to the uncertainty that has built up over the long campaign as well as some direction on the financial crisis.

First the good news: The United States will have a new president as of January 20, 2009.

Now the bad news: Economic problems won't be fixed overnight, but there is light at the end of the tunnel.

Throughout the election the struggling global economy was the number one issue. In the past month, focus on the economy intensified as governments introduced a series of sweeping efforts to recapitalize the global banking system and revitalize lending.

The change in administration, of course, comes at a critical moment for the global economy, and U.S. President-elect Barack Obama will play a central role in guiding it.

### What has Obama talked about doing?

Obama's response to the financial and economic crisis will have to follow the parameters set in the massive \$700 billion financial rescue package made law by President Bush in October. Obama voted for that bill, but also made several proposals to ease the growing strains felt by investors as a result of the crisis.

Some of the measures he has proposed:

- A new Treasury chief: Whoever Barack Obama names to replace Treasury Secretary Henry Paulson will be particularly significant since the federal government has already taken unprecedented steps to intervene in the financial markets in an attempt to deal with the credit crisis. Believe it or not, economic advisor Warren Buffett has also been suggested as a potential pick for Treasury secretary, and during the second presidential debate, John McCain even endorsed Buffett as a possible choice if he won. But Buffett, the legendary billionaire investor who controls Berkshire Hathaway (BRKA, Fortune 500), told a forum last month that he would like

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to see Paulson asked to stay on. However, Paulson is on record as stating that he does not want to remain in the post.

Buffett also had praise for Federal Deposit Insurance Corp. chair Sheila Bair, whom others have speculated could be selected by Obama. Bair has taken an active role in trying to stop banks from foreclosing on homes, and Obama has said that this would be one of the main issues he would want his Treasury Secretary to deal with.

- Temporary penalty-free early withdrawals from IRAs and 401(k)s of up to 15 percent of the balance, but not more than \$10,000
- Temporary suspension of the rule that seniors aged 70 take the required annual distribution from a retirement account
- Exemption of jobless workers from having to pay income taxes on unemployment benefits and calling for an extension of those benefits
- Temporary tax credit of \$3,000 in 2009 and 2010 to companies for each new full-time employee they hire in the United States

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- Greater transparency and imposition of capital requirements on financial institutions. (more regulations to come and stricter ones)
- Imposition of liquidity and capital requirements on investment banks (again more regulations)
- Streamlining regulatory framework of the financial services sector (again more regulations)
- Creation of an oversight commission that would advise the President, Congress, and regulators on the health of and risks facing financial markets. (Okay, we understand that he loves more regulations)

Obama has said that his top priority as president will be ending U.S. dependence on Middle Eastern oil. Expect oil prices to be affected by

less demand from the U.S..

He supported the government's takeover of mortgage giants Fannie Mae and Freddie Mac in September as a stopgap measure. But he has called for reform of the agencies so that ultimately their public functions will be completely disentangled from their private ones.

**So what does it all mean for us?**

Peering into the future is tricky in the best of times. But even though predictions always turn out to be flawed, it's impossible for even the smartest experts to nail this stuff perfectly. You cannot build a future without first speculating on the challenges you'll face on the way there.

History is our best guide—it has taught us that recessions tend to push inflation lower; that stocks usually recover before the economy does and that jobs recover later. Most of all, history shows us that downturns don't last forever and that it is when people are most disheartened that rebounds begin.

**With the U.S. election over, we might expect a broad-based, global market rally**

Our reasons for this prediction are quite simple and based on history repeating itself coupled with typical human behavior. In the short term at least, stocks respond to sentiment more than to fundamentals. For example, even in the face of an oncoming recession, the recent downdraft sank many stocks to prices much lower than justified by their basic outlooks. The same thing should happen in reverse now. Whatever the reality, in many people's minds the Democrats represent hope for

a better future. According to the Stock Trader's Almanac, in election cycles since World War II, the Dow Jones Industrials have posted greater average returns under Democratic presidents.

That is true globally, not just in the United States. Polls in Russia, Germany, Spain, and even China tell the same story. People around the world are optimistic that Obama as president will change U.S. foreign policy for the better. Further, a win by the Illinois senator would prove that the American dream is alive and well.

Those positive feelings will likely spill over to stock markets, pushing share prices higher in the U.S. and around the world. Eventually, the excitement will moderate, and the market will go back to worrying about how business was going.

In the United States, Wall Street has historically enjoyed a bounce in the fourth quarter after a presidential election. We don't know if it's the end of the bear market yet, but it looks as though the bear has taken a nap.

As there were no major surprises, the elections may only have a peripheral effect on the market. More important to the rally are the continuance of coordinated interest rate cuts worldwide, the continuing thaw in the credit markets, improvements in lending and corporate earnings, and the increasing resiliency of the markets to the daily drumbeat of bad economic news.

We are still telling our clients to remain calm, stay with their investment programs, and use this time to seek out good opportunities in the markets.

