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THE 2004 ELECTION
DOES IT REALLY MATTER TO THE STOCK MARKET?

Despite what history has taught us, every four years we are bombarded by the media, political pundits and Wall Street analysts with what the upcoming presidential election may mean for the stock market, for specific industries and economic sectors, and even for individual securities. Often, investors and the market react on a short-term basis to changes in polls or to what a candidate says or doesn't say. But, does it really matter whether the occupant in the White House is a Democrat or a Republican?

While we are not taking any positions on any issues, whether it is individual rights, social issues, the environment, health care, international affairs, taxes, etc., all of which are important issues, to be sure, we believe every individual should make up there own mind as to what they believe is important and vote their conscience. Our sole purpose in writing this piece is to address the election's potential effect on the financial markets. Simply stated, our bottom line is:

1) The conventional wisdom that because the GOP is the more overtly business-friendly party, it produces better investment climates. This is just not always the case. In fact, if we remove the phenomenal bull market of the 1990's under the Democratic Clinton Administration, the returns from the stock market during Democratic and Republican administrations look remarkably similar. The markets of the 1990's, of course, tips the average to favor the Democrats.

2) Trying to make investment decisions based on who the next President may be, especially considering the apparent closeness of the race, may not only be risky, but may be downright imprudent. Just consider the hype over what a Clinton presidency was going to do to the health care system – stocks in the pharmaceutical industry were devastated in the early 1990's. Expectations were never met and this industry was one of the best Investments of the decade.

The fact that the investment returns from stocks have been similar under both Democratic and Republican administrations may surprise many. Don't the Republicans lower taxes and increase defense spending because of their hawkish tendencies? Don't Democrats increase taxes and attempt to control prices by business? Well, the answers are Yes and No! There are so many examples of "just the opposite" of what one might expect.
Consider JFK's tax cuts and the first George Bush tax increase, or Nixon's price

controls to battle inflation and Johnson's rising expenditures for the Viet Nam War. The fact is that each administration must deal with ever changing domestic and international issues in an ever changing world environment. Government policies affecting business, and ultimately the stock market, are quite often a function of the environment during any administration, rather than any preference of the party in power. We should not forget that a president cannot just enact or change existing laws. There are checks and balances in our government, and Congress represents a major hurdle for any president. All one has to do is consider the inevitable battles any president must wage with Congress. Jimmy Carter, for example, wanted to increase the capital gains tax. Congress, with a Democratic majority at the time, not only turned down the proposal but turned around and cut the capital gains tax!

The complexities of running and managing today's government, by necessity, often brings the far right and far left closer to the middle if anything is to be accomplished. This, of course, frustrates both sides of any issue. The President can only do so much alone, as can the party in power at the time. One should remember that the President may propose legislation but it is Congress that ultimately enacts legislation. Further, effecting major policy changes can sometimes be like turning the Queen Mary – a slow and deliberate process. And in terms of Congress, allowing for full discussion and endless debate is often the by-product.

Therefore, given the closeness of the race, and the rapidly changing polls indicating who is in the lead on any given day, investors should try and not be overly influenced by short-term emotions, nor be reactive to political rhetoric which may not be based on fact. Once again, the environment is ever changing and the next Administration will be dealing with its own unique issues.

In fact, given the closeness of the race, and the political environment the United States finds itself today, we may be looking at a period of gridlock in Washington. Ironically, that may be very good for the stock market. History shows that the less government can interfere with business, the better investors like it! Investment strategy should continue to focus on high-quality companies with good growth potential, leadership positions, strong financials, and solid management teams that have proven ability to adjust to change.

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