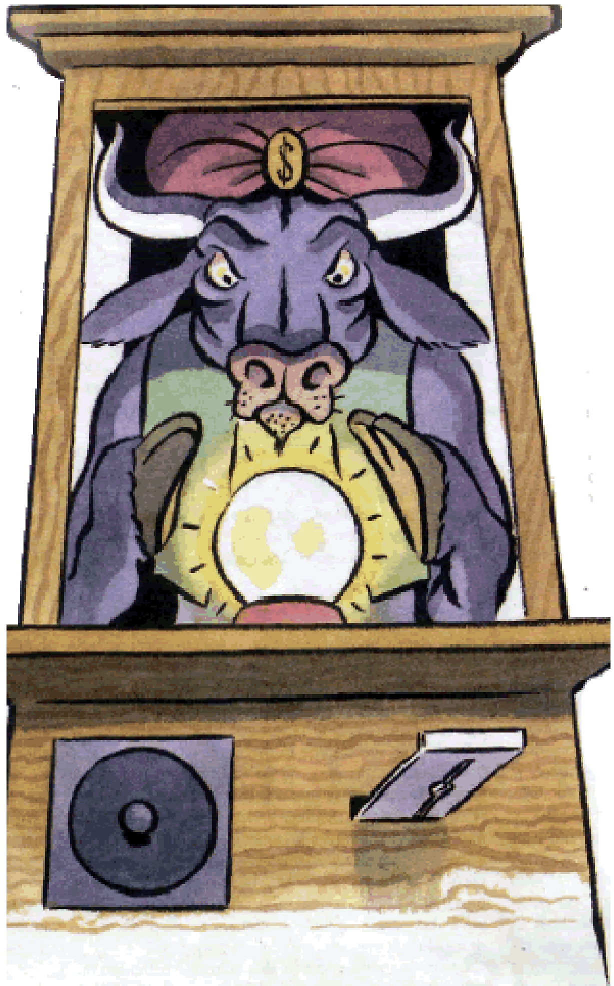
A NEW ADMINISTRATION

MAY DRIVE NEW OPPORTUNITIES

It would be foolish to liken campaign-fueled political rhetoric to promises writ in stone. Yet, with respect to President-elect Barack Obama's positions on taxes, health care, infrastructure building and alternative energy, there may be some investment opportunities to realize long-term by making wise bets this year. Then again, as Obama wrestles with the slippery economy, his more socially pragmatic pledges may sit out a few rounds.



"Said today, gone tomorrow" is a tendency often observed in politicians. In Obama's case, his campaign pledge to repeal Bush-era tax cuts for the wealthier segments of the population now seems to have been relegated to the back burner. In recent weeks, his advisory team has intimated that the President-elect will likely let the cuts expire as planned in 2011 because of the country's economic struggles. Whether or not his pronounced support of alternative energy sources and more fuel-efficient cars will take a back seat due to low oil prices and the severe state of the Big Three automakers is similarly open to questions. Indeed, the dire need to put the careening economy back on track may render other projected Democratic initiatives less forthcoming than anticipated.

Still, investing is a long-term game, and Obama's strong convictions likely will breed decisions that provide investment opportunities this winter, and returns sometime in the future. Take, for example, health care. "Obama's position is pretty clear about providing health care to every American," says John Carter, of Nationwide Financial Distributors, Inc. "At the same time, we have a serious Social Security crisis just as the first Baby Boomers are retiring. Meanwhile, studies indicate a lack of preparedness of Americans insofar as saving enough for their retirements. Healthcare will obviously be a front burner subject."

Carter cites an analysis by the Center for Retirement Research at Boston College called the National Retirement Risk Index that suggests that 61 percent of today's workers are at risk of being unable to maintain their pre-retirement standard of living in retirement. The startling percentage rate is 17 points higher than the 44 percent rate released by the Center in 2007. The swift escalation is blamed in large part on the rapidly rising cost of health care and its anticipated impact on retirement saving. "The study is a call to action," says Carter. "While we don't know what the legislation around health care will look like, there mostly likely will be legislation. How that affects investments is open to question."

Sifting the Tea Leaves

Other projected social and economic policy changes in the new Administration may provide investment opportunities as well. In a recent radio address, Obama said his recently formed economic team is developing a two-year stimulus plan predicated on creating 2.5 million jobs. Where will the jobs come from? Several pundits expect the President-elect to take a page from FDR during the Great Depression – bolstering employment ranks through infrastructure building. Obama also seeks to develop major industries from alternative energy businesses like solar and wind energy, creating additional jobs in the process.

Drew Tignanelli, president of Financial Consulate, a Baltimore-based financial advisory firm, sees potential gains from early investments in these budding enterprises – assuming they blossom. “There is little doubt that alternative energy and infrastructure will be big winners, investment wise, around the world,” he says. “Positioning oneself in an alternative energy ETF (exchange-traded fund) to advantage potential developments in solar and wind energy projects makes sense. There are several ETFs that hold numerous U.S.-listed companies producing green or renewable energy and related technologies. To me it seems logical that Obama will do what he says. But, if this tsunami we’ve seen in recent months continues to drown the stock market – and I for one do not think things have completely unwound – it might be years before these investments take off.”

As for probable infrastructure building, in the U.S., Tignanelli, a Certified Financial Planner (CFP) and CPA, is less convinced. “If you’re really going to consider an infrastructure play, you should be buying in China, where there are lots of projects on tap and money that won’t run out,” he says.

Of course, many U.S. companies would stand to gain, business-wise, if both China and the U.S. build more bridges, roads and public buildings. “The stock of several construction companies has been clobbered over the last 18 months, and they would certainly stand to gain if infrastructure takes off,” says Joshua Kadish, CFP, of Retirement Planning Group. “Concrete companies also will benefit, although right now all this is a moving target in the short term. Firming up the economy is priority number one in the new administration.”

Kadish and other investment advisors agree that alternative energy stocks and funds will prove investment winners someday. “It’s hard to imagine that there won’t be significant money spent in the next few years on wind, solar and green energy,” says David Tysk, CFP, senior financial advisor at Ameriprise Financial. “There are also some amazing newer technologies on the horizon like energy produced through algae that offer tremendous promise. Right now these are largely private placements, and this stuff is still R&D. The key is to closely watch the leaders to develop.” Kadish, on the other hand, advises hedging one’s bets. “Instead of picking one alternative energy company and hoping it’s the winner, I’m counseling my clients to buy an ETF that offers a category of companies.”

Others argue that energy and health care are always good investments – no matter who is sleeping in the White House. “These are good sectors, period,” says Paul Strebel, CFP, CPA, a partner in New Horizon Financial Strategies, an Ithaca, NY-based financial planning firm. “Even if McCain was in there, those sectors are solid.”

While several investment professionals predict long-term gains in the health care sector, they are concerned about the effect of future regulations that may inhibit some companies' growth. “The smart thing is to look for those companies that are under valued at present, but are still generating free cash flow and have strong balance sheets,” Tysk says. “Those are the ones that are ‘no brainers’ in terms of being around when things recover.”

Taxing Decisions

As for possible changes in tax laws, leveraging tax-advantaged instruments not likely to be affected assuages the uncertainty. “I don’t like to speculate about economic policy or taxes, but it seems that when you have an opportunity to make a tax-advantaged investment, it makes sense to do that,” says John Sweeney, senior vice president of planning and advisory solutions at Fidelity Investments. “Our recommendation is to contribute as much as you can into your 401(k) plan. Investors whose employers offer a match are essentially receiving a gift. The next place I would contribute is to an IRA because both 401(k) accounts and IRAs allow your assets to grow tax deferred.”

If tax rates rise for high-net-worth individuals as expected in 2011, it adds credence to bulking up on tax-free investments like an intermediate term tax-free municipal bond today, asserts Jim Blair, CFP, Moneta Group. “I’d load up on muni bonds,” Blair adds. “Right now there is incredible inefficiency in the municipal bond market, and if you’re selective you can get an intermediate term muni providing a 5 percent yield to maturity. These are tax-free instruments that are paying nearly double what a 10-year Treasury is paying.”

Strebel is less sanguine about the municipal bond market. “The danger with municipal bonds is the current strength of local governments,” he explains. “Many are suffering. Their sales tax revenue is down because people aren’t spending, their property tax revenue is falling because property values have plummeted, and there is less revenue coming in from income taxes. These governments can’t print money – they’re stuck with balancing their budgets.”

Despite what they perceive as the high ideals and integrity of the new Administration as it prepares to make good on its declaration of change, many investment advisors note that promises, no matter how sound in principle, often are broken. “Political rhetoric changes with the wind,” says

Mary Margolis, CFP, of Stavis Margolis Advisory Services. "What is promised may not be passed or may be passed in a completely different form. Betting on this or that happening is a guess, at best."

Maybe the best advice as this disastrous year draws to a thudding close is a dose of patience here, a dollop of optimism there, and a dash of good old American hope for the future.

HISTORY OF BULL & BEAR CYCLES

	1/14/2000 to 3/22/2001	3/22/2001 to 5/22/2001	5/21/2001 to 9/21/2001	9/21/2001 to 3/19/2002	3/19/2002 to 10/9/2002	10/9/2002 to 10/9/2007
Market	**BEAR**	**BULL**	**BEAR**	**BULL**	**BEAR**	**BULL**
DJ Ind Avg.	-19.91	+20.75	-27.36	+29.13	-31.49	+94.40
DJ WI 5000*	-24.67	+18.59	-26.41	+23.93	-32.40	+133.48
Gold Index	- 7.51	+ 4.18	+6.44	+ 0.84	+ 9.32	+130.21
MSCI EAFE	-29.07	+12.49	-27.50	+18.47	-27.30	+172.51
NASDAQ 100	-54.06	+20.60	-45.10	+33.52	-46.34	+168.91
Russell 1000*	-22.57	+18.20	-26.45	+22.68	-33.05	+127.23
Russell 2000*	-13.48	+19.51	-26.22	+34.09	-34.69	+174.63
S&P 500 Daily*	-22.66	+17.72	-26.11	+22.03	-33.01	+120.67
T-Bill 3 Month*	+ 6.92	+0 .63	+ 1.15	+ 0.89	+ 0.94	+14.83

* Dividends reinvested
Source: Thomson Reuters Lipper

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