

OBAMANOMICS – *Change Has Come to America*

THE FINANCIAL MARKETS ALWAYS HAVE WINNERS AND LOSERS. THE OBAMA ADMINISTRATION HAS A LOT OF INFLUENCE OVER WHO WILL COME OUT AHEAD IN THE NEXT FOUR YEARS. A SUCCESSFUL INVESTMENT STRATEGY SHOULD SEEK TO TAKE ADVANTAGE OF THE POLITICAL CLIMATE.

Not long ago, I was doing some spring cleaning and ended up with half a garage bay worth of items that I no longer needed. I had too much for trash pickup, so I called a hauling service whose ad I had seen in the newspaper. The guy who arrived had a sign on the side of his truck that read, “Your junk is my bread and butter!”

His motto reminds me of many of the concerns I’ve heard about the President’s initiatives and how they may impact the economy. Some businesses will surely be hurt by these changes. However, there will also be many that benefit. Your strategy should be to find the winners in these new policies and avoid the losers.

President Obama has been fairly consistent with four major themes for changes he wants to influence. They are healthcare, education, green energy and a redistributive tax policy. Let’s look at each of these themes and how they may develop – and, more importantly, who benefits and who doesn’t.

HEALTHCARE

The President wants to expand the government’s involvement in healthcare. It is estimated that 46 million Americans do not have health insurance. He wants to see this number reduced or eliminated. Health insurance is currently carried mainly through the employer. The problem is created when people leave their jobs and lose access to insurance coverage. The Consolidated Omnibus Budget Reconciliation Act (COBRA) allows workers to continue their health insurance for a period of time if they pay the premiums themselves. President Obama’s stimulus bill provides assistance paying the premiums to workers who have lost their jobs. It’s expected that his 2010 budget will expand this assistance.

But, COBRA offers only temporary coverage. The President wants a national insurance that can be offered to employees. This insurance will stay with them and not be tied to their employment. Private health insurance will continue to be available so workers will be able to choose their coverage.

Expanding insurance coverage will increase the demand for healthcare products and services. Increased demand will benefit businesses providing the services unless the government becomes more active in regulating costs. Healthcare

providers, services and pharmaceutical companies will most likely be targeted for regulation. A better way to invest in this theme will be the equipment suppliers, biotechnology firms and healthcare real-estate trusts.

EDUCATION

The President wants to promote more access to college degrees and technical training. The government’s involvement will most likely take the form of additional grants, tax credits and other financial guarantees for college. The stimulus bill provides \$17 billion to boost Pell Grants and a \$2,500 tax credit for tuition. We can expect more of these types of incentives in future legislation.

Expanding access to higher education will increase demand just like it would with healthcare. As it will be difficult to invest in the providers of these services, you should instead look to the suppliers. The stimulus package calls for \$21 billion to be dedicated to school modernization. Companies that provide construction services and supplies will benefit from infrastructure improvements. Technology companies will also benefit as schools seek to update classrooms and provide more computer training.

GREEN ENERGY

America has had a federally sponsored alternative energy program in place for many years. President Obama, who has declared that he wants America to be energy independent, would like to see those programs expanded. I believe this means a government-guided policy that steers away from oil and favors nearly any alternative.

The stimulus bill offers \$17 billion in renewable energy credits that expand the credit programs already in place. This bill also includes \$5 billion to weatherize homes, expanding a program that started in 1976. Look for new incentives for clean-coal technology, solar, wind energy, biofuels, hydrogen and other forms of alternative energy.

The second part of the President’s green-energy policy is to steer the country away from the use of oil. He will most likely do this through increased regulation of the oil industry and another attempt at passing a windfall-profits tax. The windfall-profits tax was widely discussed last summer when oil was over \$100 per barrel. Imposing this tax on the oil companies will most certainly lead to higher prices, which

makes green energy more viable.

Your investment strategy should be to take positions in companies that develop and market alternative energy and avoid the oil industry. The profit margins of the major oil companies will be squeezed significantly through increased regulation and higher corporate taxes.

REDISTRIBUTION OF TAXES

Bloomberg News has reported that government guarantees and rescue commitments to date total \$8.5 trillion. The President's 2010 budget forecasts deficit spending of \$1.4 trillion. And, let's not forget the \$52 trillion in unfunded liabilities created by the retiring baby boomers and their demands on Social Security and Medicare. The government is in dire need of money. President Obama has targeted those with incomes over \$250,000 to help pay for these deficits. It's estimated that this group makes up five percent of taxpayers and they are already providing 60 percent of total income-tax revenues.

I don't believe this threshold will hold. Unless government spending is curtailed, higher taxes may be imposed on those making under \$250,000.

It's expected that the two highest tax brackets, 33 percent and 35 percent, will be replaced with 36 percent and 39-1/2 percent brackets beginning in 2011 when the current tax cuts expire. All other tax breaks are expected to be made permanent for incomes under \$250,000. The tax on qualified dividends and long-term capital gains will increase from 15 percent to 20 percent for the higher income-tax payers, as well.

This means that investments with tax advantages will be in demand. Tax-free municipal bonds and stocks that pay qualified dividends will be the investments of choice as higher income investors try to shelter their returns. Corporate tax rates are also expected to rise. Investments in companies based in countries with lower corporate income tax rates should also benefit. Hong Kong, Singapore, Ireland and Switzerland currently have the lowest tax structures among developed countries. ❖



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