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In election, markets will be winner

Uncertainty during the run-up to a vote for president instills investor anxiety, experts say, and the release of tension afterward often leads to a "relief rally."

By Andrew Leckey (Excerpt)
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No matter who wins the presidential election in November, there are no quick fixes for the weak economy or the need to formulate national policies on pressing issues such as energy.

One thing that can be said is investors and Wall Street eventually will know what they face. That often prompts a post-election "relief" rally.

"The markets hate uncertainty, so as we get closer to the election, any contradictions in the candidates' policies can cause anxiety," said David Kudla, chief executive and chief investment strategist for Mainstay Capital Management in Grand Blanc, Mich. "We tend to see a relief rally after a presidential election, no matter what the outcome, because there finally is some certainty."

Wall Street often favors Republicans, though this does not assure that financial markets will fare better during their administrations. There are definite differences in tax policies on investments espoused by Republican Sen. John McCain and Democratic Sen. Barack Obama...

...Obama wants to raise the capital-gains tax rate for those in the highest tax brackets, with no change in the corporate rate. McCain would leave the capital-gains rate unchanged but cut the corporate tax rate gradually to 25 percent, from 35 percent.

"In the short run, if there is a need after the election for an economic stimulus package, McCain or Obama would pass one, and if there isn't such a need, neither would pass one," said James Paulsen, chief investment officer for Wells Capital Management in Minneapolis. "But looking at the next presidential term, major issues such as health care and energy policy must be addressed no matter who wins."

In health care, Obama wants all Americans to have health coverage and would spend tax dollars to help do it. McCain would reduce regulations to permit more choices for consumers.

In energy, both want action to deal with climate change and dependence on foreign oil. Obama wants subsidies for solar and wind energy, while McCain supports incentives for nuclear power. Republicans have been pushing for increased domestic oil and gas exploration and drilling.

"Both candidates have changed their positions over time," Kudla said. "Obama has moved closer to the middle, while McCain, who was against the tax cuts in 2003, now wants to cut taxes for corporations." ...

"In a market comeback, it would definitely be stocks over bonds because the sectors in crisis, such as financials and retailers, were hit hard by fears of potential horrific outcomes," Paulsen said.

"The rally would probably also extend to more economically sensitive areas such as technology and industrials," he said.

Small- and mid-capitalization stocks would triumph over large caps in a re-emergence of confidence, Paulsen said, while the overall market would shift away from defensive stock sectors...

... Tinkering, rather than taking any drastic portfolio action, is the best course for investors, experts said.

"Long-term investors with diversified portfolios should not be that concerned about the election, though it might make sense to reallocate some assets," Kudla said...