

# 5 Stocks to Own

... If Obama Wins

... If Romney Wins

by Kevin Cook

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# 5 Stocks to Own

## ... If Obama Wins

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The 2012 presidential election is shaping up to be an exciting battle between two candidates with strong national followings. The incumbent and the challenger both have compelling platforms, and future directions for the country and the economy hinge on who we choose as citizens and voters.

But as investors, we have to be prepared for either outcome, attached to neither possible victor and ready to simply follow the net money flow. So, it's a good time to look at the investing landscape and how it might change before and after our next leader takes the oath in January.

To begin gaming the election and trying to estimate likely investment beneficiaries of each candidate, we'll first look at five big election issues and the sectors they impact. Then we can pick some stocks that could win for a second-term 44, and some that could win for a new 45.

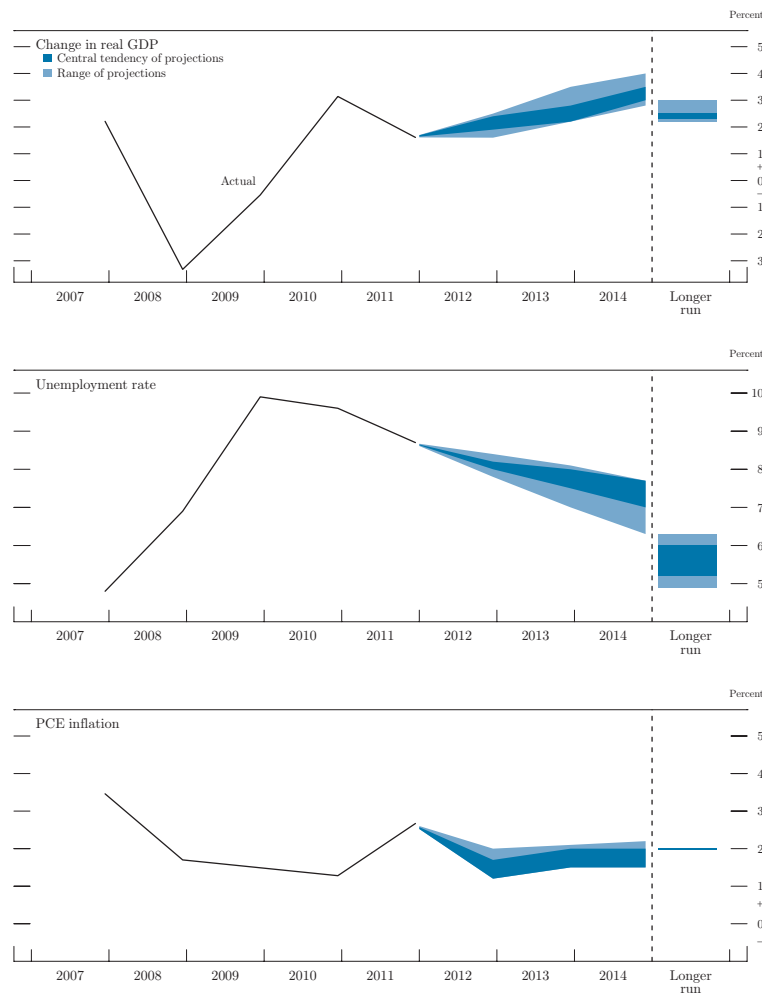
## 1) The Economy

Job creation and taxes. These are the two biggies that most "presidential" economic debates revolve around. Whether any leader can actually get anything done in Washington to spur job growth might be the biggest debate. Romney's classic Republican bid to cut taxes will surely meet resistance in a Congress with its back against the wall on deficits and spending cuts. And Obama's infrastructure and agriculture bills face the same wall.

But assuming either one could be somewhat successful, here are a few ideas to consider:

## Federal Reserve economic projections from June that drive monetary policy. Update due at the September FOMC meeting.

Figure 1. Central tendencies and ranges of economic projections, 2012–14 and over the longer run



NOTE: Definitions of variables are in the notes to the projections table. The data for the actual values of the variables are annual.

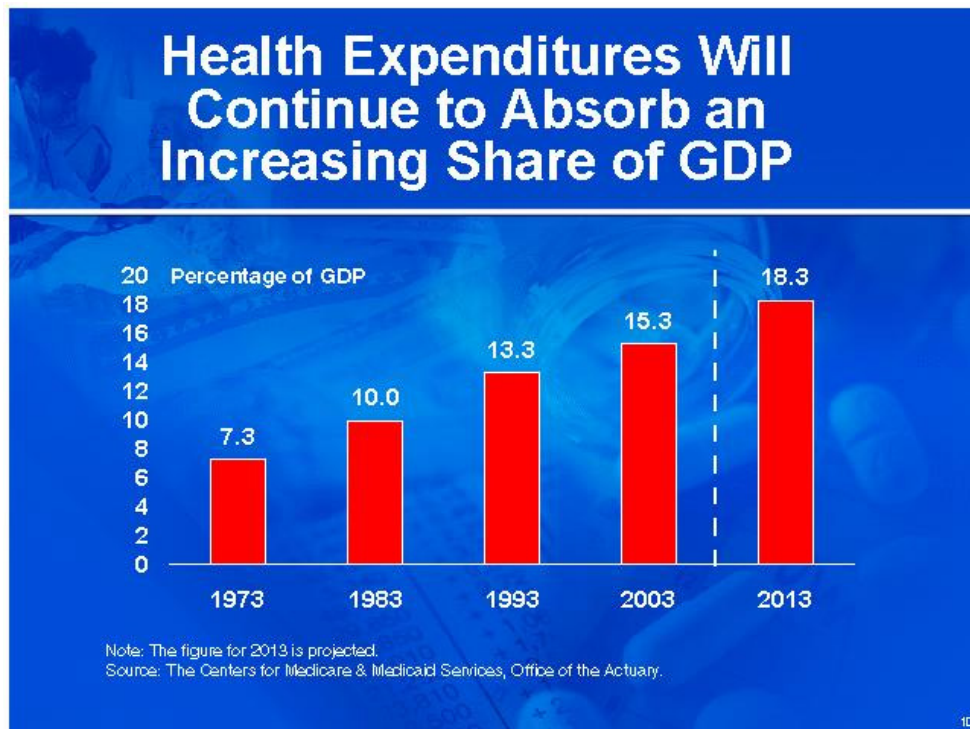
**Obama victory:** The President's 2013 budget includes a historic six-year \$476 billion plan for transportation infrastructure projects, including high-speed rail initiatives. Large engineering and construction companies like Jacobs Engineering (JEC) may thrive.

**Romney victory:** Tax cuts mean more capital investment by corporations and more spending by consumers. Buy IBM for enterprise IT, or an early-growth retailer like Michael Kors (KORS).

## 2) Healthcare

As we've seen, "Obamacare" is good for health care providers, like hospitals and some HMOs, because it encourages patient care for more than 30 million uninsured Americans. The recent Supreme Court ruling upholding the Patient Protection and Affordable Care Act will only ensure that more patients are added to Medicaid, which protects the poor. And the waves of baby boomers retiring over the next few years will boost demand for Medicare.

The insurers have been under pressure as they see their costs rising. But, the recent flurry of M&A in the group was a scramble to get more exposure to Medicaid and Medicare payments, with Aetna (AET) buying Coventry Health Care (CVH) and WellPoint acquiring Amerigroup (AGP).



Meanwhile, Romney may ease pressure on pharmaceutical companies and device makers, like Stryker (SYK), two businesses that are due to suffer from Obamacare. The President's plan imposes a 2.3% excise tax on the sale of medical devices starting next year and charges drug makers \$85 billion in fees over the next 10.

**Obama victory:** Buy a hospital stock like HCA Holdings (HCA). A caveat here is that hospital reimbursements are subject to regulations regarding Diagnosis Related Groups (DRG), which means that payment limits are set around medical conditions and their standard treatments, regardless of the length of stay. This can create an unknown cost risk for hospitals, especially if someone stays a week for two days worth of care.

**Romney victory:** Buy the Nasdaq Biotech Index (IBB).

### 3) Energy

Contrary to popular wisdom, the Obama administration has been relatively good for the oil and gas sector. Remember, he was all about drilling before Deepwater Horizon, and he didn't change his stripes and run afterwards. Plus his alternative "clean and green" energy dreams are probably not finished.

For example, one part of the President's Budget provides an additional \$5 billion for 48C tax credits for advanced energy manufacturing, which could incentivize more than \$20 billion in private sector investment. And hundreds of millions are earmarked to support transformational research in clean energy technology areas such as solar energy, energy storage, carbon capture and storage, wind and geothermal systems, and advanced biofuels.



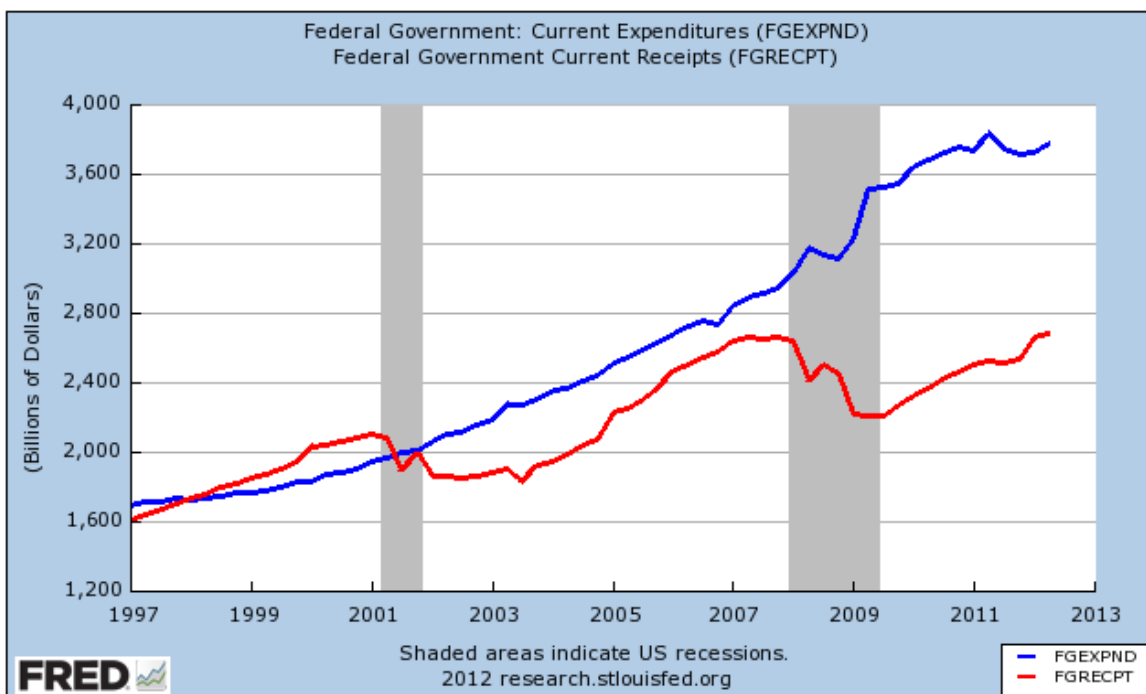
**Obama victory:** Buy Westport Innovations (WPRT), the natural gas engine company, which has a partnership with diesel giant Cummins (CMI).

**Romney victory:** Buy the energy sector through the SPDR ETF (XLE). A Romney administration should be overall favorable to the oil and gas industries, and the underperformance of the sector gives you a good margin of safety in this big basket of profitable names.

## 4) The Fiscal Cliff and Defense

Which way is the axe leaning on defense spending cuts? All these areas are tricky, but this one may be the trickiest because of the uncertainty surrounding the Fiscal Cliff, and the planned \$500 billion hit to weapons makers over the next decade.

According to US News & World Report, in mid-July Lockheed Martin CEO Robert Stevens “told a House committee deep Pentagon cuts slated to kick in January 2 will force his firm and others to fire employees and close factories. Those moves will hinder U.S. national security, erode defense firms’ bench of highly skilled workers, and, of course, cut into weapons-makers’ bottom lines.”



Many of the defense industry CEOs who visited lawmakers that day hinted that hiking taxes should be considered to preserve jobs, national security and innovation. That would certainly put Mitt Romney in a tough spot. But, it's highly likely Republicans will figure out where to make the cuts in social programs, Social Security and Medicare to soften the blow to defense.

Still, at some-point the Bush-era tax cuts will have to lapse and spending will have to be cut to rein in the ballooning deficit. "That's why I don't think it really matters who's in office," says Jerry Jordan of Jordan Opportunity fund. Speaking to Investing Daily in late August, Jordan explained "no one in history has ever been able to fix this kind of debt problem without raising taxes and cutting spending."

**Obama victory:** Stick with consumer staples in the event that our economy is "pushed off the Cliff" by partisan politics and recession seems more likely. Kimberly-Clark (KMB) yields 3.5% and is a steady earnings grower with a 60% payout ratio.

**Romney victory:** I like Lockheed Martin (LMT), trading under 12X with a 4% yield and an average positive earnings surprise of 22% for the past four quarters.

## 5) Wall Street

Here's another issue that is more complex than it seems on the surface. While Governor Romney is threatening to repeal Dodd-Frank legislation and other financial regulations, many investment banks have already made big sacrifices in selling off trading desk businesses or other targeted segments.

Still, if there's a chance that he gets his way, a return to higher-profitability businesses by Wall Street banks and institutions could be a game-changer for an industry expected to lose tens of billions in revenue every year and burdened with additional costs of regulation.

Then, there's the new dividend tax laws scheduled to take effect next year. If the Bush tax cuts on capital gains expire, there's an incentive for investors to take profits now on their dividend stocks. On top of all this, beginning in 2013, the new federal health-care program imposes a 3.8% tax on the investment income, including capital gains, of high-income taxpayers.



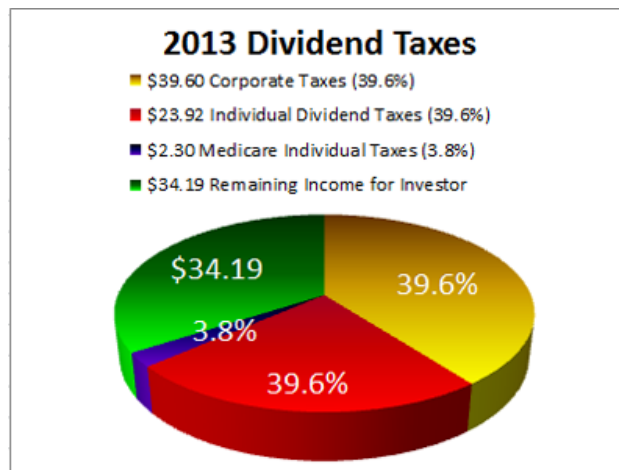
These regulations and tax issues are complex, but on the broad strokes, it sounds a lot like Romney is the man Wall Street would prefer.

### Double-Taxed Dividends: Going Up?



What happens to \$100 in dividend income...this year vs. next.

by Austin Johnston, MyPlanIQ.com



**Obama victory:** Buy an energy MLP like Enterprise Products Partners (EPD), paying nearly a 5% distribution which, while subject to ordinary income tax, would not be impacted by dividend changes.

**Romney victory:** Buy the banks, especially Goldman Sachs (GS).

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The return numbers presented assume no transaction costs. Details of how Zacks calculates performance for the Zacks Rank Portfolios and strategies is available at: <http://www.zacks.com/performance>.