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November 12, 2012 Dow Jones Industrial Average: 12,815

Obama Presidency Act II…
Now What???

50% of the citizens of the greatest nation in the world won a decisive victory last week. The majority has spoken and the President of the United States is once again Barack H. Obama. Not to sound too frivolous with my comments, but no matter how your candidate fared- we should all be thankful that we live in a country where we are all free to vote without intimidation and that all persons regardless of race, color, or sex can vote. We live in a blessed country.

Now that the dust has settled on the election, there are some observations that immediately jump out. Not all are positive for the stock market, but I don't think any of them are the "kiss of death" either. My feeling is that this market which has been labeled "a plow horse economy" will continue to move slowly but on a steady course.

So, here are the things that we can expect in Act II of the Obama Presidency:

- The Affordable Health Care Act (aka Obamacare) is here to stay. Like it or not…it is here. I personally hate the idea, but to put a silver lining on the topic—more companies may be shifting their employees off of their company's health insurance program in favor of the government plan. This should ideally, benefit a company's bottom-line profits.

  The transfer of responsibility of providing health insurance should be a money saver for Corporate America.

- Federal Reserve Chairman Ben Bernanke's job will remain intact. His continued role as the Chairman was a source of anxiety for the stock market, and with his employment position intact—his stated goal that interest rates will remain low until mid 2015 will likely remain intact. Consistently low interest rates may make the owning of fixed income bonds less risky over the next few years. Additionally, low interest rates could give stock investors more of a reason to own individual equities.

- The Tax Man Cometh. This is the biggest negative for the market…this could translate into less capital to invest in the equity markets due to increased taxes-- which then translates to an EVEN SLOWER PLOW HORSE ECONOMY.

  Here is a run-down on the scheduled increased taxes, as we know now:

  - Expiration of the Bush Tax Cuts. Tax rates go back to where they were in 2002. The highest tax rate will increase from 35.0% to 39.6%.

  - 3.8% tax increase on investment income for high-tax bracket filers…to help fund Obamacare

  - Medicare withholding taxes will increase from 2.9% to 3.8%

- Tax on real estate sale. This tax is part of the 3.8% taxes applied to the gain of investment gain: Interest, dividends, rents (less expenses), capital gains (less capital losses). This tax applies to Adjusted Gross Income over $200,000 for individuals and $250,000 for joint filers. If no compromise is reached it will be interesting to see how this new tax on real estate sales effects the already embattled real estate market.

The big question that is dominating the news media is what will happen with the Fiscal Cliff…the US Treasury needs to raise the debt ceiling, at the same time politicians need to agree on how to raise the ceiling for the short-term, while agreeing to pay down the deficit over the long-term.

> **I attended a meeting which featured an economist from First Trust Advisors, he believes the politicians will avoid "going over the fiscal cliff" by compromising in the following manner: the tax rates will not be raised, but the income level will be raised to tax the higher income earners…fulfilling the campaign rhetoric of President Obama: "The Rich Need To Pay Their Fair Share".**

I hope there is a compromise this time around. Last year, the rating agency of Standard & Poor's downgraded the debt rating of the U.S. government bonds from AAA to AA. The two other agencies (Moody's and Fitch) did not lower their AAA ratings, but they have stated that they are on a negative watch- if a compromise is not reached. Another downgrade would not be a positive for the stock or bond markets—last year it prompted a dramatic sell off in the stock markets.

With all of the fun and festivities last week, some interesting things were reported in the news…

- On Friday, the consumer sentiment index rose to 84.9, up from 82.6%. This is the highest level in the last 5 years.
- The trade deficit plunged 5.1% in September. The expectation was for $45.1 billion, and the figure came in at $41.5 billion.
- Wholesale inventories rose 1.1% in September, better than the predicted 0.7%. According to some economists, the third-quarter revision will likely reach a 2.8% annual rate, up from the flash estimate of just 2.0%.
- Overall exports rose 3.1% in September
- China's industrial production rose 9.6% in October, up from 9.2% in September.
- China's retail sales rose 14.5%, up from the September figure of 14.2%

In conclusion, which I know that was a lot of information to absorb; it seems that under the "Obama Act II Economy"- we should expect more of the same. Taxes are scheduled to go up (which is a negative), but for the most part, interest rates may continue to stay low, the economy will most likely continue to move slowly forward, and dividend paying companies should continue to be in demand.

I expect that the Fiscal Cliff worry will be resolved before the year end—if they can't come to a consensus, they will most likely pass a six-month extension of credit to the government. *Class warfare / redistribution of wealth is the name of the game right now--high income earners are targeted by the politicians.* I don't agree with this mentality, due to the US economy is mainly a consumer led economy- and high income earners are spenders.

Even with the higher taxes, I think the stock market / economy will keep moving forward… not at a fast rate, but slow and steady. The Dow Industrial Average currently is roughly at 12,800- I would anticipate that the market will move back to the 13,500 level once the uncertainty about the Fiscal Cliff is over along with potential for a Santa Claus rally.

Beyond the 13,500—the economy has to demonstrate that it can move forward / "plow forward" under the additional weight of the new tax load.

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