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Event Driven Investing: Moves to Make If Romney Wins

The U.S. Presidential election is less than one month. If the challenger Mitt Romney wins, then certain assumptions will be acted upon by investors. How can this event help you craft a profitable investment strategy?

The most widely recognized and controversial piece of legislation passed during President Obama's time in office has been 'Obamacare.' The legislation is controversial for many reasons. One reason stems from the fact insurance companies will have to cover people with pre-existing risks starting 2014 (see Title I, Section 1101 of the ACA, pages 47-48). Another is that citizens must obtain a government-approved form of health insurance or pay an annual fine.

The two concerning issues above have led to a noticeable sell-off of health insurance companies following the Supreme Court's ruling this past summer. WellPoint (WLP), a private-sector health insurer felt the brunt of this decision. The chart below clearly shows a steep decline in stock price following the June 25, 2012 ruling date.

The problem WellPoint faces is that its profit margins are not that large. They average around 4%. As a company, having to accept customers that have pre-existing conditions and comply with additional rate regulations, these changes will make it very difficult to grow and thrive.

If Romney succeeds in his Presidential bid, investors will react to the hope that Obamacare will be radically changed. A new Republican President with at least the House under Republican control will allow for a decent amount of traction in changing the course of government controlling healthcare.

Keep your eyes on polling data. If a noticeable shift towards Romney persists in the swing states, then WellPoint and other similar companies will have room to run.

TheMarketCapitalist.com Portfolio Selection

Company	Ticker	Buy Date	Buy Price	Last Price	Performance	Dividend %	Buy Target
SeaDrill Limited	SDRL	9/7/2011	30.25	39.48	30.51%	8.10%	Up to 38
Weatherford International Ltd.	WFT	9/7/2011	16.31	12.31	-24.52%	0.00%	Up to 26
American Tower Corp.	AMT	9/7/2011	53.75	71.67	33.34%	0.00%	Up to 68
PowerShares Water Resources	PHO	9/7/2011	16.42	19.29	17.48%	0.64%	Up to 22
Cisco Systems, Inc.	CSCO	9/7/2011	15.42	18.26	18.42%	1.20%	Up to 21
Deere & Company	DE	9/7/2011	78.97	82.37	4.31%	1.90%	Up to 92
Chesapeak Granite Walsh Trust	CHKR	2/3/2011	25.19	20.76	-17.59%	9.30%	Up to 26

Strength In Numbers

The looming 'fiscal cliff' is a news item that will receive more play time in the next three months. For those unaware, the fiscal cliff refers to a number of expiring tax rates in the U.S. and the replacement of those rates with higher rates of tax. This possible change in the rate at which we are taxed spans from income earnings to investors.

One area that is of great concern to many is the rate at which dividends are taxed. Dividends currently are taxed at a maximum of 15% and are scheduled to go back to being tax at ordinary income tax levels. If dividend taxes revert back to the way they were prior to 2003, then the top dividend tax rate will be 39.6%. This is not good for many investors, since they rely on dividends as a source of income. This also is bad for investors, since a higher effective tax rate on dividends means stocks paying dividends will likely be valued less and therefore will experience some degree of price decline.

What's a fearful investor to do? I've often championed stable companies with shares earning a regular dividend because of their stability. Stability is what more and more investors need. This is not based on psychological reasons, but more biological. I say biological because an ever greater share of the population within the U.S. is at or approaching retirement age.

Retirement age puts a person in a situation where they are likely to be 'harvesting' their investments more than they are putting away for a day in the future. The bottom line is that retired people need income and often times a significant portion of their income is derived from investments that pay a regular dividend. If taxes on dividends increase a direct hit will be felt across many retiree's pocketbooks.

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Older people (those at or around retirement age) are often those most likely to vote and be politically involved to some degree. This is a segment of the population that is loved and feared by politicians across the land. Not only is this demographic segment large because of the post-World War II baby boom, but they are politically engaged.

Allowing dividend taxes to revert back to the level they were previously at would be political suicide for many politicians. Therefore, I do not expect the dividend tax rate to revert back to a maximum of 39.6%. I would expect dividend taxes to experience a nominal increase. If politicians are out to increase tax rates, it will most likely come from another less politically dangerous group.

***Personal Finance*: Misuse of Economic Utility**

Though it might sound rather reduction-ist, we are all cogs on a proverbial economic wheel. We each have some form of skill set that is or is not being utilized in some capacity to maintain or grow our economy. On a personal level, this same vein of thought holds true. How are you utilizing your skill set to best maintain and/or increase your economic well being?

Whether you realized it or not, everyone reading this newsletter has had a huge investment made into their own lives. The time your parents and other family members dedicated to raising you and the time you spent in being educated from at least kindergarten through high school and probably on to college, represents a massive investment.

After all the investments made, what economic reward can you reap? How are you utilizing the skills gained to sustain your personal finances? Your human capital is probably the biggest asset and area of opportunity for you to better your financial situation. This is certainly true when you're quite young, but still remains as you age.

For those that are young, you must ask yourself whether the path you're currently on is going to lead you to the financial success you desire and/or expect. Though the success you desire might not be achieved through the next two steps taken, are you headed in the right direction? Many people see this 'path' as their career path. A simple way to figure out if you're headed in the right direction would be to look at those people that you report to and think about being where they are. Do you have the skills, education and knowledge to one day progress to such a position? More importantly, is that position something you even desire?

For people that are retired or are at the end of their career, accumulated knowledge about the industry is a very valuable, and often an intangible resource. Secondly, the pursuit of knowledge outside your area of expertise can open financially lucrative avenues once more free time is available. For example, selling a simple good or service that you may have perfected after many years as a hobby, could be a venture worth pursuing in retirement.

The most important point to understand is that within you is a bundle of knowledge and skills. Each day you use this bundle to a greater or lesser degree. Your career path pushes you to develop some skills more than others. This hopefully leads to a progression where the

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knowledge and skills developed lead to greater economic rewards. It's up to you to recognize this opportunity within yourself and to push yourself along the path to a brighter economic future.

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