Politics of Investing

Obama's Second Inauguration Lies Ahead
What it Could Mean to Investors

By Wendy Kirkland

As President Obama prepares for his second term in office, I thought it might be interesting to take a look at what might be in store for investors. Although the President will be faced with many of the same challenges, the 3 most important are:

Jobs, jobs and jobs (not necessarily in that sequence).

Before looking at charts of individual stocks, I'd like to start with a table that helps to illustrate what we may be looking at as we enter a new Presidential term.

	President	Party	1st Year	2nd Year	3rd Year	4th Year
1933	Franklin Roosevelt	Democrat	44.20%	-8.54%	47.80%	27.88%
1937	Franklin Roosevelt	Democrat	-38.66%	16.11%	1.63%	-14.86%
1941	Franklin Roosevelt	Democrat	-17.92%	1.72%	31.64%	14.16%
1945	Franklin Roosevelt	Democrat	30.45%	-13.83%	2.34%	-0.65%
1949	Harry Truman	Democrat	10.53%	15.77%	22.11%	11.79%
1953	Dwight Eisenhower	Republican	-6.59%	30.24%	40.87%	2.53%
1957	Dwight Eisenhower	Republican	-14.26%	25.13%	19.68%	-3.01%
1961	John Kennedy	Democrat	23.15%	-21.36%	33.32%	12.97%
1965	Lyndon Johnson	Democrat	9.06%	-17.17%	26.01%	7.66%
1969	Richard Nixon	Republican	-11.36%	-8.43%	21.10%	15.63%
1973	Richard Nixon	Republican	-17.37%	-34.86%	41.94%	19.15%
1977	Jimmy Carter	Democrat	-11.50%	7.82%	5.27%	25.77%
1981	Ronald Reagan	Republican	-9.73%	-1.74%	36.96%	1.40%
1985	Ronald Reagan	Republican	26.33%	9.44%	6.86%	12.40%
1989	George H. Bush	Republican	27.25%	-13.40%	36.28%	4.46%
1993	Bill Clinton	Democrat	7.06%	-0.80%	33.11%	20.27%
1997	Bill Clinton	Democrat	31.01%	4.80%	44.46%	-10.14%
2001	George W. Bush	Republican	-13.04%	-28.99%	36.39%	8.99%
2005	George W. Bush	Republican	3.00%	7.01%	9.91%	-38.48%
2009	Barack Obama	Democrat	23.45%	12.78%	6.28%	**
	Average of All 20 Pres. Terms		4.75%	-0.92%	25.20%	6.21%
	Average of Republican Presidents		-1.75%	-1.73%	27.78%	2.56%
	Average of Democrat Presidents		8.74%	-1.55%	24.77%	9.49%

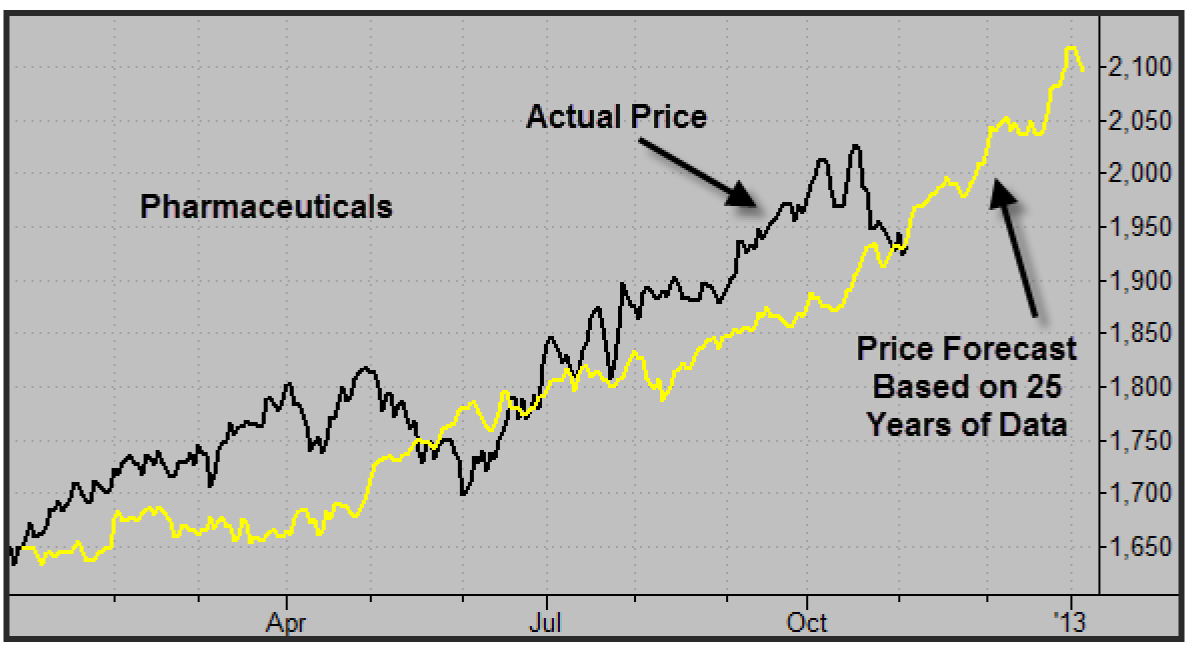
** The statistics for President Obama are not included in the averages for the 4th Year.

In this table, there are 4 columns that represent the performance of the S&P 500 Index during each of the 4 years of the previous 20 Presidential terms. If we scan down the column for the '1st Year', we can see that during a ***'typical'*** 1st year, stocks have a tendency to do reasonably well with an average gain of just under 5%.

There's really no such thing as an ***'average year'***, but if the overall performance for U.S. stocks during 2013 is similar to previous '1st' years, the majority of stocks should be higher on Dec. 31st 2013 than they are on Dec. 31st 2012. The table also shows that the average gain for the S&P 500 Index for the 11 previous Democratic Presidential terms has been +8.74%.

Weekends can be a wonderful, relaxing time for investors. It's a great time to try and spend at least a few hours thinking about the week ahead. I like to begin my analysis by looking at the 'big picture' and I always start by looking at the market sector-by-sector. Each week, it's important for me to know which sectors of the market are the strongest and which are the weakest.

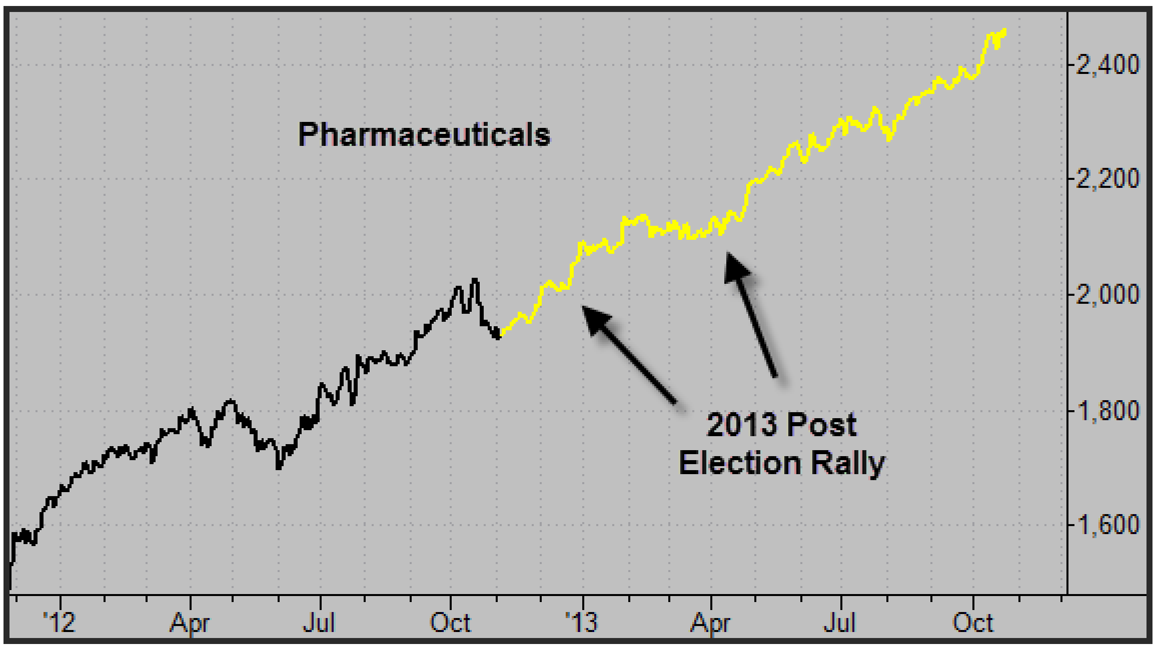
As President Obama's first term comes to an end, if you were to ask the ***'average investor'*** to name the law that he or she feels has had the biggest effect on stocks during the last 4 years, their answer would probably be the Affordable Care Act (informally referred to as Obamacare). For the last few years, as I've done my weekend analysis, the most consistently strong sectors have been those that were related to health care with the strongest being the Pharmaceuticals.



(The black line in this chart represents price. The yellow line represents a projection based on an 'average' or 'typical' year.)

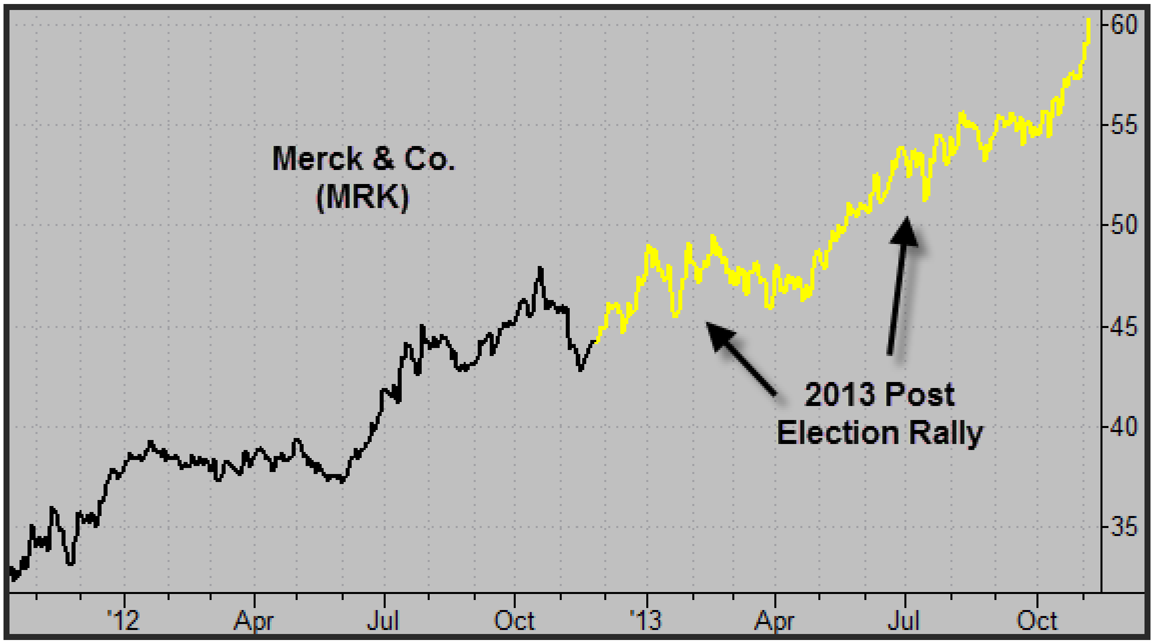
The yellow line in the chart above is a blend of 25 years of historical data and it illustrates that ***'on average'***, Pharmaceutical stocks have a tendency to trade moderately higher during the first 4 months of the year and then aggressively higher through the end of the year. The black line in this chart is the actual price and as we can see, stocks in the Pharmaceutical Sector have performed very much as we might have expected.

In the next chart, I've plotted the yellow forecast line is such a way as to illustrate the potential of Pharmaceutical stocks for the next 12 months.

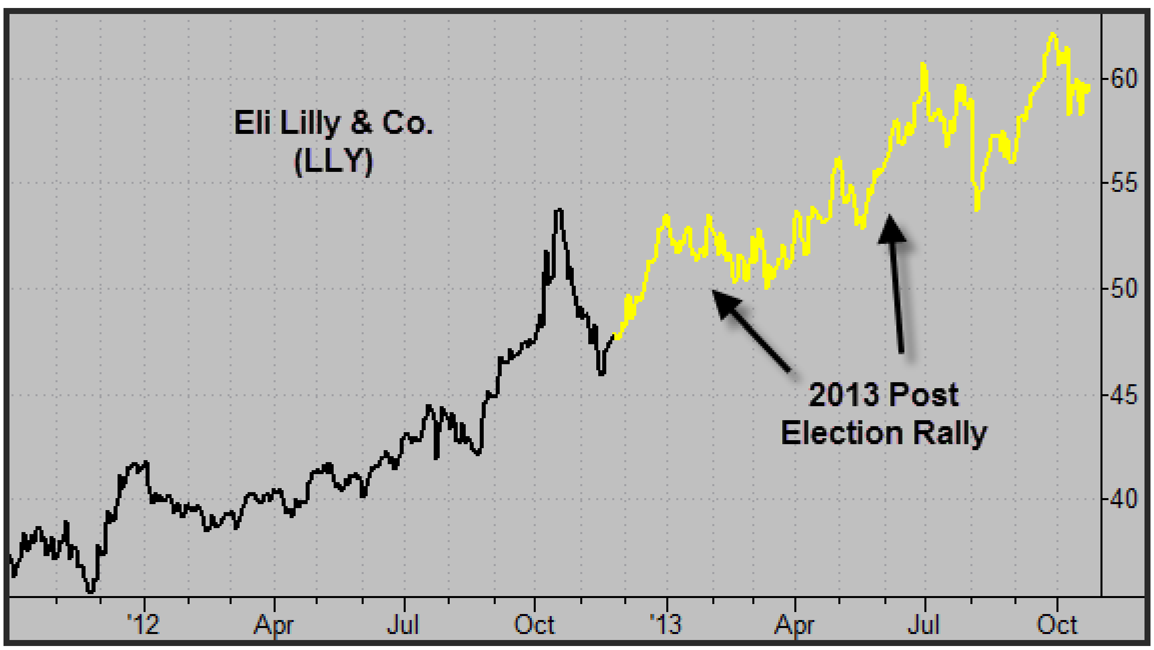


As of last Friday, the Pharmaceutical Sector ended the week at just under 2,000. During the next 12 months, if the stocks in this sector perform equal to their ***'average for a typical year'***, the overall sector should see gains of around 25%. Some stocks in this sector are likely to perform better and some will certainly perform worse, but there's a very good chance that the overall gains may be around 25%.

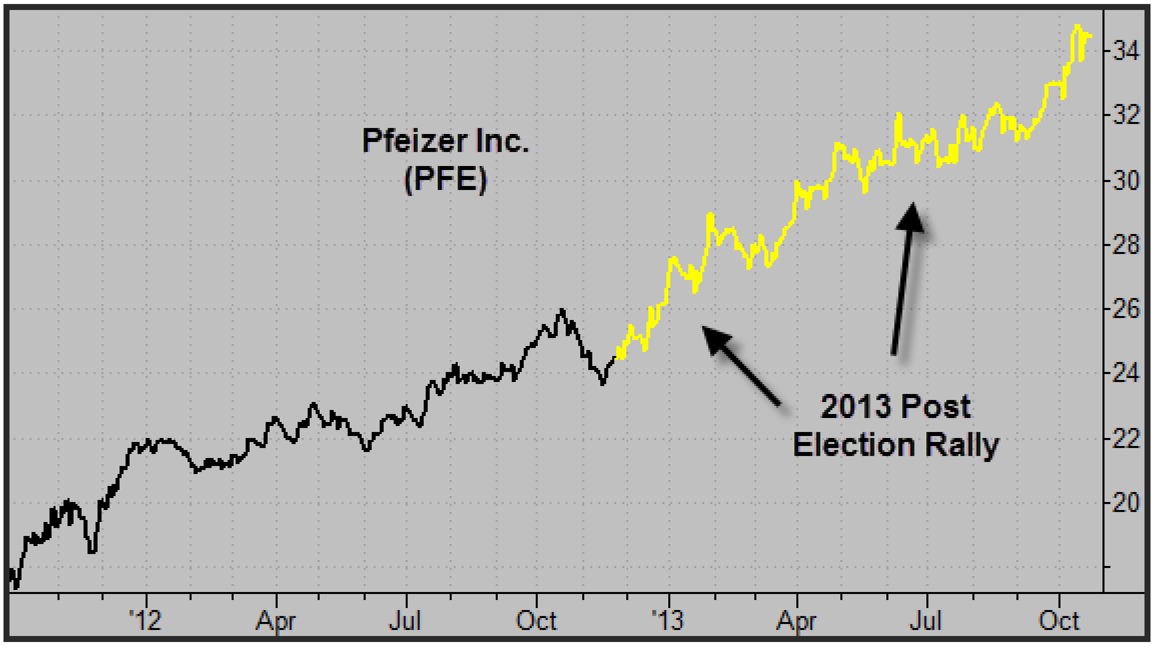
Let's take a closer look at a few of the stocks in the Pharmaceutical sector that have the strongest patterns.



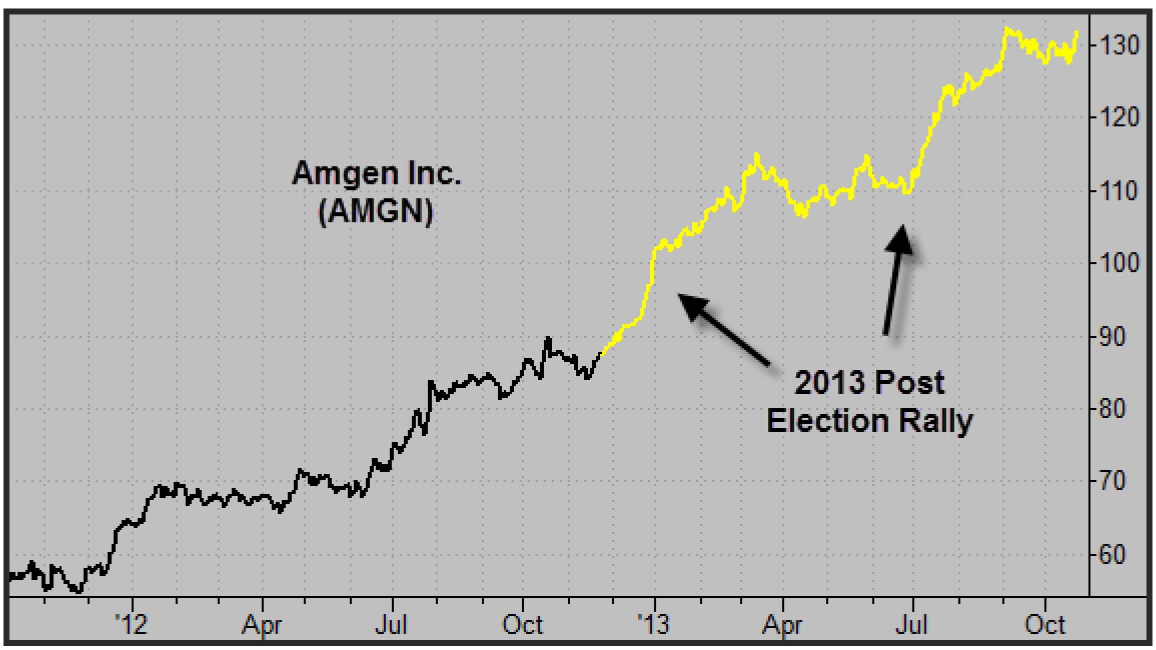
Currently, shares of Merck are trading just over 44. As we can see in the chart above, an ***'average year'*** for this stock should push prices to at least 60 during the next 12 months for an overall gain of around 30%.



Shares of Eli Lilly are trading just under 50 and during a 'typical' or 'average year', this stock could see gains of as much as 25%.



The best strategy for trading the stocks in this sector would be to try and buy the pullbacks. The black line in the chart above is the actual price of Pfizer during the last 12 months. Once a pullback is complete, these stocks have a tendency to rally around 10% in the following 8 weeks.



In trading these stocks, be patient and don't expect them to go straight up all year long. If you look at the **yellow** line in this chart of Amgen you can see that ***'on average'***, the stock has a tendency to trade sideways during the months of March through June. You can see that as well in the **black** line of the actual price for 2012.

Other stocks in the Pharmaceutical Sector that have very strong patterns include:

PRGO	Perrigo Co.
IDXX	Idexx Laboratories
NVO	Novo Nordisk

Also, these Pharmaceutical stocks could be considered, but their patterns are not quite as strong:

NEOG	Neogen Corp.
WPI	Watson Pharmaceuticals
TEVA	Teva Pharmaceuticals

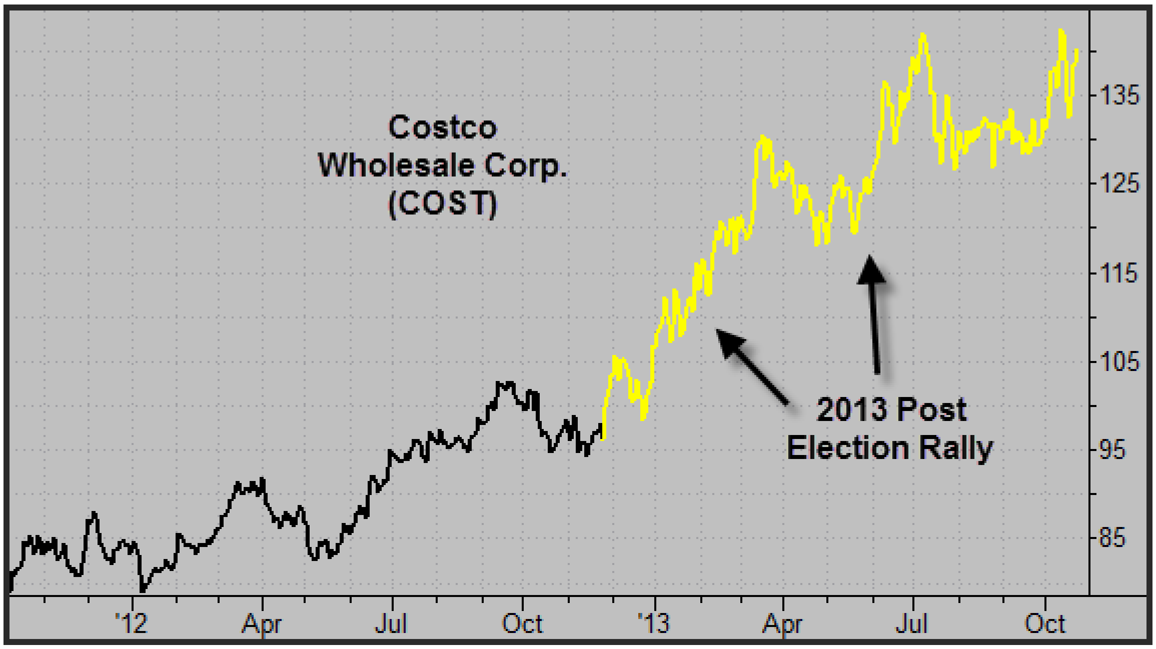
Other sectors that will effected by the new health care laws are Hospitals, Home Health Care and Medical Appliances just to name a few. In these sectors, the stocks with the strongest patterns include:

DVA	Davita Inc.
ICUI	Icu Medical
COO	Cooper Companies Inc.
ISRG	Intuitive Surgical
RMD	Resmed Inc.
BCR	C.R. Bard Inc.
VAR	Varian Medical Systems

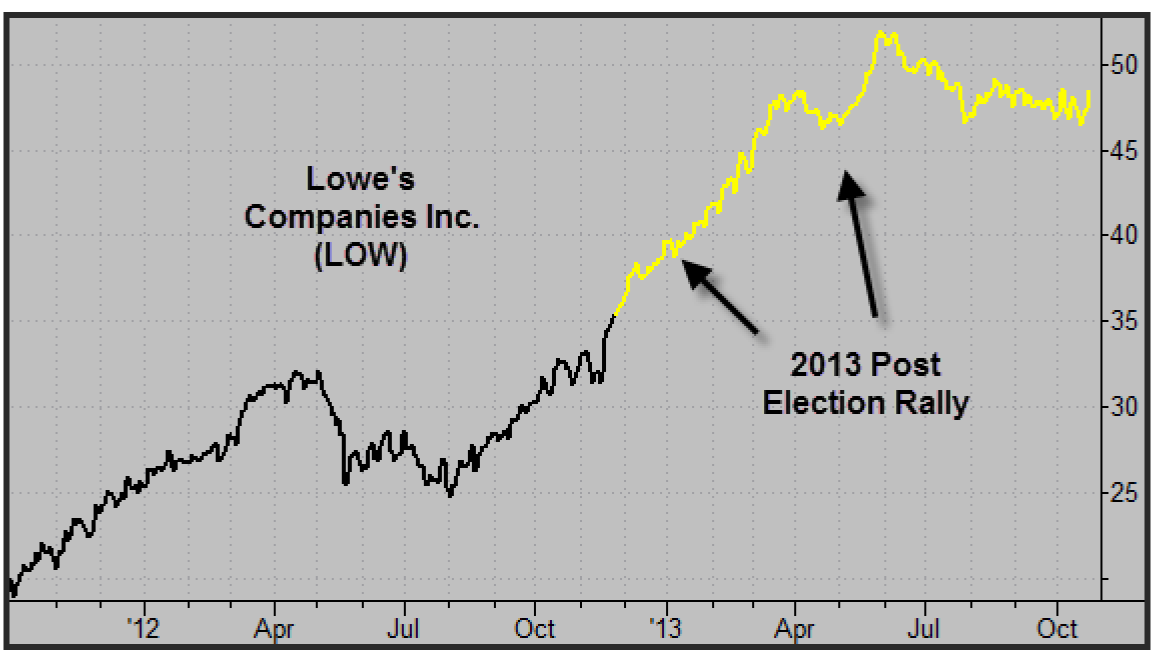
And these two Health Care stocks could be considered, but their patterns are not quite as strong:

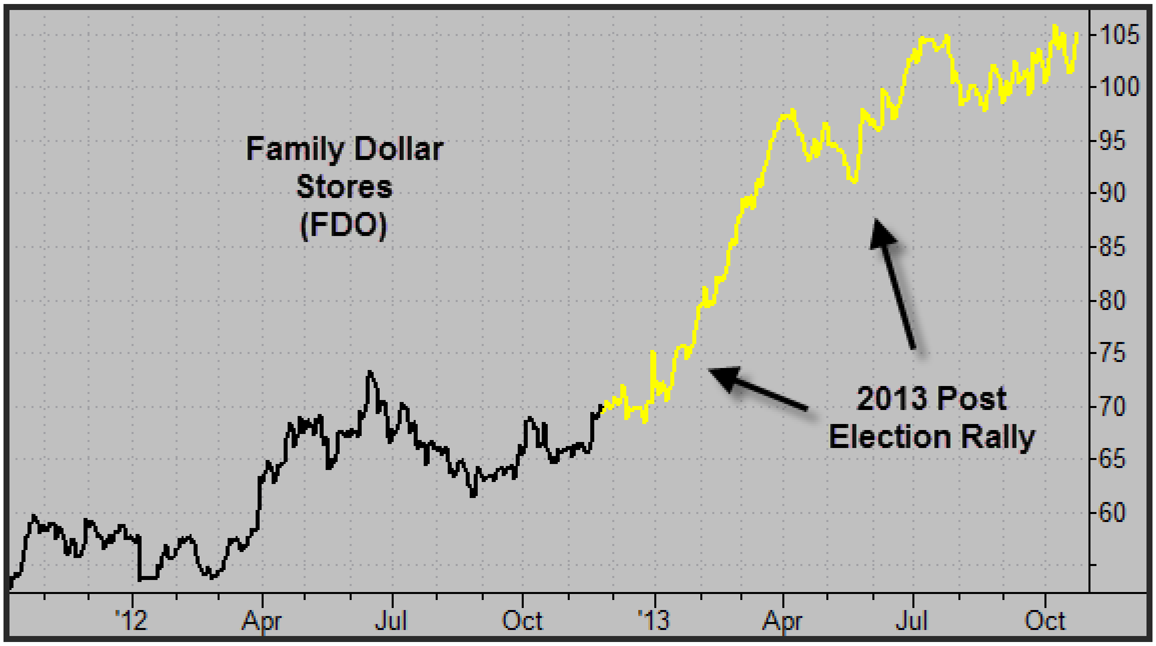
SYK	Stryker Corp.
WAT	Waters Corp.

Another sector that often does quite well during the 1st year of a Presidential term is Retail.



Large Retail chains such as Costco, Lowes, Family Dollar Stores and CVS Caremark continue to have very strong patterns.

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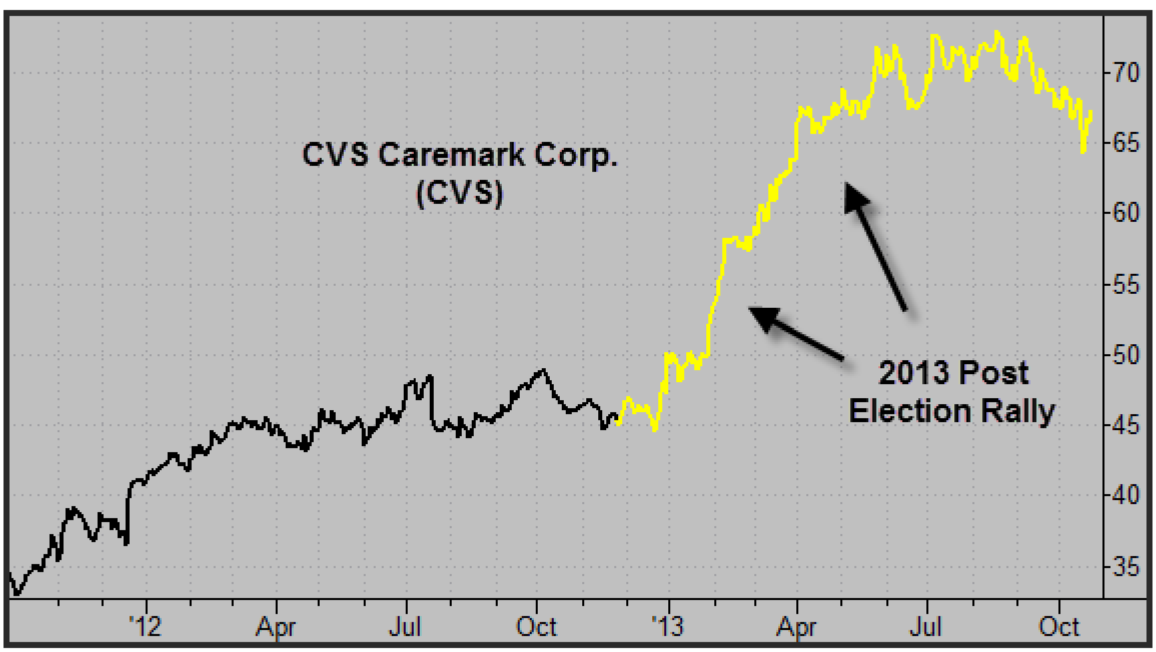
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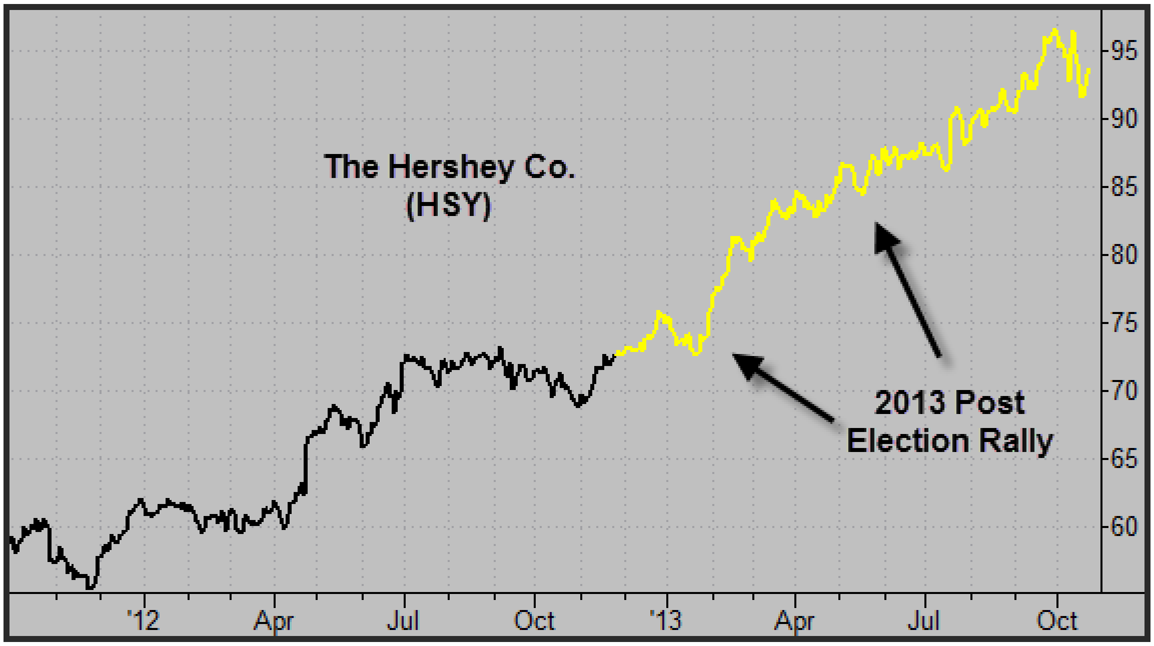
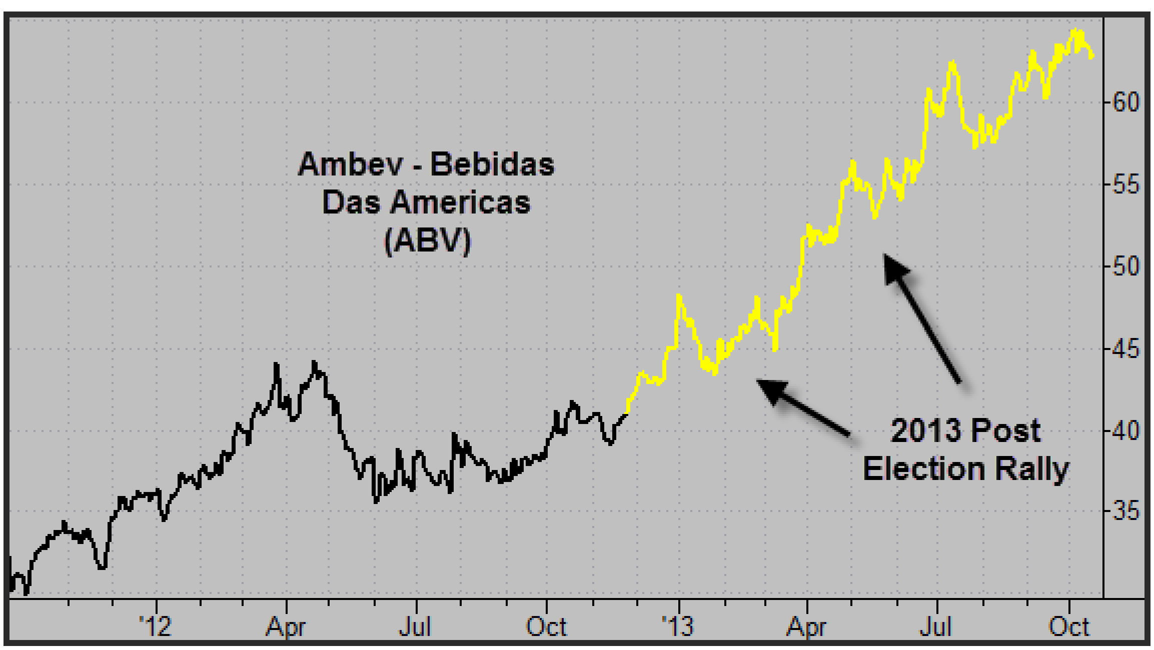
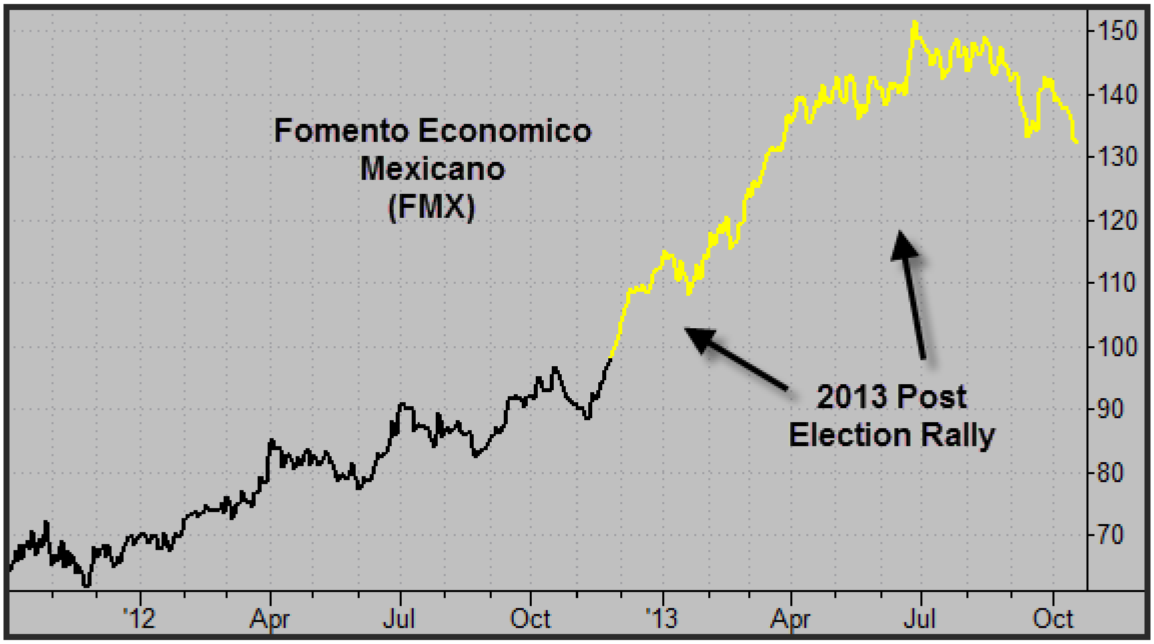
Food and Beverage stocks often do well during a '1st Year'. Of the various food companies, The Hershey Co. has been the strongest.

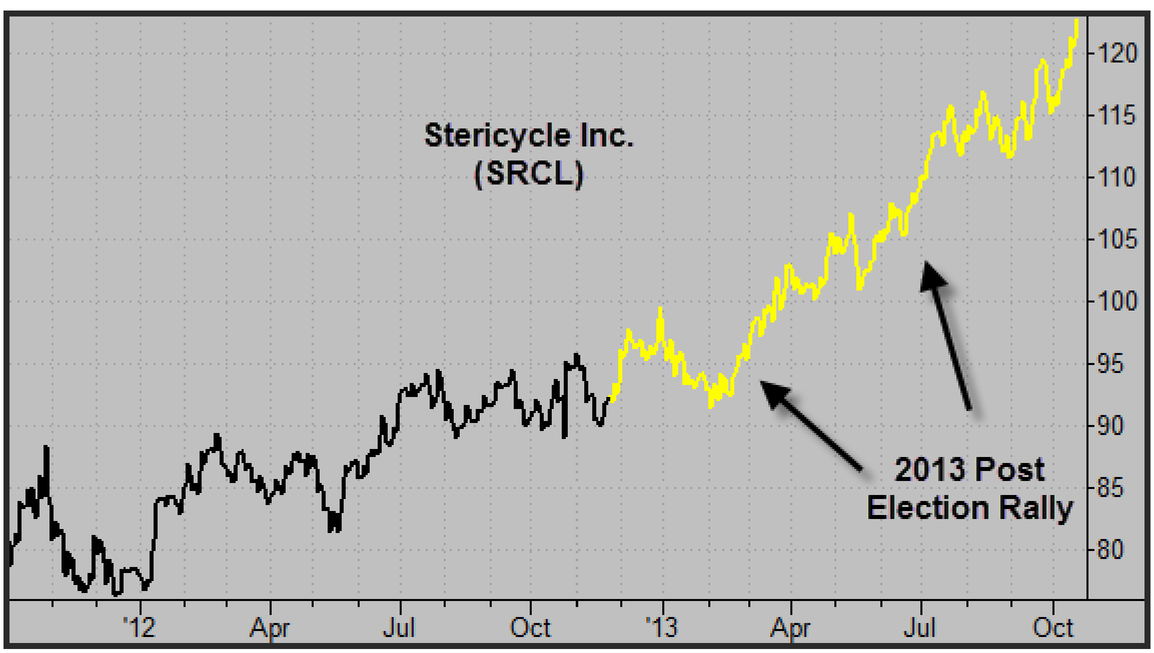


As for the Beverage companies, the strongest patterns can be seen in these two multi-national conglomerates.

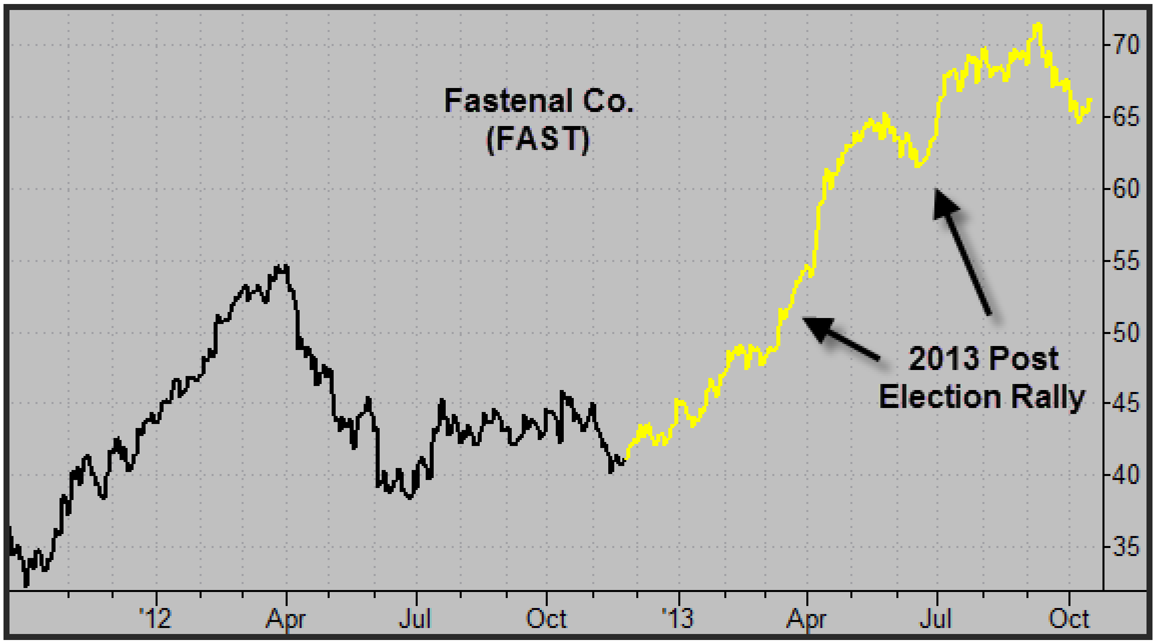




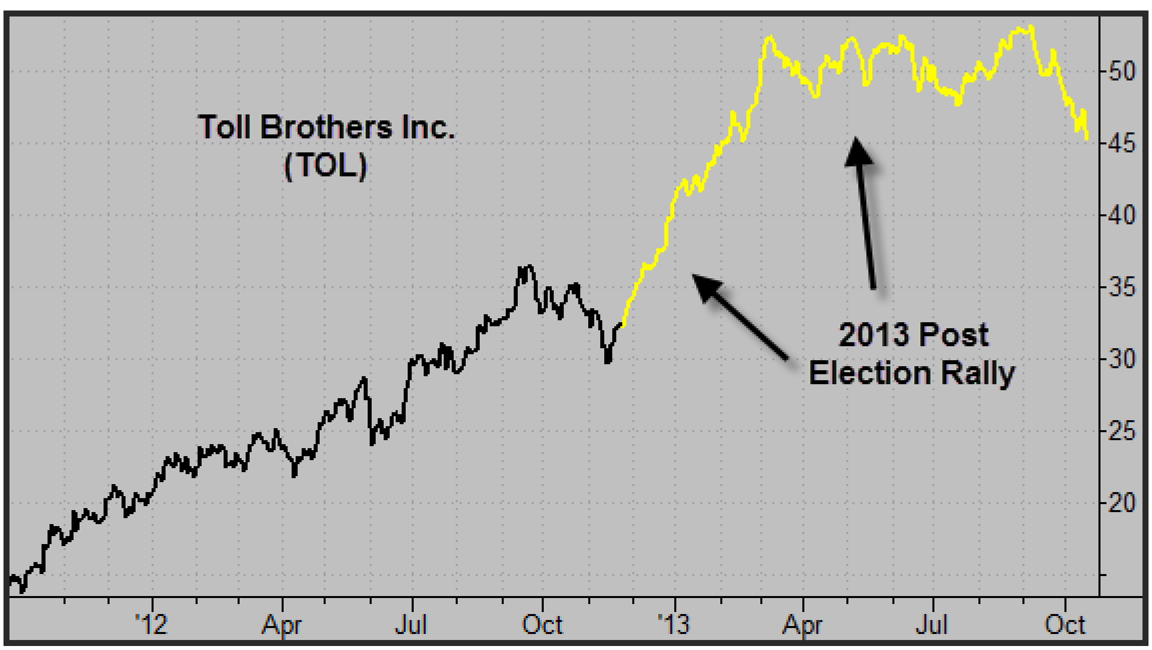
In the Waste Management Sector, take a look at Stericycle. This stock has been the most consistently strong stock in this group.



Once the economy begins to turn, Materials & Construction companies such as the Fastenal Co. will be the first to benefit.



And finally, I want to show a chart of a Residential Home Builder. This sector has been devastated in recent years, but if it makes a comeback, the stock in this group with the strongest pattern is that of Toll Brothers.



During the last 12 months, shares of Toll Brothers have nearly doubled in value and there's a very good chance that this strength may continue.

Obama's inauguration in 2008 interrupted a financial meltdown that had already dissipated a third of the DOW's value. The President managed to set the floor, a support level under the Great Recession, bringing about stabilization.

Critics question the effectiveness of Obama's crisis relief efforts. Yet in his term, the S&P 500 is up 80%. The DOW has gained 70% - ("the fifth best for an equivalent period among all American presidents since 1900",) according to the *New York Times.*

Much of the stock market's growth in the last three years has occurred because of natural expansion both here in the U.S. and abroad driven by catch-up growth, fairly strong global trade, multinational companies expanding, a dash of medicine from the Fed and now the first hints of a housing recovery.

Each of us has our own political views and personal bias, but as investors, we must trade what the market hands out. Therefore, it is important to give thought to what the changes might be under President Obama's next term.

The sectors, industries and companies mentioned above rose to the surface as those that would benefit from four more years of Democratic Party leadership. There will be sectors that cycle in the natural ebb and flow of the market, but investigating and becoming aware of the sectors and their individual parts that are likely to either remain strong or gain strength, especially as they apply to job growth will give investors the leading edge.