



Portfolio strategy: Ken Fisher

Forbe's Magazine's Portfolio Strategy columnist and Fisher Investments chief executive **KEN FISHER** argues that, contrary to popular belief, the US presidential elections are unlikely to have any significant impact on the stockmarket

US elections will not swing the market

How will next year's US elections impact markets? Answer: not much. Folks, being herd animals, focus on elections. It is hard for them to fathom that usually elections have little unexpected market impact. This time, if either President Bush were defeated or one or both houses of Congress went to the Democrats, there might be some effect, but neither is likely.

Take the presidency. The US elects governors, vice-presidents and, rarely, a national hero to its presidency. Senators? No. Rarely nominated and vastly less often elected, the last senator to make President was John F Kennedy in 1960, a charming exception. Before that? Warren Harding in 1920. Among modern famous failures were Barry Goldwater, George McGovern and Bob Dole. To become President a senator has to become vice-president first.

Senators' voting records are skewed with inconsistency, which springs from a need to compromise. Their opponents seize on that, questioning their integrity. Then, too, senators don't appear executive-like, which after all is the function of the presidency. Senators make speeches and often as attack dogs, which characterises them as shrill and un-presidential. This time the Democrats are running senators, a member of the House (worse), and a former governor (Howard Dean) who is among the most liberal of the pack and in his last re-election won with only 50.1% of the vote – hardly enough to attract funders.

To win the presidency you must win the south and part of the Midwest. Missouri hasn't been on the losing side of a presidential election in the last century. It is the single best test. Other than in the case of a landslide, the Democrats win most of the Northeast. The Republicans win the plains, Rocky Mountains and part of the West Coast. California goes both ways.

And none of that is enough to win. If you don't sweep the South and up into Missouri you lose. Hence the South's Carter and Clinton. Hence Tennessee's Gore doing well. This time the South offers only senators. North Carolina's John Edwards is too liberal to take the south. Florida's Bob Graham could. But Graham will get undermined by his state-mate, the President's brother, governor Jeb Bush. And Graham will suffer as a result of his age and heart condition. There is no one to beat Bush in 2004 but Bush himself.

Congress? The basic rule is that most gains come from races with no incumbent. In the lower chamber, the long-term incumbent re-election rate is 94%. It has never been below 80%. Gains are almost completely in open seats where an incumbent retired. In 2004 there will be many more open seats vacated by Democrats than Republicans. So, it isn't likely the Democrats can regain the House of Representatives. The same is true for the Senate but to a lesser degree. Hence, little change. Hence little market impact.

Better to step back. Note that in half the years in the first half of Presidents'



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terms the S&P 500 has been negative, evenly scattered between first and second years. But in the back half there have been only five negative years ever. The last time a third year of President's term was negative was in 1939 – tied to the beginning of the Second World War – and that was only down less than 1%. Hence 2003 is a nice year. Expect 2004 to be nice, too.

Some stocks to help with the niceties include Canada's Research In Motion, which makes the Blackberry PDA cell phone, combining email, internet, and a global GSM cell phone whose components speak to each other in amazing ways. Every employee I have wants one. They love it. You can buy the stock. It will be big.

The American travel industry is too beaten down by terrorism fears, which presents opportunity, and hotel and entertainment stocks are intermediate-term opportunities. Buy the package or a subset of Gaylord Entertainment, Hotels International, Interstate Hotels, Intrawest, Marriott International, Park Place Entertainment and Prime Hospitality.

Semiconductors and steel will both bounce back before 2005. Basic to both and at the whip end of demand is carbon graphite. So buy Germany's SGL Carbon. It has been losing money but, when the turn whips for these industries, as opposed to against them, SGL's stock and profitability will both whip around fast.

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