



*Forbes Magazine's* Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher argues that with a second term safely in the bag, President Bush will start to spend his political capital in unexpected ways - and kick-start a moribund stockmarket

# Bush set to lead the way

It is misleadingly fashionable in the US to note that first years of presidential administrations - like we have coming up in 2005 - have historically below-average returns so you shouldn't expect much ahead. It is misleading because it sees the data naïvely.

Yes, the average of all first years is low - it's 7.5% per year over the history of the S&P 500. And yes, the historical frequency of negative years is higher in the first year of a President's term than any other time - 10 out of the last 19 times.

But you should never consider the average in a skewed data series - and skewed this one is, big-time. Ignore the half of the time when first years have been negative and the other half have been positively huge - averaging 28.4%, never less than 10% and on up to 13%, 19%, 27%, 32%, 32%, 33%, 36% and 54%.

More so, the data series is even more skewed when Presidents have been re-elected as has President Bush. That series starts at negative 35% and runs steadily up to negative 11%, then skips all the way up to positive 15% and up.

It is easy for voters to see how a new President can surprise the US and the world - by somehow being different than had been expected - but it is harder to see that with a second-term President, which is why the surprise happens.

Historically, second-term Presidents are more prone to act out of character - to do things we didn't expect - than first-termers. The first-termer is more predictable because he must pander to re-election prospects. The second-termer is free for the first time in his political career to do whatever he wants - as President Bush says, "to spend my political capital".

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The problem is, no-one knows what he will want to spend it on - at this point probably not even him. If you think you know what Bush will do, history says you are naïve and easily surprised. With a stronger Republican Congress, it is even more likely Bush will spend his capital in unexpected ways, for good or bad. I'm betting on good and a big up market in 2005.

I was wrong this year. I thought 2004 would see a very positive but back-end loaded stockmarket. Not getting that 2004 melt-up, I see logic in getting what we should have in 2004 added on to 2005 for a phenomenal upcoming year. And with the US leading, the whole world market should do well. So, buy stocks such as the following.

**Danske Bank**, Denmark's largest, does full-scope banking from loans of all types to asset management. Arguably it is Europe's most cost-efficient, combining strong finances with heavy discipline. It still has growth potential yet sells like it doesn't at 15 times this year's earnings. It should outperform most banks.

**OSI Systems** is a hate stock. But if you think the war on terror will go on for long, you can love it. OSI is very strong in light-based sensors, laser weapon simulators, fibre-optics and other light-based components. A part you will really not like is that OSI is the world's largest maker of the walk-through security systems you hate at airports. But it's great product positioning. The stock isn't cheap - except to a strategic buyer. I think it will be taken over before too many years - it would make a good fit within GE's comparable product.

Japan's **Pioneer** is a great play on the consumer not being tapped out. With a stunning brand name and market share in home and auto audio and visual entertain-



ments systems, the stock sells at poor valuations on the assumption consumers can't keep shovelling out money for goodies. If you believe, like I do, that consumers can, this stock is cheap and will get re-energised in the year ahead.

While on brand names, **Oxford Industries** owns or distributes a broad array of popular clothing labels including Cumberland, Dockers, Tommy Hilfiger and Lanier. Recently acquired to the list are Tommy Bahama and Ben Sherman. If department store sales in the US bounce back next year like I expect they will, Oxford's strong distribution therein will drive this stock strongly. It is cheap at 60% of annual revenue and 14 times this year's earnings.

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