If *Forbes Magazine*'s Portfolio Strategy columnist and Fisher Investments chief executive Ken Fisher is to be believed, American stocks will prove a good buy in 2007 as we move into the third year of President Bush's term. Historically this has proved a positive year in the presidential cycle, so buy now while uncertainty prevails

Fear of the unknown

Readers objected to my September column. I predicted the Democrats wouldn't gain control of Congress in America this November, and current fears that they would will fade – which is bullish. Everywhere you read that I'm wrong. Markets hate political risk. And readers believe Congress will shift.

> IN AMERICA POLITICAL RISK AVERSION AND MARKET RISK ARE HIGHEST IN THE FIRST HALF OF A PRESIDENT'S TERM. BUY NOW WHILE FOLKS FEAR – FOR 2007.

The only media debate is how much the Democrats will gain. My point was that a little-known truism of American elections is that structure is more important than popularity, unlike in parliamentary elections. This time the structural advantages are Republican, which means the Democrats won't gain enough seats to take either house of Congress, so political risk fears will fade and you should buy now.

So? Suppose I'm wrong. I can only be wrong three ways. One is the Democrats take one house of Congress but not both. Another is they take both houses but only by a slight majority. And the third is they make a huge sweep and take both houses by a lot. There is no other possibility.

Unless they take both by a lot, what you will get afterwards is gridlock, like the late 1990s when the Republicans had Congress and Clinton was President. And markets love gridlock because nothing much happens. Still bullish! The only political risk to really disturb markets is the Democrats winning both houses by a lot, enough to maybe ride roughshod over threatened Bush vetos. If that happens in this election I will quit my column. Won't happen! There aren't close to enough iffy seats for that. I refer you back to last month's column for why. But if I can be that wrong, I shouldn't be your columnist.

Still, there is another point to consider. We are close to year-end. And next year is the third year of Bush's term. In the entire history of the S&P 500, back to 1925, there have only been two times ever the third year of a President's term has been negative, and those were long ago. One was in 1931 – in the midst of the 1929-1932 crash and Great Depression. The other was in 1939 as America entered World War II. All other third years were positive and double-digit except for single-digit returns in 1947 and 1987. In fact the entire back half of Presidents' terms have only had five negative years ever.

In America political risk aversion and market risk are highest in the first half of a President's term, which is when all material redistributive legislation occurs. Good times are soon ahead. If America is positive, so will be the world markets. Buy now while folks fear – for 2007.

America's **Headwaters Inc** develops technologies that turn coal waste into merchantable fuel. Coal makes up 23% of America's energy supply now, so the potential for waste conversion is huge, tied to a tax credit for recovered coal dust as a synthetic fuel – which won't go away. They are also moving into ethanol – another subsidy. Think of this as an 11 times earnings play on the US taxpayer. This is another one where if they don't get the stock up it is likely someone will take it over. There is no control block to stop it.

France's **Compagnie Generale de Geophysique** provides seismic and geophysical services to oil and gas companies. As long as oil prices remain generally firm, which they will as long as the economy doesn't badly sour, demand from exploration and reservoir management firms will be strong, making the stock cheap at 14 times earnings.

Finally, two Canadian stocks. **Enbridge** runs the world's longest petroleum pipeline. Fully 75% of western Canada's crude oil passes through its system and hence it is a perfect energy play. It also distributes oil and gas to two million consumers including some in America. At 18 times next year's earnings it still has some upward room or an acquirer will want its franchise.

Biovail is a smaller drug company trading at 10 times earnings because of a recent court ruling allowing a generic competitor for its biggest drug, Wellbutrin XL. It's got proprietary technology in oral time-release delivery of drugs and is expanding in cardiovascular, nervous system and pain management drugs. I see this downdraft as an opportunity, not a problem.

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