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## AHEAD OF THE TAPE

### The Election Won't Affect All Sectors

By MARK GONGLOFF  
February 5, 2008; Page C1

The turbulent presidential election season is catnip for political junkies. But investors have little reason to pay much attention.

A 2006 study by Stanford economists Erik Snowberg and Eric Zitzewitz and Wharton economist Justin Wolfers found that Republican victories in presidential elections typically add 2% to 3% to stock prices. But that can be quickly erased if broader economic circumstances dictate.

Stocks fell hard in the first two years after President Bush was elected, despite his arguably market-friendly tax cuts. They rose in the first two years after President Clinton was elected, despite his arguably market-averse tax increases.

"A lot of investors worry about politics," says Citigroup chief global equity strategist Robert Buckland. "They're better off worrying about earnings."

Some sectors may not be affected by this year's election. John McCain, the Republican front-runner, as well as Democrats Hillary Clinton and Barack Obama, are expected to pursue policies that would hurt the health-care sector, such as negotiation of drug prices under Medicare.

One of the most glaring differences concerns those Bush tax cuts, which included lower rates on dividends and capital gains. Sen. McCain has vowed to extend them all. That would seem to make Wall Street favor Sen. McCain.

But an administration run by either party may be under heavy pressure to raise taxes at some point to pay for scaling back the Alternative Minimum Tax and for the massive entitlement-spending increases that will come as Baby Boomers retire.

A Democrat-controlled Congress will play a large role in deciding tax policy. The high-income and investment brackets favored by Mr. Bush's tax cuts will likely bear the brunt, no matter who is in the White House.

#### Lower Rates Won't Help Private-Equity Business

Hedge-fund and private-equity giant Fortress Investment Group went public a year ago this week, amid great fanfare. Blackstone Group followed with its own IPO several months later.



It has been largely downhill ever since for the firms -- and their shares, as the buyout market ground to a halt.

In the past few months, private equity hasn't just stalled, it has moved in reverse. Since Oct. 1, \$31 billion in private-equity deals have been announced, according to Thomson Financial. But \$50 billion in deals have been scotched.

Buyout firms are walking away from deals because few investors will buy the loans that fund them. One problem is a freeze-up in the market for collateralized loan obligations, or CLOs, structured investment vehicles that package

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leveraged loans. CLOs were responsible for about 75% of demand for leveraged loans in last year's first half, according to KDP Investment Advisors.

Another stumbling block: Many leveraged loans are pegged to the London interbank offered rate, or Libor, which has dropped amid the Federal Reserve's recent rate cuts. Investors can find higher yields elsewhere, such as high-yield debt.

The upshot: While lower rates may cushion the economy in a slowdown, they'll do little to recharge the moribund private-equity business. The only medicine for this struggling industry may be a healthy dose of time.

--Scott Patterson

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