CAPITOL ANALYSTS NETWORK, INC.

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INVESTORS SHOULD ASSUME AN OBAMA VICTORY AND SHIFT PORTFOLIOS

In August, we presented our recommended technique to predict early the winner of the Presidential race based on the late September Gallup poll. Since 1948, the candidate ahead in this poll in late September has won in November 13 times and lost 3 times. The likely loser is running out of time to change voters' opinions, giving the leading candidate an 80 percent chance of winning. Today, Barack Obama enjoys a 49 percent to 45 percent lead over Mitt Romney, according to Gallup's tracking poll released Monday.

Romney can still win on November 6, but is not favored to claim victory that night. Romney might have good news days. Tonight, for example, we expect Romney will do well in his debate with Obama. Pollsters and pundits may declare he "won" the first debate. This often happens, since this is the first time disengaged swing voters get to compare the two candidates side-by-side for a sustained period, on an equal footing. Many are surprised when "The President" does no better, or even worse, than a mere challenger. It gives them reason to temporarily back the challenger. If this happens tonight, Romney can narrow the gap, or even pull ahead, and perhaps get back into contention. However, first debate winners frequently do not take the oaths of office in January. Walter Mondale won the first debate against Ronald Reagan in 1984 -- and lost 49 states in a landslide.

Re-Evaluate if Romney Gets Close in Ohio on October 29

Twenty percent of the time, the Gallup poll indicator does not work. To guard against an upset, investors should watch the Ohio polls late this month. While it is mathematically possible for Romney to assemble the 270 electoral votes he needs without winning Ohio, the path to victory is much more likely if he does. Both the Obama and Romney camps know this, and they are fiercely contesting the state for this reason. If Romney is very close in Ohio in early November, he should already be ahead in the "must win" states of Florida and Virginia, which are "redder" states. If Romney is "winning Ohio," then he will need only one more state, likely Colorado or Iowa, to go over the top.

The most credible recent poll of Ohio also finds Obama ahead of Romney, 49 percent to 45 percent. Prepared by the Democratic-affiliated group, Public Policy Polling, the poll finds Romney outpointing Obama among Independents 42 percent to 41 percent, with 17 percent of Independents undecided. Obama leads, nevertheless, because PPP assumes that the Ohio electorate will consist of 41 percent Democrats, 36 percent Republicans, and 23 percent Independents. Romney would need 56 percent of Ohio's Independents based on PPP's math to prevail. It is possible but unlikely.

The partisan ratios used by PPP are reasonable since 2008 exit polls found that the Ohio electorate consisted of 39 percent Democrats, 31 percent Republicans, and 30 percent Independents. PPP is using a less Obama-friendly voting population now than the one that existed in 2008 (http://www.publicpolicypolling.com/pdf/2011/PPP_Release_OH_930.pdf). Investors should discount any Ohio poll that uses partisan ratios much different than PPP's. By oversampling Democrats, a poll can swell Obama's lead, as the recent *Columbia Dispatch* poll did. By oversampling Republicans, it can show Romney winning. Caveat poll analyst.

Investors: It is Time to Act

We list below our specific recommendations on what to buy now that President Obama is outpolling Mitt Romney after the Gallup poll indicator has been triggered. These are the same groups we highlighted previously as most exposed to the election. CAN recommends purchasing securities in **green** and selling those in **red**. We assign higher numbers to industries we believe will be most affected by an Obama re-election and anticipate that the market will agree with our views after the votes are counted~~,~~ -- in many cases, immediately.

Air Pollution Control: +6

In Obama's second term, the EPA will receive the green light to tighten ozone and particulate matter standards, compelling utilities and others to spend up to $90 billion annually on clean up. This should boost Babcock and Wilcox (**BWC**), Calgon Carbon (**CCC**), ADA-ES (**ADES**), Met-Pro (**MPR**), and Fuel Tech (**FTEK**).

Hospitals: +6

HCA Holdings (**HCA**), Universal Health Services (**UHS**), Community Health, (**CYH**), and Lifepoint Hospitals (**LPNT**) all rose smartly when the Supreme Court ruled ObamaCare was constitutional last June. Hospitals will have much smaller bad debt expenses if the number of insured falls. If Obama appears headed for victory, then the market will assume that ObamaCare will be implemented and hospital securities should rally.

Wind Energy: +5

American Superconductor (**AMSC**), Quanta Services (**PWR**), and Broadwind (**BWEN**) investment should rise if Obama wins, and make or break wind energy tax breaks look likely to be extended in 2013. Grid build-out also is necessary for distant wind farms to be connected.

Medicaid Insurance Providers: +4

Molina Healthcare (**MOH**), WellCare Health Plans (**WCG**), and Amerigroup (**AGP**) also rose on the Supreme Court ruling. Analysts foresee large enrollment gains if ObamaCare is implemented.

For Profit Colleges: -3

Congressional Democratic budget cutters have zeroed in on this industry, citing the failure of many students to land jobs in their fields of choice despite large tuition bills, paid for with federally subsidized loans. Department of Education student loan rules could be tightened by legislation as part of a 2013 budget deal, or by an executive branch rule-making process if President Obama is re-elected. Apollo Group (**APOL**), Corinthian Colleges (**COCO**), DeVry Inc. (**DVY**), Strayer Education (**STRA**), and Grand Canyon Education (**LOPE**) should hope that Romney surprises the markets and wins.

Airlines: -3

Airlines worry that a re-elected President Obama will insist that Congress raise homeland security fees by $25 billion over ten years in any deficit reduction discussion. If Obama and a GOP-led House cannot agree on how to avoid a 9 percent across-the-board discretionary spending sequester scheduled to take place this January, then funding for NextGen, the productivity-enhancing plan to cut flight times by using GPS systems on aircraft and in FAA control centers, will be jeopardized.

Oil and Natural Gas: -5

Perhaps the most dramatic policy difference between Romney and Obama is how each would treat the development of hydrocarbon deposits on federal land and water. The federal government owns approximately one-third of the U.S. and all ocean waters more than a few miles offshore. Much of this land and water was last surveyed when exploration technology was inferior. In other cases, the government has prevented known deposits from being developed. President Obama has responded tepidly to the fracking revolution and sluggishly to industry entreaties to put promising offshore tracks near Alaska and in the Gulf of Mexico up for bid. These companies will still paddle upstream in federal waters if Obama is re-elected: Williams Partners (**WPZ**), Chesapeake Energy (**CHK**), Cheniere Energy Partners (**CQP**), Tesoro Corp (**TSO**), and Unit Corp (**UNT**).

Coal-fired Utilities: -5

The EPA already has issued global warming rules that will preclude the development of new coal-fired electric utilities not already in existence or well into the planning process. The Supreme Court gave them the authority to do so. In a second term, Obama's EPA likely will turn their attention to existing plants, forcing the premature closing of some, and the retrofitting to natural gas of others. Companies that could suffer most from a coal-hostile White House occupant include AES (**AES**), DTE Energy (**DTE**), Wisconsin Energy (**WEC**), Southern (**SO**), Duke (**DUK**), American Electric Power (**AEP**), Allete (**ALE**), and Ameren (**AEE**).

Coal: -5

Utilities consume 90 percent of the coal mined for domestic use. If utilities, old and new, will burn less coal for the foreseeable future because Obama is re-elected, coal stocks should decline. Primary losers include Alliance Resource Partners (**ARLP**); Alpha Natural Resources (**ANR**), Arch Coal (**ACI**), Consolidated Energy (**CNX**), Natural Resource Partners (**NRP**), Peabody Energy (**BTU**), Penn Virginia Resources (**PVR**), Rhino Resource (**RNO**), and Walter Energy (**WLT**).

Defense: -5

The coming sequester has defense-dependent firms warning of large layoffs in January 2013, because purchases of military assets will have to be cut by 15 percent or more. If we go over the fiscal cliff because Obama and House Speaker John Boehner (R-OH) cannot compromise in time, then defense contractors General Dynamics (**GD**), Raytheon (**RTN**), Boeing (**BA**), Lockheed Martin (**LMT**), Alliant Tech (**ATK**), and Booz Allen Hamilton (**BAH**) should suffer.

Prison Industry: -5

When border control agents or immigration enforcement agents arrest illegal aliens, they are incarcerated, pending trial or deportation. Corrections Corp of America (**CXW**) and the Geo Group (**GEO**) will house fewer federal prisoners if Obama is re-elected, given his liberal stance on enforcing immigration laws.

Specialty Financial Services: -5

New emphasis on "protecting consumers," part of the Dodd-Frank bill Obama signed, means two things: reduced profit opportunities and higher compliance costs. The new Consumer Financial Protection Bureau has started to target companies it feels are abusive. Companies that may see lower profitability due to tougher CFPB rules promulgated in a second Obama term include Western Union (**WU**), H&R Block (**HRB**), Cash America International (**CSH**), DFC Global (**DLLR**), QC Holding (**QCCO**), Advance America Cash (**AEA**), World Acceptance Corp (**WRLD**), rent-to-own companies Aarons (**AAN**) and Rent a Center (**RCII**), and pawn brokers EZCorp (**EZPW**) and First Cash Financial Services (**FCFS**).

Managed Care: -5

Aetna (**AET**), Humana (**HUM**), and UnitedHealth Group (**UNH**) all fell when the Supreme Court ruled that ObamaCare was constitutional. Under ObamaCare, insurers would have to issue policies to everyone, regardless of medical status, and would have to pay out at least 80 percent of premiums in benefits. In return, they will get a large pool of new customers. Net-net, the costs of ObamaCare outweigh the benefits for the group.

Private Equity Managers: -5

Private equity managers often take their compensation in two forms, salary, which is taxed as ordinary income, and also acquire shares of companies they are working to turn around for subsequent resale. Most turn-around efforts take more than one year which allows managers to sell their stakes and take income as capital gains. If "carried interest" is taxed as ordinary income as President Obama seeks, then private equity managers will demand higher salaries to make up the difference, hurting publicly-traded companies. There is considerable risk that a re-elected Obama Administration will insist that carried interest no longer be treated as capital gains during talks over the "fiscal cliff," probably raising employment costs at American Capital Limited (**ACAS**), Blackstone Group (**BX**), Fortress Investment Group (**FIG**), KKR & Co (**KKR**), Oak Tree Capital (**OAK**), and Och-Ziff Capital Management (**OZF**).

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