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## **Inside this issue**

[Healthcare Stocks Not Worried About Reform](#)

[Congress Should Eat Their Own Cooking](#)

[President Obama, Let's Not Get Carried Away](#)

[Some Final Thoughts](#)

[Investment Quotes To Live By](#)

[Upcoming TV Appearances](#)

[Friends And Family Plan](#)

## **Healthcare Stocks Not Worried About Reform**

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On Tuesday (tomorrow) morning, I am scheduled to be on CNBC's International Exchange from 5:30am to 5:50am.

I want to spend some time and offer my thoughts on the healthcare debate that's front and center now. Although I think we're all in agreement that some type of reform is needed, there is plenty of disagreement on exactly what that reform should look like. I'd like to invite you, Laura, to hit reply and let me know your comments or opinions, whether you agree or disagree and think I am a whacko!

I've read about the various plans from both sides of Congress as well as the president and there has been one very interesting market reaction.

Well, it's actually a total LACK of reaction, something that's pretty hard to fathom. The

market is saying that it's not worried about any meaningful measures passing, even after Obama's speech last week. Isn't that incredible?

With the democrats controlling both houses of Congress and the presidency, you would think the market would give their plans a bit more respect in passing. To me, it's fascinating that the healthcare stocks, including insurance companies, big pharma and HMOs, have continued to behave very well, ignoring the fact they are staring down the barrel of an enormous, game changing cannon.

The obvious question is, "Is the market wrong"?

My friend, Jim Lane, and I have argued about market reaction for years. I tend to go with the market, especially bonds over stocks, when determining an outcome. He thinks the market is often wrong. We go back and forth, although I tend to give the market a lot more credit than he does. From my experience, the market does a good job of snuffing out events long before it becomes obvious.

A good example of this was the Persian Gulf War in 1990-91. In the weeks and months leading up to the actual "invasion" by US forces, the stock market held significantly above the bottom it put in during October 1990, the first sign that what was expected might not pan out. And when the first missiles hit Iraq, stocks exploded (sorry for the pun) higher, never to look back!

Pundits had advised investors for months to wait until the market sold off when the war started to invest. But the market knew better and discounted the outcome long before it became reality.

Is that what the market is telling us now about healthcare reform? Is the expensive public option dead on arrival? Should we expect reform but on a much less complicated and more manageable basis?

## **Congress Should Eat Their Own Cooking**

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Watching the president's speech last week, hearing the republican's rebuttal and all the partisan banter that followed continued to sicken me. We just keep getting more divided and divisive each year.

We don't live in the United States of Democrats or Republicans, but it sure seems that way. How can we collectively allow our elected officials to play divine ruler with our system? It's so frustrating that politicians are only elected for 2, 4 or 6 years, but their decisions can wreak havoc for many, many more years!

I want to add a few comments that I think are fairly obvious. First, it's sad that our politicians have now resorted to heckling the president of the United States during a speech. Frankly, I don't care if you love or hate Obama, but the office deserves the utmost respect, ESPECIALLY from our elected officials. I feel bad for Joe Wilson's constituents. From my seat, they elected a jerk who obviously can't control his emotions. I heard he had a 30 point lead in the polls until that career jeopardizing outburst.

Second, I always find it hypocritical when Congress seems to know what's best for us but won't eat their own cooking. If they love a giant bureaucratic, government run healthcare system, then they should be forced to be on the same plan. Not the Rolls Royce, everything's included, yada, yada, yada plan they currently have.

I couldn't even fathom recommending my clients invest in our strategies, while at the same time investing my money with another firm. That's completely insane and unethical. Why isn't Congress held to the same standard?

(As a start, each and every Congressman should be forced to read the bill they are going to vote on. It was hard to believe that not a single Congressman read the entire TARP bill as was communicated from the floor of the House.)

Third, if the grand plan was ever to be passed, the one where government gets involved and then takes over and runs our healthcare system (perish the thought), what investor would ever want to put money into a related entity, like an insurance or drug company?

I can't think of any government run enterprises that function better than the private sector. And this would be a colossal disaster! It's amazing that over the long-term, we (our country) seem to ebb and flow between big, hands on government and smaller, laissez faire government.

I first became interested in politics when Ronald Reagan was running for president on the platform of smaller government. That just made sense to me and clicked. And that's one of my basic beliefs to this day. And unless taxes are going up 30, 40 or 50% over the next 10 years, somehow government is going to have to shrink or our budget deficits will irreparably harm our way of life.

## **President Obama, Let's Not Get Carried Away**

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President Obama made a few comments the other night that I just can't seem to get out of my head. First he said that "we(he) pulled the economy back from the brink". One of my biggest pet peeves with presidents in general is that they take WAY too much credit for nature simply taking its course or the work of other people.

I can assure you that Obama saved the economy about as much as you did! When he was elected, he went out of his way to distance himself from anything economic or financial market related. Then when the markets bottomed and things became less worse, he takes credit?

Although I certainly don't agree with everything the Fed did, credit should start there and almost end there. Bernanke & Co. were the ones who saved the day. And let's not forget about Hank Paulson. TARP ended up working extremely well, although Paulson lost a lot of credibility when he did a 180 and directly invested (read: prop up) in failing institutions until the credit markets became unfrozen and the stock market bottomed.

"Saving" the economy, so far, was a collective effort where the Fed did most of the heavy lifting and Congress pitched in. Using Obama's rationale, are we supposed to blame Bill Clinton for the last bear market in 2000-2002 and the first George Bush for Persian Gulf/S&L related recession of the early 90s?

And to make sure you don't think I picking am Obama, you can go back to Clinton in 1993 when he called the then current economic situation the worse since the Great Depression. The same thing applies to when Reagan took over for Carter in 1981.

Incoming presidents have a habit of exaggerating the state of the economy as they take office to lower the expectation bar, blame their predecessor and try and grease the legislative wheels for change. And that's on both sides of the aisle.

I remember being interviewed late in the first quarter about how much the market had collapsed since Obama became president. I think it was almost 15% at that point. The reporter asked if the market was indicating its disdain for the president. I chuckled and said that the market had much bigger fish to fry than to worry about a new administration.

I didn't blame the new administration when the markets were in freefall and I am not crediting it with the rally. As I mentioned many times, every single financial crisis in history has ended. That's a guarantee. And many times, nature just takes its course and time begins to heal some wounds.

While our president is the ultimate leader and where the buck stops, the financial markets key more off what the Federal Reserve is doing and signaling. Additionally, history shows the best markets are when neither party can dominate the legislative landscape. Markets tend to enjoy political gridlock.

Anyway, sorry for the diversion, but that one comment just didn't sit well. When I've run organizations, I've always subscribed to the spreading around of credit and accepting blame. I think it makes for lots of happy troops.

## Some Final Thoughts

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Getting back to healthcare reform, the administration made a comment that, like auto insurance, everyone should be required to have it. They've used that line numerous times and I wonder if that's really true.

Isn't it our decision to own a car and therefore buy insurance? There are plenty of Americans who don't own cars and therefore don't own auto insurance. I understand that the uninsured cost the system an awful lot of money every year, but how can we require every American to own health insurance? We can choose not to drive, but we can't choose not to breathe.

The other thing that bothered me about the plan being discussed is that it forces corporations to either offer health insurance or pay an 8% of compensation penalty. I wonder how many companies will opt out of their current plan and just pay the 8% since it will likely be a lot cheaper.

Healthcare reform is such a monstrous issue and what has been presented will likely be negotiated, edited and altered many times before we have a bill. Hopefully, there is some tort reform or the foundation for it to further bring costs down.

As you can imagine, I am not in favor of a public option here. Forgetting philosophical issues, we all see the kind of shape Medicare and Social Security are in. And both parties are to blame. What makes anyone think the government can manage health insurance any better than other entitlement programs, where they are failing with no plan whatsoever to fix them?

Finally, and you're probably glad I am about done from my soap box, I have a really hard time believing that the plan being presented will not add to an already out of control deficit. I heard what the president pledged and I was ecstatic to hear his pay as you go approach.

But what confuses me is that if the government can fund this whole program through savings from fraud and waste in Medicare, etc., then why aren't we and haven't we been cutting these out for years? If it was so easy and obvious, why didn't Congress do it last year or four years ago?

Let's hope both parties come to the table, check their egos at the door and come up with reform that's good for the American people first, and their political careers second. I know it's stretch and I am cynical, but hey, we did elect a minority to the highest office in the land!

## Investment Quotes/Adages To Live By

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"When in doubt, get out!"

"If it's obvious, it's obviously wrong."

-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."

-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."

-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.

-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1931

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."

- Robert Rhea via Tim Woods

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

## **Upcoming TV Appearances**

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CNBC's Worldwide Exchange - September 15 at 5:30am

CNBC's Worldwide Exchange - October 20 at 5:30am

CNBC's Worldwide Exchange - November 25 at 5:30am

You can view most of the past segments by clicking below.

## **Media Appearances**

### **Friends And Family Plan**

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Finally, as you know, our firm and this newsletter continues to grow mostly from your referrals. If you know anyone who is interested in securing their retirement, planning for it or just plain worried about it, please send them here. As always, thanks for thinking of us with your circle of family and friends.

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