

Ramifications of Election 2008

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Presented by:

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Chief Investment Officer



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Full disclosure!

- ◆ I am a McCain campaign advisor...
 - ...but he doesn't take my advice

Should politics matter to investors?

◆ Just ask stakeholders in these fine firms

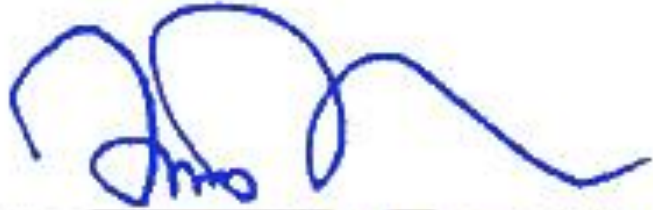
- Bear Stearns
- Fannie Mae
- Freddie Mac
- Lehman Brothers
- Merrill Lynch
- AIG
- Washington Mutual
- Wachovia Bank

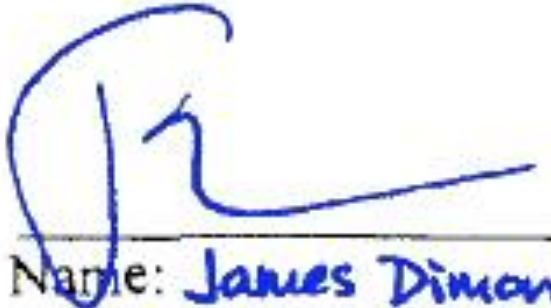
Politics, not law, makes winners and losers

◆ Who gets bailed out, who gets wiped out?

- Depositors
- Policy holders
- Derivatives counterparties
- Prime brokerage clients
- Debt holders
 - Subordinated debt holders
- Equity holders

Decisions are arbitrary, coercive

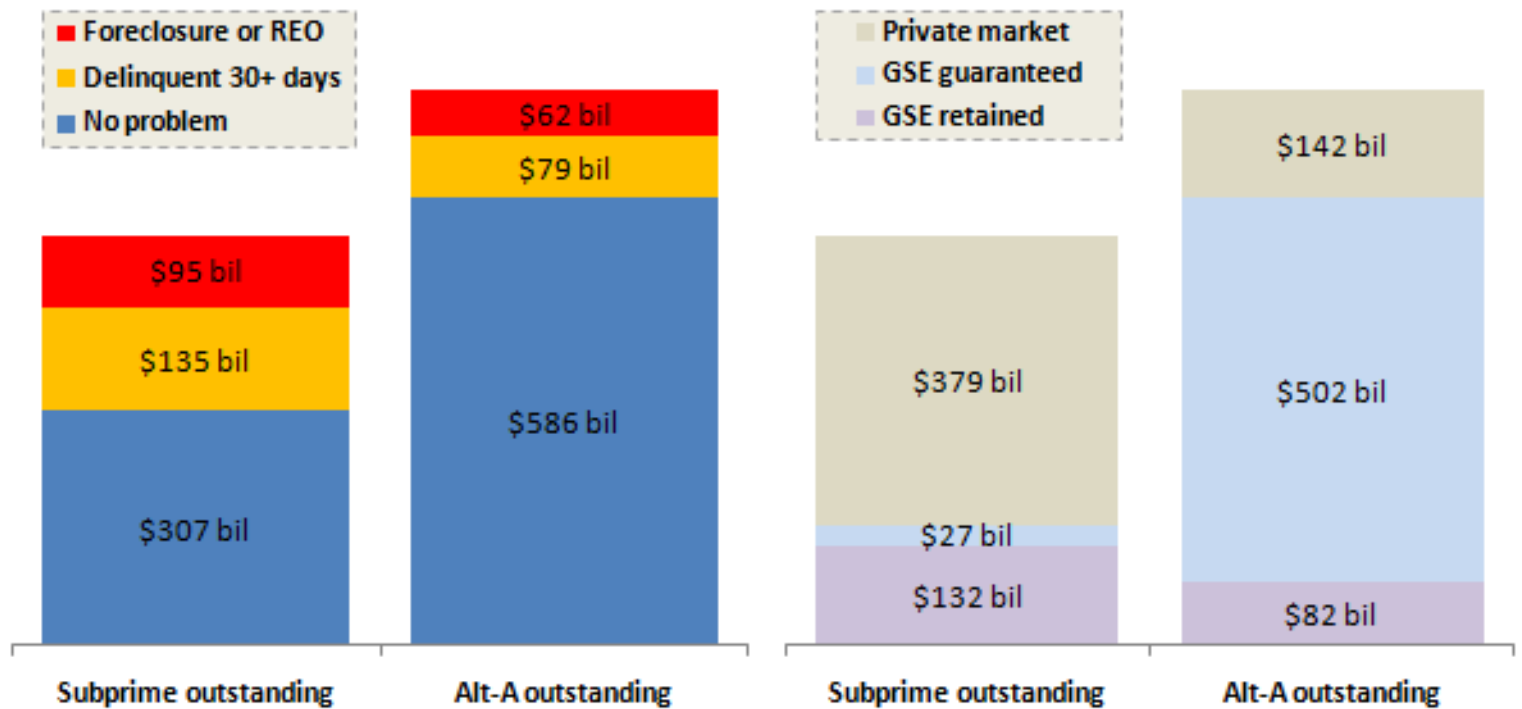
By: 
Name: Timothy F. Geithner
Title: President

By: 
Name: James Dimon
Title: Chairman and Chief Executive Officer

Bail-out or “bag run”?

- ◆ Shareholders wiped out when government’s “stop loss” is hit
- ◆ Incentive for speculative attack
- ◆ Incentive for panic selling
- ◆ Disincentive for bottom-fishing, distress investing

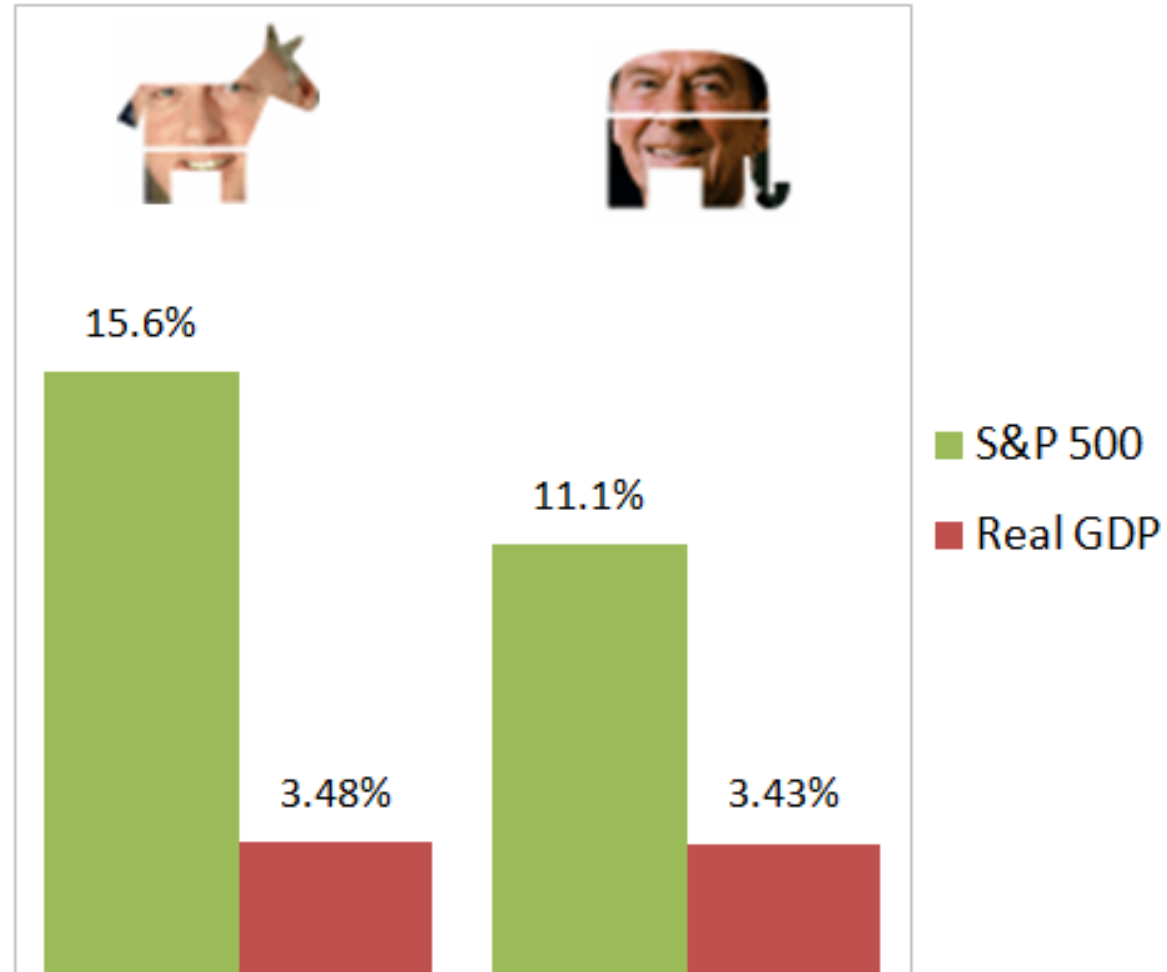
TARP -- or WMD?



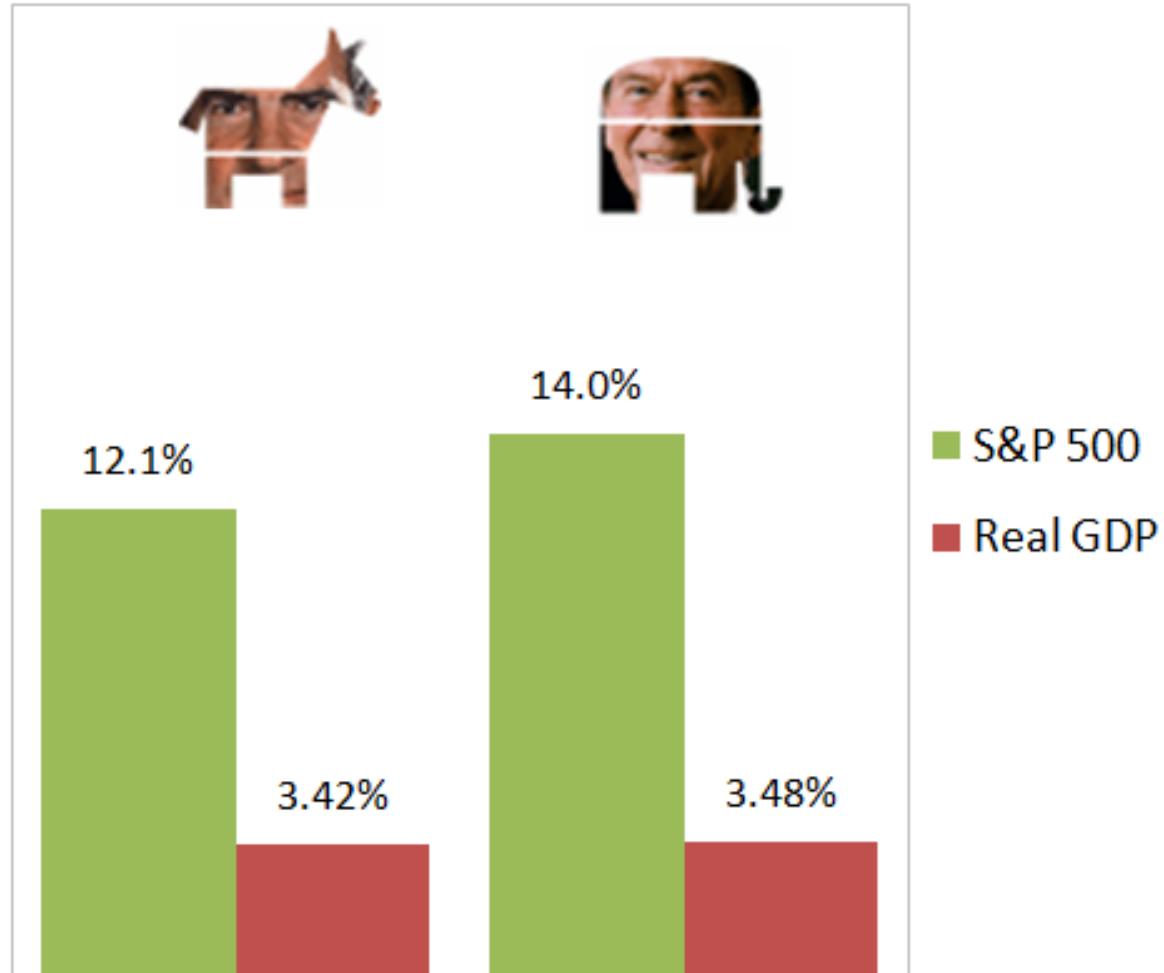
TARP -- or pork, patronage and power?

- ◆ In Chris Dodd's and Barney Frank's mark-ups
 - Warrants cover 125% of loss
 - Profits (but not losses) in housing slush fund
 - Bankruptcy mortgage cramdown
 - Proxy free-for-all
 - Treasury control of executive comp

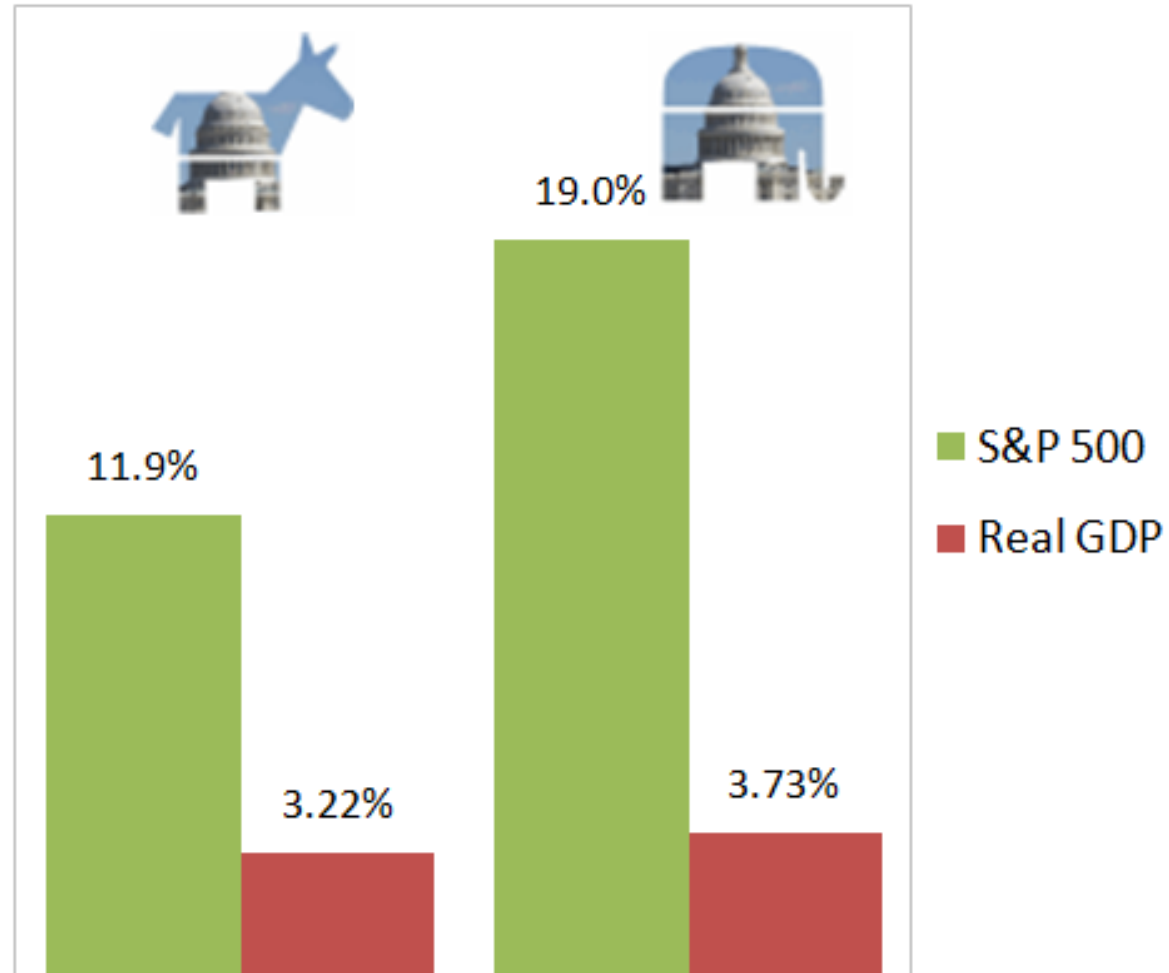
Do presidents matter?



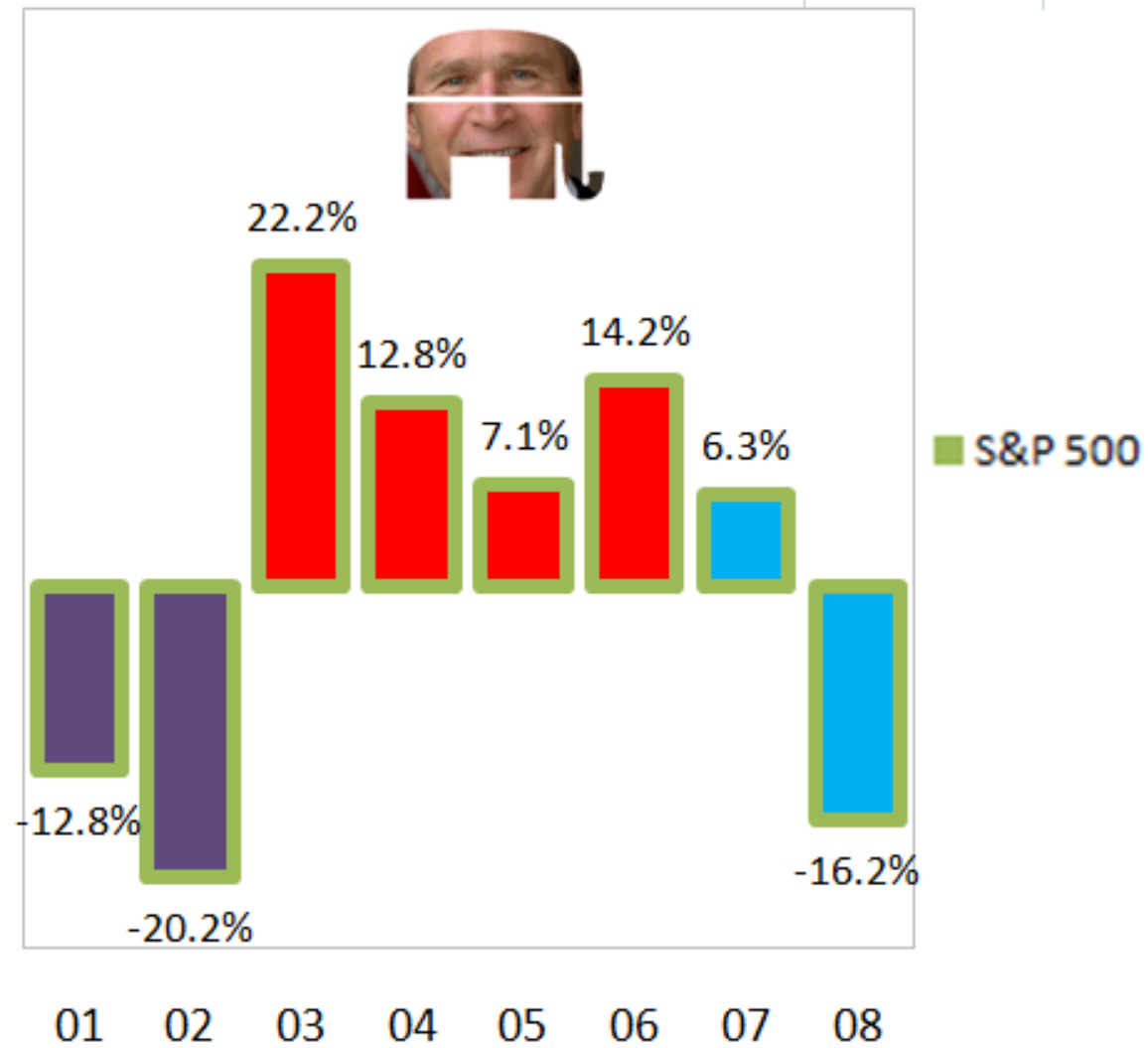
Small changes make a big difference



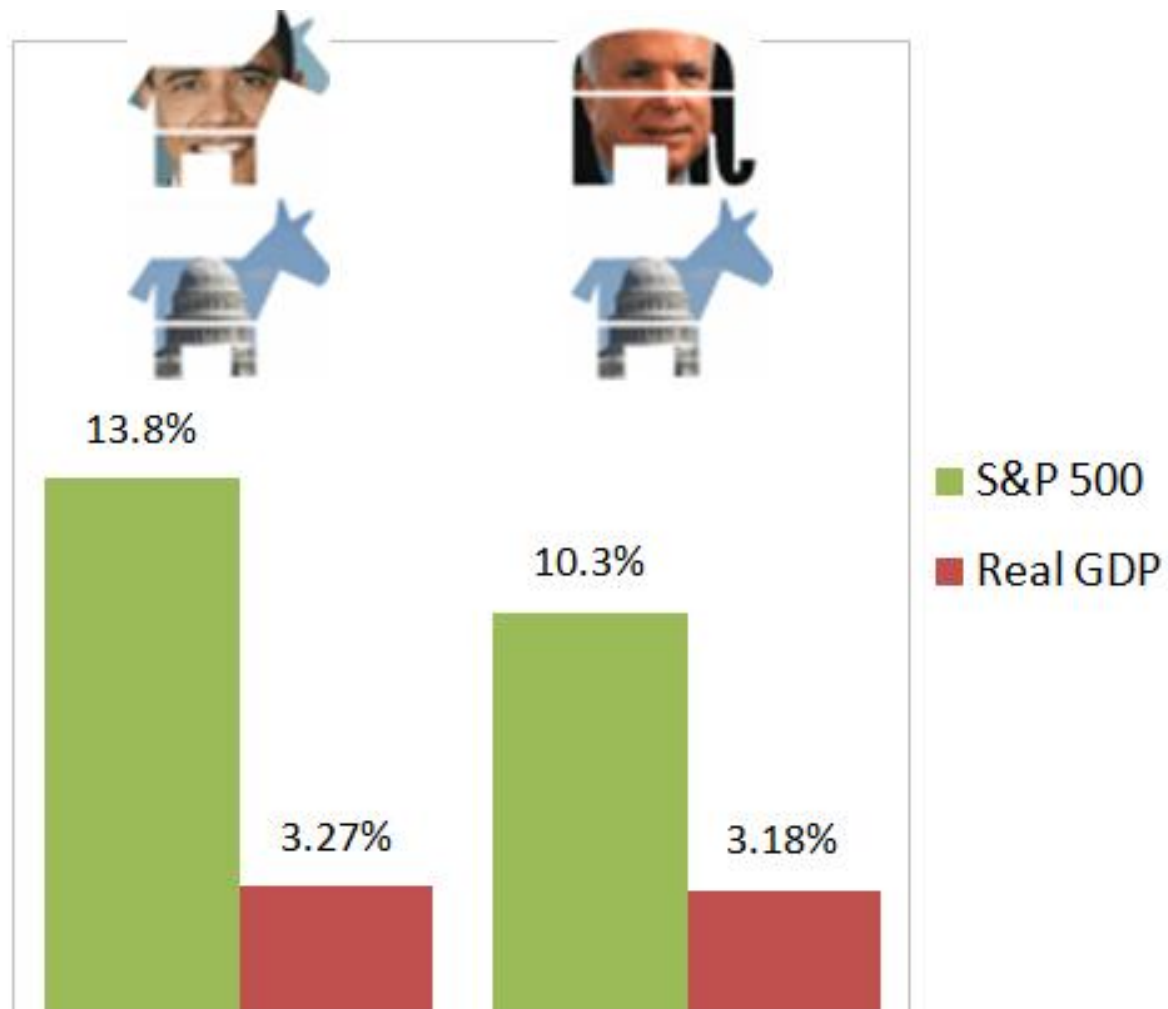
Congress is the most important factor



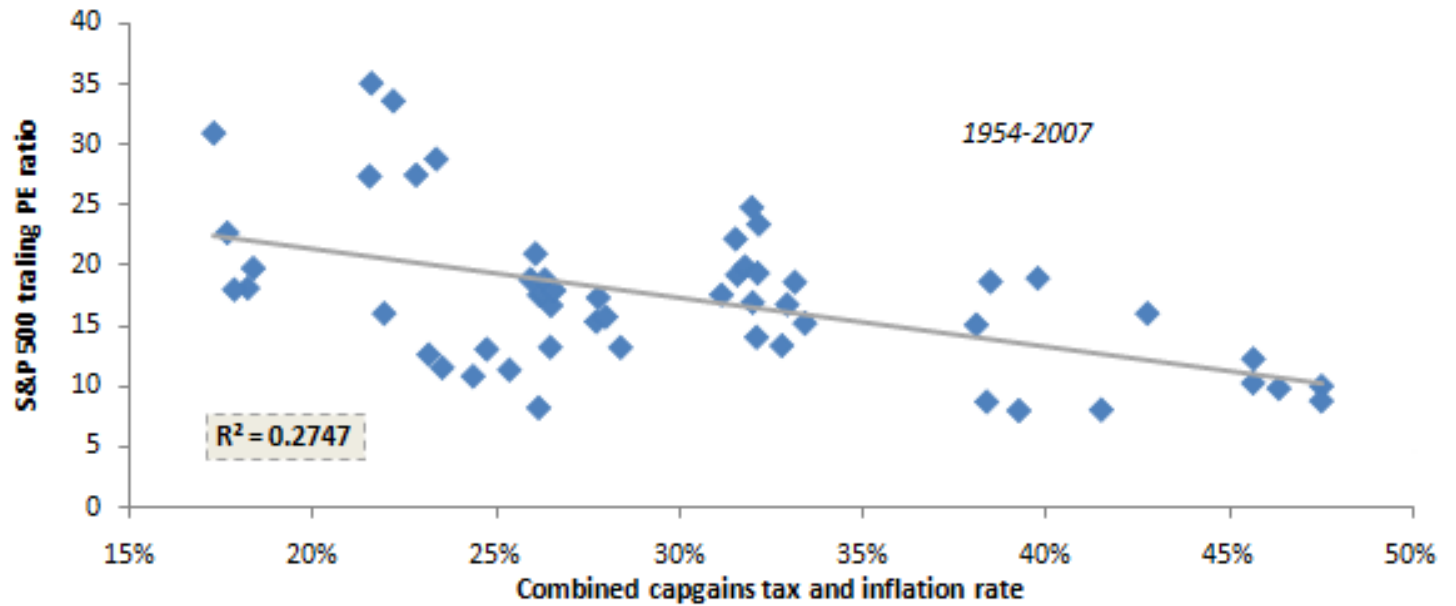
The terrible Bush years?



Obama or McCain?



Critical issue: taxes on capital



Promises versus reality

◆ Capital taxes under McCain, Dem congress

- Capgains: 15%, 15%, 20%, 20%, 20%
- Dividends: 15%, 15%, 39.6%, 39.6%, 39.6%

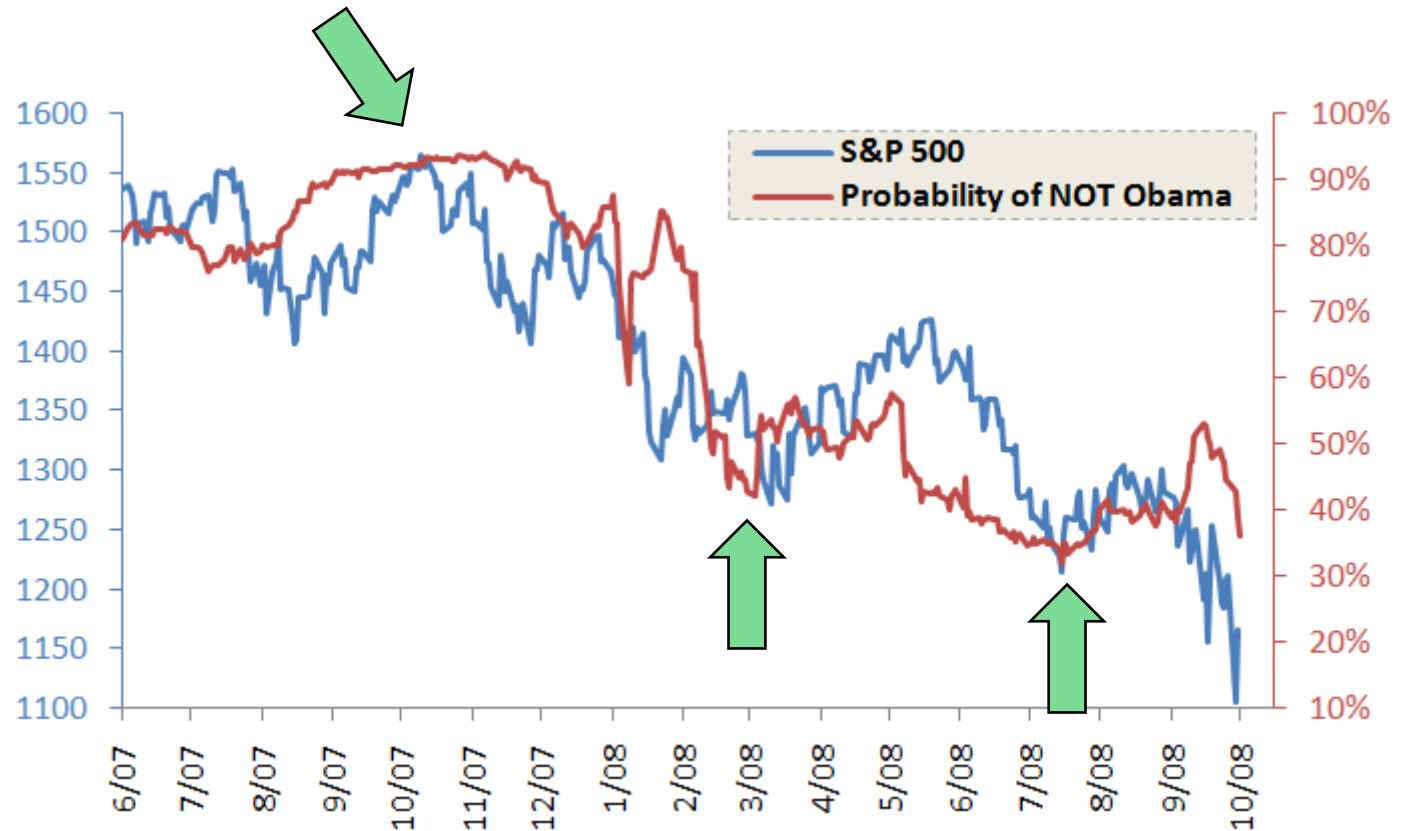
◆ Capital taxes under Obama, Dem congress

- Capgains: 20%, 20%, 20%, 20%, 20%
- Dividends: 20%, 20%, 20%, 20%, 20%

A bleak growth outlook with Obama

- ◆ Income tax
 - Refundable credits
- ◆ Social Security tax
- ◆ Estate tax
- ◆ Corporate taxes
 - Employer mandates
- ◆ Carbon taxes
- ◆ Union influence
- ◆ Free trade
- ◆ Financial services regulation

Stocks have further to fall, as Obama gains



On the other hand... the “Obamaphoria theory”

- ◆ Stocks at new lows on election day
- ◆ Obama landslide, messianic popularity
- ◆ Anticipatory income realization
 - Dividend payouts
- ◆ “Wealth effect,” consumption binge
- ◆ Illusion of prosperity