

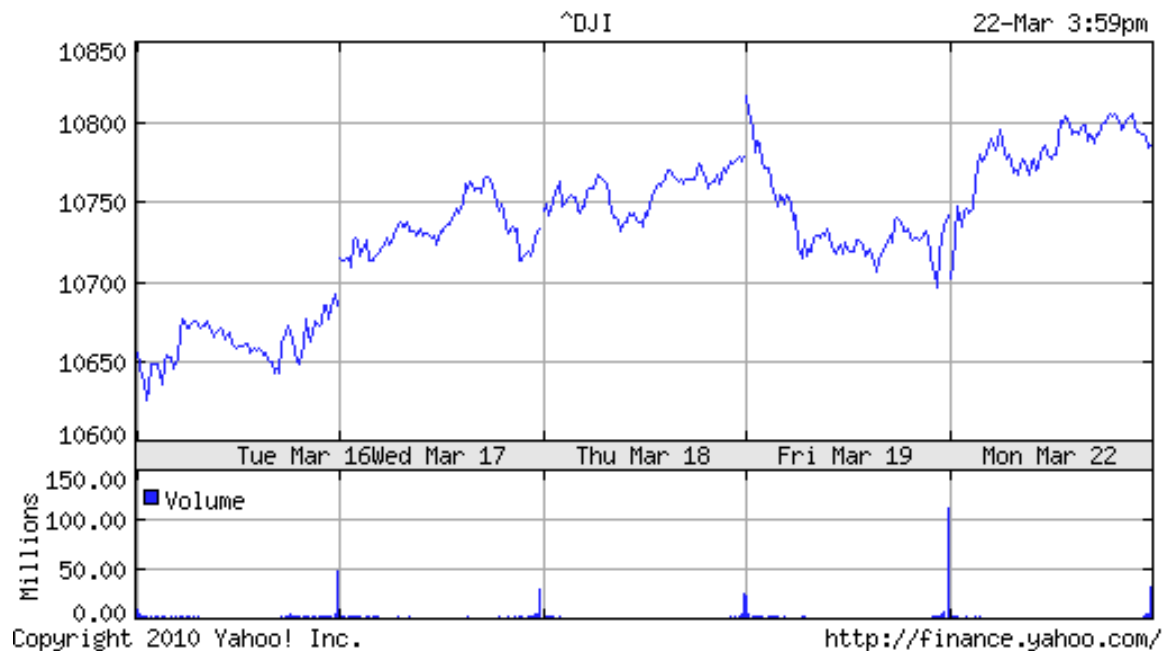
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Was Health Care Passage “In the Market?”

Looks that way

Many investors were concerned that the decision this weekend on health care legislation would move the markets in a big way. Well the verdict is in and based on this chart of the Dow it's hard to tell that something important happened on Sunday.



Like most we have an opinion about the wisdom of passing this bill, but our first job is to assess its effect on the economy and markets over the next 6 to 12 months. A few observations are in order:

- The tax increases don't kick in until 2013---too far out to have an effect on the market or economic behavior in the next year.
- The big changes scheduled for the next few months affect specific industries such as health insurers and it should be easy to avoid making large investment bets in those areas.
- Long term this legislation will have an impact on growth in the US economy, but again, that won't make much difference to investors this year or next.
- There are two major elections between now and 2013-14 when most of the provisions kick in. This issue is not fully settled. In effect this legislation needs to be ratified by the voters in 2010 and maybe 2012.

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It doesn't appear to us that Sunday's drama in Washington will change the economic or investment landscape in 2010 or even 2011. Therefore, we will continue to focus on the rebound in growth that is evident in most of the economy and in particular the widespread recovery in corporate profits.

It's those profits that will drive stock prices in the next twelve months. We still like what we're finding.

Best regards,



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