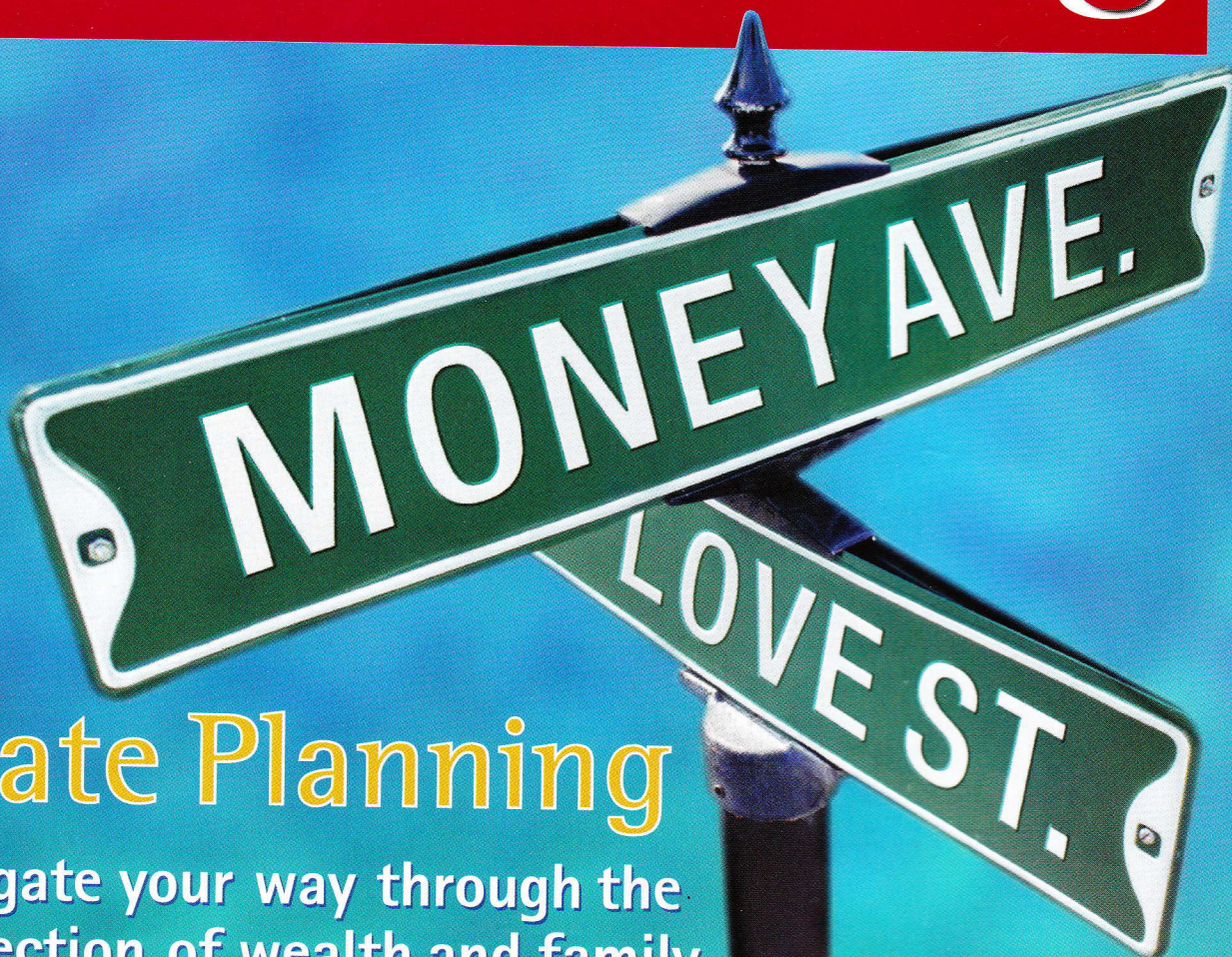


# On Investing

FALL  
2000

A BLOOMBERG PERSONAL FINANCE MAGAZINE FOR SCHWAB SIGNATURE SERVICES CLIENTS



## Estate Planning

Navigate your way through the intersection of wealth and family

Prsrt Std  
US Postage  
PAID  
Permit #594  
East Greenville,  
PA 18041-2199

### PLUS:

- John B. Shoven  
on Social Security
- Whisper  
Numbers
- Value  
Investing

CHARLES SCHWAB ON: FUND TAX EFFICIENCY ■ ELECTION OVERVIEW ■  
WEB MORTGAGES ■ CHARITABLE GIVING ■ SCHWAB MUTUAL FUND SELECT LIST™

PAGE 33



# President Who?

A look at what the outcome of the election may mean for investors

**D**ON'T LET THE DIN of competing campaign charges, promises, and countercharges distract you. Who wins the White House and Congress likely will have major implications for the financial markets—and your own finances—but not necessarily the ones the candidates and their handlers tell you.

To hear the candidates on the stump, you'd think Texas Governor George Bush's and Vice President Al Gore's economic policies were dramatically different. Bush offers a \$1.3 trillion tax cut over 10 years that would slash individual tax rates across the board, provide new retirement and education savings incentives, and eliminate estate taxes. Gore's more modest approach targets \$500 billion in tax relief mostly for lower- and middle-income Americans. Theoretically, at least, that should leave him more to invest in social initiatives like health care, education, and the environment.

The problem is, Congress is likely to moderate the new president's wish list, whatever it is. Predicting a thin Republican majority in the Senate and possibly, narrowly, a Democratic House, Schwab Washington Research Group (WRG) political analyst Greg Valliere says, "Some

form of legislative gridlock will likely prevail with neither party dominant." The bottom line: slightly higher tax cuts with Bush, slightly bigger spending increases with Gore, but continued growing budget surpluses and aggressive debt reduction no

matter who wins the White House. That should be bullish for investors generally, but in particular for Treasury-debt holders.

Still, the election could dramatically affect the financial markets in at least two important ways. First, Bush's plan would allow workers to invest a portion of their payroll taxes in self-directed retirement accounts, which could be invested in stocks and bonds, could boost financial markets, and give many individuals a powerful new vehicle through which to invest. Says Valliere: "Even with a divided Congress, we believe Bush would have a decent chance of winning approval for modest self-directed accounts."

The second major effect of the election on your investment fortunes could come from an even less-noted front: regulation. Expect tougher restrictions under Gore for a variety of industries, including pharmaceuticals, energy, utilities, and tobacco. Indeed, if it appears Bush is winning in the fall, Valliere says stocks in these industries could prove "clear investment plays."

Here's how the outcome of the election could affect those and other sectors:

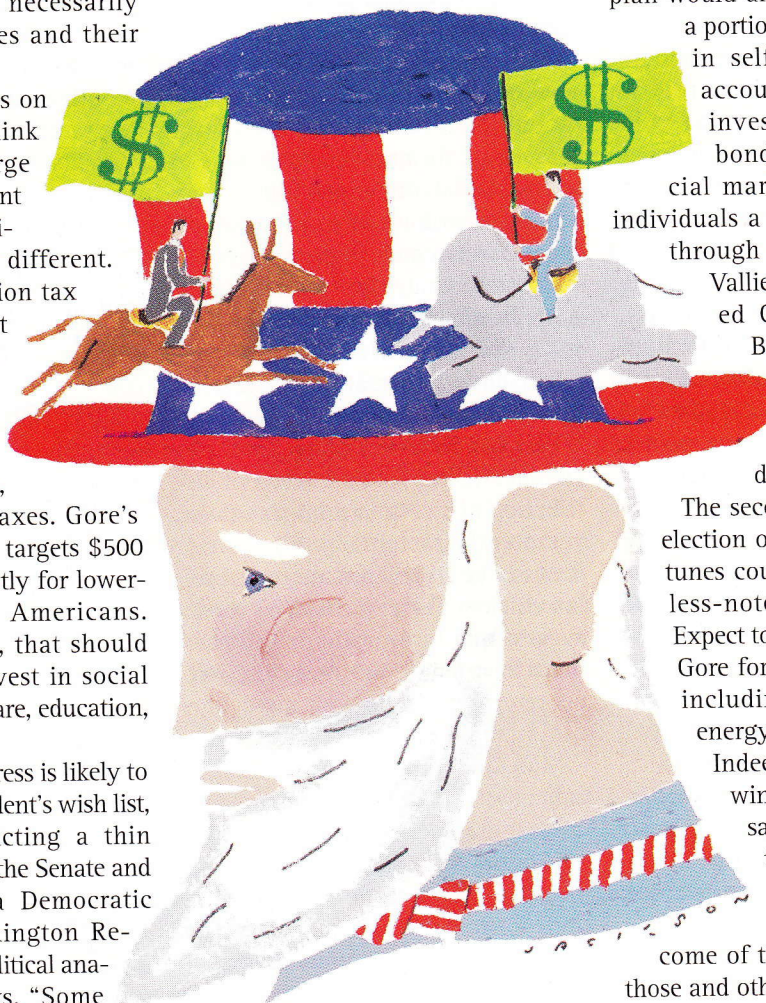


ILLUSTRATION BY JEFF JACKSON



**Health care** Gore wants a major expansion of federal health-care spending, including a new Medicare prescription-drug benefit, expanded health programs for children, and a refundable tax credit to help the uninsured afford health insurance. So why aren't pharmaceutical and other health-care companies cheering? Along with Gore's new spending, some form of price controls on drugs and other medical services purchased by the government are likely to be enacted. By contrast, Bush would try to avoid price controls and take a more surgical, market-based approach, using refundable tax credits to help low-income people afford health insurance.

**Tobacco** The beleaguered industry would welcome Bush, who opposes higher cigarette taxes and would be more likely to settle the Justice Department's lawsuit against the industry on favorable terms. Gore, who still blames the industry for his sister's cancer death in 1996, would continue Clinton's charge against the industry by energetically pressing forward with the Justice Department's civil lawsuit against cigarette makers and by pushing Congress to enact a broad regulatory framework for tobacco products. Says WRG tobacco analyst Mark McMinimy: "Those efforts could gain serious momentum if the Democrats retake control of the House."

**Energy** Hailing from the oil patch, the Texas governor would likely be more obliging to oil producers than longtime environmentalist Gore. WRG veteran energy analyst Ed Garlich says Bush would favor tax and regulatory relief for domestic produc-

ers and the cleanup of brownfields, which could modestly help urban property developers and environmental service companies. Gore would launch an "ambitious attack on global warming" that could hurt oil and coal producers and electric utilities, while helping cleaner-burning natural gas and alternative fuels like fuel cells, solar power, and biomass. Also, engineering and construction companies would more likely benefit from a Gore win, because of the billions of dollars in capital spending related to stringent clean-air requirements.

**Financial services** On the heels of landmark financial-services deregulation, Bush would likely support legislation that would deregulate the securities industry and cut transaction fees paid by broker-dealers. "They would be clear winners," says WRG's financial-services analyst Steve Blumenthal. Not so if Gore wins. Heightened scrutiny of the industry is likely, particularly if the House of Representatives also goes Democratic, led by the regulatory activists Reps. John D. Dingell (D-Michigan) and Edward J. Markey (D-Massachusetts), who would resume their chairmanships of the Commerce Committee and telecommunications and finance subcommittee. Likely to be among their top priorities: financial privacy legislation that could hurl a monkey wrench into many firms' online plans.

**Defense/Aerospace** Modernizing the military will be a priority regardless of who wins, but particularly

under a Bush presidency. WRG defense analyst Gen. David Baker (Ret.) believes progress will continue toward deployment of both national and theater missile-defense systems. Additional funding for such missile-shield initiatives would be positive for the major companies involved in these efforts, including Boeing (BA, \$39)<sup>2</sup>, Raytheon (RTNa, \$23, RTNb, \$24)<sup>2</sup>, Lockheed Martin (LMT, \$24), and TRW (TRW, \$46)<sup>2</sup>. It could also be conse-

quential for other companies involved in this effort, including Computer Sciences Corporation (CSC, \$85)<sup>2</sup> and Thermo Electron (TMO, \$18).

**E-commerce** Some form of Internet taxation and regulation is probably inevitable.

The question is when, says WRG e-commerce analyst Erik Olbeter. Both presidential candidates have voiced support for a multiyear extension of the moratorium on new Internet taxes. But Gore, the self-proclaimed father of the Internet, is more likely to support Democratic initiatives to impose privacy restrictions on the collection and manipulation of data over the Internet, which could affect some Internet advertising companies like Doubleclick (DCLK, \$38)<sup>1</sup> and 24/7 Media (TFSM, \$15)<sup>1</sup> as well as data miners. By contrast, Bush would likely rely on industry self-regulation, giving e-commerce companies generally a little more running room. ■

*The budget surplus will grow no matter who wins*

Stock prices reflect the market close on June 16, 2000.

<sup>1, 2</sup> See page 33 for footnotes.