



"It's Showtime – The US Presidential Election"

"Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government."

Economist Milton Friedman

So looking at all the information and polling available (www.nationalpolls.com and www.realclearpolitics.com), it would seem as if the 2012 Presidential Election will be the political equivalent of the Ali-Frazier "Thrilla in Manila." One commentary I read this weekend said the tiny state of Wisconsin and its lowly 4 electoral votes may decide who the next US President is.

"It is a great advantage to a president, and a major source of safety to the country, for him to know he is not a great man."

Calvin Coolidge

The US Constitution mandates that their President is elected by the votes of the Electoral College. Presidents therefore are not truly elected by the populace for one may win the election in November, but not "win" the total popular vote. That's why so much press is being spent on the "swing" states like North Carolina, Virginia, Florida, Nevada and especially Ohio, as these states will "swing" from election to election versus states like California (Democrat), Texas (Republican), New York (Democrat), etc. who have voted the same colours for decades.

Simply put, the United States has become a country of two, divided left-of-centre Democrat on the coasts and right-of-centre Republican in the Midwest and south.

The US Congress is divided into the House of Representatives (435 Seats) and the Senate (100, 2 from each state). The seats in the House means one member represents an average of about 710,000 people, but the exact representation per member varies by state (Wyoming, Vermont and North Dakota for example have populations smaller than the average for a single district). Some small states like Idaho, Maine, New Hampshire and Rhode Island end up with far greater representation in the Electoral College than they should.

But the efficacy and wisdom was put forth in the US Constitution, it has weathered many political storms over two centuries, and overall has served the Americans well.

Concerning the changing demographics in the USA, those who have identified themselves as registered voters break down as follows:

49% Male
89% White, non Hispanic
93% Non union households
66% married
56% Are 50 years old or older
81% Are homeowners
66% Are Protestant
34% Earn > \$75,000/year
78% Live in suburbs/rural areas

By Comparison, the country as a whole is:

47% Republican
73% White/Non Hispanic
56% Non Union
56% Married
51% 50 or older
73% are Homeowners
52% Protestant
31% Have income > \$75,000/year
69% Live in suburbs/rural areas

(Gartman Report Oct 17 – 2012)

Right now the US Federal Budget is a mess. Spending has soared, which has hurt economic growth and undermined tax revenues. The result has been four consecutive years of trillion dollar deficits, and without a single federal budget passed.

Politicians everywhere are always tempted to raise taxes to fix deficits, but in many cases (like the USA now) this is not possible. To fix this mess (including Ontario's mess), spending must be reduced. The USA has never balanced its budget when spending was more than 19.5% of GDP.

Big government undermines economic growth, it's that simple.

But the "fiscal cliff" (which I will address in a later infomail) is looming and the US tax code is a mess. The president's answer to all the nation's woes is to lift taxes on the wealthy by 3-5%.

Governor Romney wants to make big changes to the US tax code, get rid of the extra taxes Obamacare creates, and cutting income tax rates across the board but increasing tax rates on regular income (which he claims will be revenue neutral), by limiting deductions, he will broaden the tax base (but he has not been clear about what deductions he would eliminate).

Using 2009 data, US tax payers had about \$1.7 trillion in itemized deductions (Medical \$170B) State and Local taxes (\$333B), Real Estate deductions (\$237B), Mortgage Interest (\$592B) and Charitable Contributions (\$223B). Applying an average tax rate of 25% to that total suggests that getting rid of them all would generate about \$425 Billion, or approximately 30% of all income tax revenue, a big nut indeed.

To get that passed, Romney, if President would need 60 votes in the Senate, and that's highly unlikely. So compromise would be the way and using temporary measures such as a special budget process like Bush used back in 2001-2003 would be necessary. No matter who wins the Presidency, compromise will be necessary.

One of the questions I get asked a lot is whether a win by Barack Obama or a win by Mitt Romney would be better for the stock markets. The honest answer is probably "I have no idea." Historically, despite popular belief, Democrats have statistically fared better than the perceived pro-business Republican Presidencies. In reality, the President's influence may be far less than most people think. One thing that is for sure by Wednesday morning, one big item of uncertainty which has been on investors minds for 2 years will have been removed.

But I do believe we are at an inflection point in history, and any competent advisor should know that the financial and psychological (i.e. Confidence) states of the USA and the global economies are the major factors. The US President and his policy can have a huge impact, especially on the confidence part of the equation.

Looking back at recent Presidents, one would suspect that George W. Bush, a free market guy who pushed through tax cuts, would have had a boom during his reign. Actually the US market lost 25% during his two terms. Under Barack Obama, who has assaulted Wall Street daily, produced a whopping 96% return from Inauguration to September 2012. Of course there are many reasons for the numbers to be fair to both Presidents. Of the last five Presidents, the markets actually fared better under Obama and Clinton (whose administrations showed the best average return ever) than the two Bush's and Ronald Reagan! Of course it would be wrong to attribute the Clinton and Obama policies as the main reasons. Clinton inherited a fabulous situation and economy set up by Reagan. Bush inherited a tanking stock market and left amid financial panic. Does Clinton deserve full credit for everything good during his tenure and Bush deserves full blame for everything bad? Yes, if you are an ideologue. No, if you are intellectually honest.

Obama took office with stocks decimated, which he had nothing to do with. His first two months in office had a sickening drop of an additional 20%. Thanks to coordinated efforts by central banks and governments around the world, the panic was alleviated and markets recovered. About half of the gain in Obama's tenure happened during his first year. By contrast, markets went down in Reagan's first year. There really is no pattern.

The bottom line, not sure it makes much of a difference. But given the issues the USA and the World have to deal with, I sincerely believe the world needs very good managers and "stewards" to get out of this mess. The USA needs them, Europe needs them, Ontario certainly needs them, and now our own fair city of London needs them. Mitt Romney made a career of turning companies around. I think he was built for this and he is the right guy at the right place and time. Will he win? We will see in 24 hours. But that's why democracy is the best form of government. The only poll that matters is tomorrow, let the people decide.

Stay tuned,

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