

# DJC

THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON



William Rutherford

## President Obama wins second term

**Published November 19, 2012**

The market absorbed the news of President Obama's re-election with a decidedly negative reaction. Both the Dow and the S&P fell more than 2 percent. Still, that was an improvement over 2008, when, on the day after Obama was elected, the Dow and the S&P both dropped more than 5 percent.

Both candidates spent lavishly in what was by far the most expensive race in U.S. history.

Obama won a second term as president of the United States, joining a select group. Despite seeming to be disengaged from the campaign, and running on a mixed record with the electorate strongly divided, he won a resounding victory in the all-important Electoral College. The popular vote was closer.

Obama won the election by out-organizing the Republicans. His "ground game" brought the results he needed in turnout and delivered the toss-up states that he needed to win.

He received 70 percent of the Hispanic vote, and strong support from women voters.

Mitt Romney suffered from an overlong campaign, with too many brutal primaries, a divided party, and positions that turned away Hispanics and women. Late in the campaign, he seemed dogged by missteps and changed positions.

Romney's choice of a running mate, meant to appeal to the party's right wing, brought little benefit. He could have added Sen. Marco Rubio from Florida, or Sen. Robert Portman, a popular Ohioan who regularly wins his elections with more than 70 percent of the vote. Both come from key states that Romney lost by narrow margins.

Democrats also fared well in both House and Senate races, picking up seats and strengthening Obama's hand. The president, who believes in the long view of history, is now focused on how history will view him.

He seems to disdain the day-to-day workings of the presidency, preferring soaring rhetoric. He laments that people do not share his vision, and lectures rather than persuades. "Obamacare," the pre-eminent legislation of his first term, is now a permanent part of the economy.

Expiration of the Bush tax cuts will increase ordinary income rates and capital gains rates. I expect that some companies may pay a special dividend between now and the end of the year, to move some of their considerable cash to shareholders at the current lower dividend tax rate. Investors should consult with their accountants to see whether they should be making tax-related changes in their portfolios.

Fitch Ratings warned Congress and the president to reach an agreement to avoid the fiscal cliff or face a further downgrade of U.S. sovereign debt. Clearly, the resolution of the debt crisis and the debt ceiling is now the next item on the agenda. Clearly too, the Democrats have a stronger hand to play, but the Republican-controlled House cannot expect to go gently. We will be in precisely the kind of politics – give and take – that Obama does not enjoy.

In his first formal comments after the election, the president called for an end to the Bush tax cuts and minor adjustments in the rest of the budget. House Republican leader John Boehner replied that he could accept some revenue increase if there was tax and spending reform along with the additional revenue.

The two will now have to begin serious face-to-face negotiations. Perhaps fears of the “fiscal cliff” will drive a bargain. Much work remains to be done.

Until the financial issues are resolved, we can expect more pressure on the markets in the short term; however, it is still possible for the market to be higher by the end of the year. The economy may grow even slower than thought and equities even less so, but with interest rates near zero, there are few alternatives to equities.

*William Rutherford is the founder and president of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or [wrutherford@rutherfordinvestment.com](mailto:wrutherford@rutherfordinvestment.com). Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*