



October 2000

Vol. I No. 2

How The Election Really Affects Your Portfolio

- *We believe it is more important to look at the political alignment of Washington than just the outcome of the presidential election. The greatest impact Washington has on the financial markets is through the "indirect Government" of regulations. Regulation costs the average household more each year than income taxes.*
- *Since 1950, bonds have underperformed 3-month bills (cash) when the Government was unified (the same political party controls both houses of Congress and the Presidency) in all cases except 1953 - 1955, which was the only time in the post WW II period that Republicans were the unified party. So, whenever the Democrats have been in complete control, bond investors have always been big losers.*
- *The performance of the overall stock market based on political alignment has been inconclusive. However, this is not the case for many stock groups.*
- *Groups that do well in a divided Government era are those that suffer from the threat of increased regulation -- Tobacco, Telephones (AT&T break-up), Drugs, Beverages (Alcoholic), Electric Utilities and Consumer Financial.*
- *Groups that do well in a unified Government era are those that do well in an inflationary environment -- Gold, Oil, Metals & Mining, Aluminum, Paper and Forest. Additionally transportation related groups also do well in a unified government era -- Railroads, Aerospace (airplane makers), and Airlines.*
- *It appears the stock market is discounting a continuation of divided Government. However, the divisions in political alignment are razor thin (historically speaking) and a lopsided presidential victory either way could produce big enough coattails to unify the Government.*
- *The story of this commentary does not end on November 8. Beyond the election, we must watch the new Congress and President to see if they are expanding regulation and/or Government employees involved in regulation. Increasing regulations, or the number of bureaucrats enforcing those regulations, have the power to undo the bullish event of the election of a divided Government.*
- *NOTE: Finally, we have some follow-up comments about last month's commentary regarding value stocks.*

Published by The Leuthold Group · A research partnership with Weeden & Co., L.P., Members New York Stock Exchange and other principal exchanges.

INVESTMENT

RESEARCH

The Leuthold Group · Research
Minneapolis Office
Butler Square Post Office Box 300527
Minneapolis MN 55403
612-332-1567 fax: 612-332-0797

Weeden & Co., L.P. · Trading
Connecticut Office
145 Mason Street
Greenwich CT 06830
203-861-7600 Autex: WEEDEN

Vice President Gore would sharply reduce government debt -- a bond market favorite -- as a way to keep interest rates low, the Federal Reserve happy and business investment high.

– **The Wall Street Journal, September 7, 2000**

–

Think of Mr. Gore as the candidate of the bond market.... Mr. Gore leaves upwards of \$2 trillion to pay down the national debt. That would eliminate the government debt by sometime in the next decade. And in the meantime, it could boost the value of Treasuries already on the market, raising bond prices as it lowers interest rates.

– **The Wall Street Journal, September 10, 2000**

–

Prices of long-term Treasuries tumbled last week amid a growing view among traders that neither George W. Bush nor Vice President Al Gore is as committed to eliminating the U.S. debt as President Clinton has been. That means Treasury securities, especially long-term bonds, won't be disappearing any time soon, reducing their attractiveness and sending their yields -- which move in the opposite direction to price -- climbing.

– **The Wall Street Journal, September 18, 2000**

The October 2, 2000 edition of *Barrons* had an interesting article about the performance of the so-called Bush and Gore stocks. The article concluded that “Gore stocks” (Long: Environmental Services, Technology, Financials and Health Care, Short: Drugs, Tobacco and HMOs) were outpacing the Bush stocks (Long: Drugs, Defense, Tobacco, Microsoft and Asset Managers). This meant that the marketplace was betting on a Gore victory, even though the polls show the election to be a statistical dead heat.

We have two problems with this line of reasoning.

The **first problem** is in identifying a Bush and/or Gore stock. This problem can be seen in the quotes above. On September 6th, Gore released his 191 page economic manifesto. As the first two quotes suggest, the initial response in the bond market was positive. Gore was the bond market’s friend. He was going to reduce the debt while Bush was going to give the surplus “away” in the form of tax cuts. Of course, bond prices were rallying when the marketplace formed this reasoning. Then bond prices started to decline, and the same economic proposal became the bond market’s worst nightmare. See the last quote above. Mind you, Gore and his economic advisors did **not** provide any more detail to this plan. Yet the perception in the bond market had a complete reversal in less than a week!

We have learned (the hard way) that the only thing that moves faster than prices is perception. A bullish event can instantly become a bearish event and visa versa. So, while the idea of a Gore or Bush portfolio is appealing, stock selection for either of these portfolios is very difficult. Remember that earlier this year the Fed was raising rates and the consensus (as expressed hundreds of times on CNBC) was that NASDAQ stocks were immune from interest rates. When the NASDAQ peaked, interest rates instantly became the NASDAQ’s biggest problem even though nothing changed regarding the outlook for Fed policy.

The **second problem** is assuming that the President is the only person that matters in Washington. We will not be electing a king next month. When a presidential candidate proposes something, it does not mean it is going to happen. Remember candidate Bill Clinton’s middle class tax cut, or the infamous “read my lips” from George Bush Sr.

- Is there a better way to judge the political impact on the financial markets? We believe so.

Measuring The Rule Book

We believe the most profound effect that the Government has on financial markets is through the “indirect Government” of regulations. To this end, we have measured the amount of regulation imposed by the Federal Government by tracking the number of pages in the *Federal Register* (the *Federal Register*, or the “rule book,” is a log of all Federal regulatory activity instituted each year). In 1999, the *Federal Register* finished the year with 73,568 pages (or the equivalent of 291 pages added every business day).

How does this pace of regulation affect the financial markets? Charts 1 and 2 show the number of pages in the *Federal Register* and the movements of the CRB index and interest rates. The correlation between the CRB and the *Federal Register* is “highly significant.” While interest rates have recently diverged with the *Federal Register*, the correlation between these series is still “significant.” Regulatory activity has long focused on commodity prices (especially agricultural and gasoline prices) so, it is not surprising to find a high degree of correlation between commodity prices and regulatory activity.

Chart 1

The Bull Market Nobody Wants - Regulation

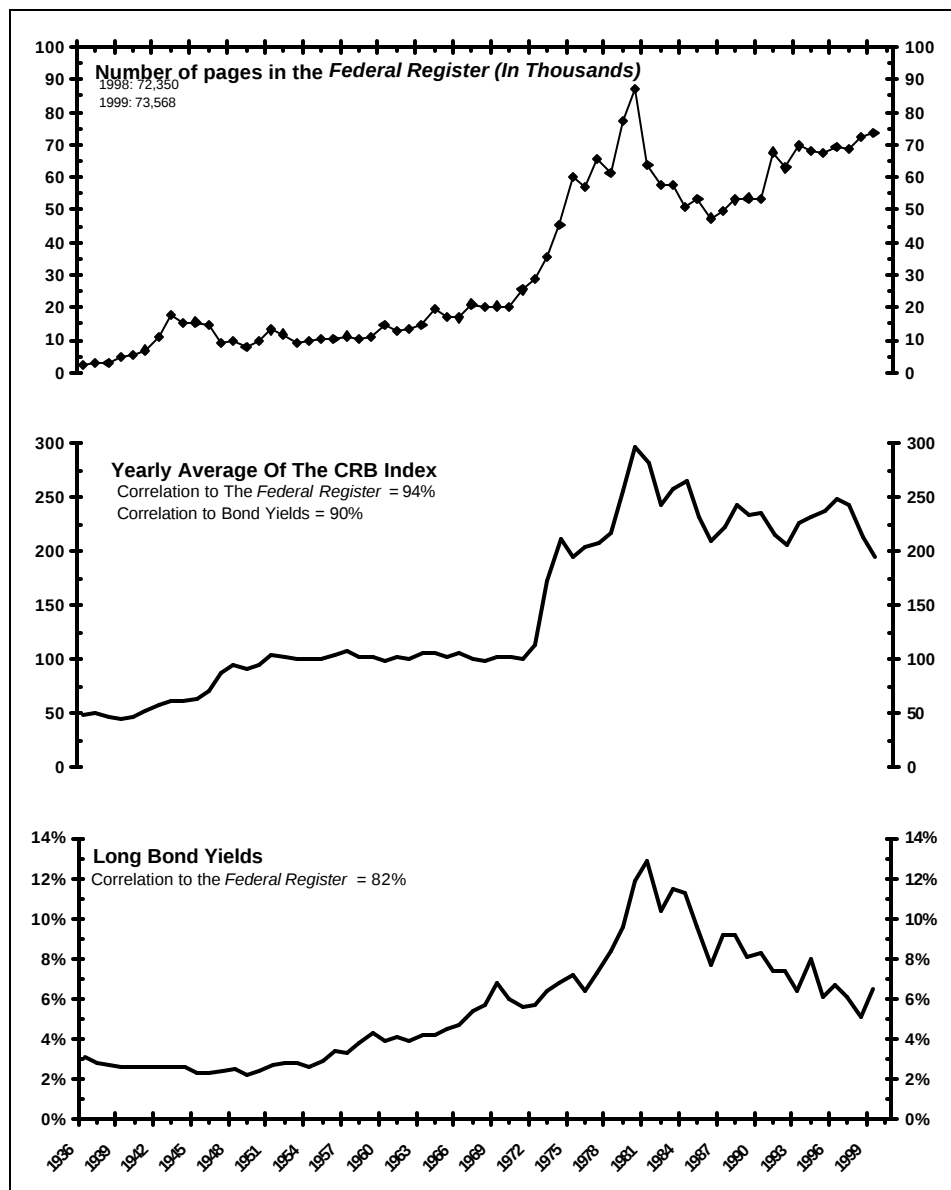
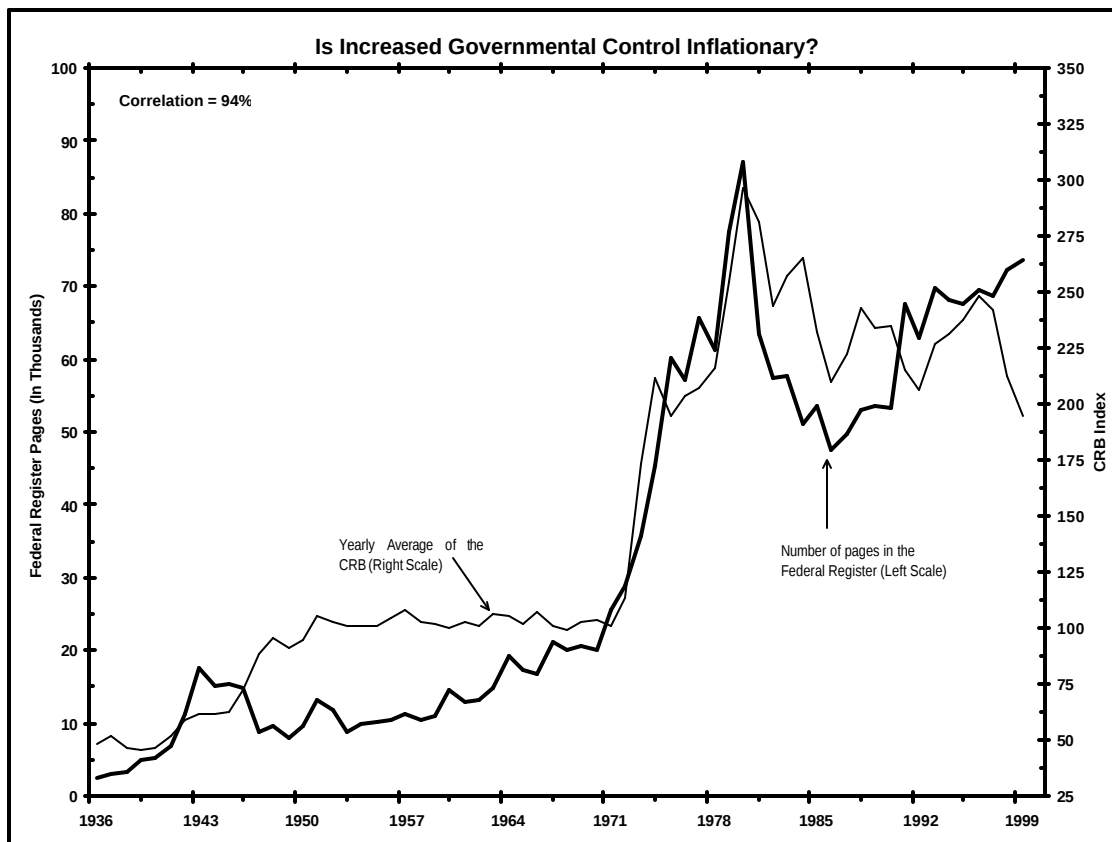


Chart 2



Because regulation is indirect and difficult to measure, its effects are not readily apparent. However, a study by Thomas Hopkins of the Rochester Institute of Technology puts the cost of complying with all the regulations in the 1999 *Federal Register* at \$758 billion or, about \$10.3 million per page -- making it the most expensive book ever published! Furthermore, these regulations cost the average household \$7,400, or nearly 18% of their income (\$41,846) in 1999. This is more than the average household income tax bill paid that year.

With the cost of regulation exceeding income taxes for the average American household, is there any wonder that regulations (as measured by the size of the *Federal Register*) have had such a direct impact on the financial markets.

Political Alignment, Regulatory Activity And The Financial Markets

The table below shows how political alignment impacts the pace of regulatory growth and therefore the financial markets.

Table 1

Regulatory Growth and Market Performance Based on Political Alignment Two-Year Annualized Growth Rates 1936-1998 by Congressional Session

	Change in the <i>Federal Register</i>	Congressional Session	Long Bond Total Return	Congressional Session	S&P 500 Total Return	Congressional Session
Median Gain Per Annum: All Periods	3.67%		3.30%		13.09%	
All Unified Governments 15 Sessions	9.56%		2.44%		11.98%	
All Divided Governments 16 Sessions	1.54%		8.63%		13.60%	
Unified Gov't: Biggest Gain Session	54.90%	1941 - 1943	6.02%	1939 - 1941	25.22%	1979 - 1981
Unified Gov't: Largest Loss Session	-8.35%	1953 - 1955	-4.83%	1967 - 1969	-7.69%	1937 - 1939
Divided Gov't: Biggest Gain Session	28.52%	1973 - 1975	27.66%	1985 - 1987	30.95%	1997 - 1999
Divided Gov't: Largest Loss Session	-17.40%	1947 - 1949	-3.46%	1955 - 1957	-20.78%	1973 - 1976
Current (106th Congress: though Sept. 2000)	4.37%		-1.44%		15.00%	

Data Sources: The *Federal Register* , Marvin Zonis and Associates, Ibbotson and Associates

When the Federal Government is divided as it is now, regulatory growth nearly grinds to a halt. (Divided means control of the House, Senate, and Presidency is split between the two parties.) The bond market does well in this environment, as its returns are over twice the average of all periods. Stocks slightly favor divided Government as well (more on this later).

When the Federal Government is unified, as it last was from 1993 - 1995, regulatory growth averages a pace that is 2 ½ times faster than all periods. (Unified means the same political party controls both houses of Congress and the Presidency). In this environment, bond returns have been poor. **In fact, since 1950, bonds have underperformed 3-month bills (cash) when the Government was unified in all cases except 1953 - 1955, which was the only time in the post WW II period that Republicans were the unified party.**

Interestingly, the unified, Republican congress of 1953 - 1955 shrank the *Federal Register* by 8.35% per annum. So, while it was technically a unified Government, functionally, they acted like a divided Government and financial market returns resembled the returns found in divided Government years. Subtracting this period from all unified Government periods, we find that whenever the Democrats have been in complete control, bond investors have always been big losers. For more detail, see appendix A.

Why Political Alignment Matters

Political alignment and regulatory growth seem to have a great impact on the bond market. We believe the bond market does not like increased regulation since it acts like another form of inflation. Whenever the Government imposes restrictions, supposedly in the name of the public good, costs rise. (Liberals argue this is necessary to “level the playing field” while conservatives argue that restrictions hurt everybody, no matter how well intentioned they are.) This is why we believe both commodity prices (the most sensitive measure of inflation) and bond yields are highly correlated to the *Federal Register*.

What About Stocks?

As we alluded to above, the stock market does only slightly better under divided Government than under a unified Government. However, if we change our time frame from starting in 1936 to 1945, then the fortunes of the stock market dramatically reverse. Regulatory growth and the bond market's returns hold the same under either starting date.

Table 2

Regulatory Growth and Market Performance Based on Political Alignment
Two-Year Annualized Growth Rates
1945-1998 by Congressional Session

Returns	Change in the <i>Federal Register</i>	Long-Bond Total Return	S&P 500 Total Return	S&P 500 Price Only
All Congressional Sessions				
Median	2.63%	6.19%	16.55%	11.99%
Average	4.39%	9.07%	14.92%	8.97%
Std Dev	11.69%	12.67%	18.50%	17.09%
Divided Government Sessions				
Median	1.54%	10.52%	14.03%	8.22%
Average	3.75%	13.57%	12.25%	7.02%
Std Dev	12.52%	13.25%	17.36%	17.04%
Unified Government Session				
Median	3.90%	0.57%	22.24%	15.01%
Average	5.41%	1.42%	19.46%	12.27%
Std Dev	10.80%	6.93%	20.41%	17.55%

We elected to show the market returns in Tables 1 and 2 separately to illustrate how unstable the relationship between political alignment and the stock market has been. So while Table 2 appears to show that the stock market likes unified government, this is largely a function of the time period chosen.

Much has been written about the effect that elections have on the stock market. Most of the analysis centers only on the presidential election. We believe the outcome of the presidential election is not as important as is the political alignment in Washington. Furthermore, political alignment has historically had a large impact on the bond market, but an inconclusive impact on the stock market.... However, there is more than one way to look at the stock market.

Stock Group Performance versus Political Alignment

While the performance of the overall stock market based on political alignment may be unstable, that is not the case for many stock groups.

Table 3
Two-Year Annualized Growth Rates
1945-1998 by Congressional Session

Group	Average of All Periods	Average of Divided Gov't Only Periods	Average of Unified Gov't Only Periods	Divided Gov't minus Unified Gov't Periods
Groups That Do Best When The Government is Divided				
Tobacco	11.29%	17.20%	1.24%	15.97%
Telephones	3.69%	7.98%	-3.59%	11.57%
Health Care (Drugs)	11.85%	16.00%	4.80%	11.20%
Household Products	15.48%	19.42%	8.78%	10.64%
Beverages (Soda)	10.36%	14.01%	4.15%	9.86%
Retail - Foods	9.25%	12.43%	3.83%	8.60%
Foods	10.62%	13.64%	5.48%	8.16%
Beverages (Alcoholic)	6.10%	9.01%	1.15%	7.86%
Footwear	7.50%	10.18%	2.94%	7.24%
Utilities - Electric	3.81%	6.11%	-0.09%	6.20%
Consumer Financial	9.71%	10.47%	8.43%	2.04%
Groups That Do Best When The Government is Unified				
Aluminum	7.96%	3.30%	15.89%	-12.59%
Paper & Forest	6.50%	1.50%	15.00%	-13.50%
Railroads	3.12%	-2.16%	12.11%	-14.27%
Oil International	10.55%	5.25%	19.56%	-14.30%
Machinery	2.35%	-3.23%	11.83%	-15.05%
Household Furniture	4.95%	-1.04%	15.14%	-16.17%
Entertainment	8.55%	2.38%	19.04%	-16.66%
Airlines	-3.50%	-9.83%	7.26%	-17.09%
Containers (Packaging)	8.49%	1.85%	19.76%	-17.91%
Oil Domestic Integrated	9.58%	2.73%	21.23%	-18.51%
Broadcast Media	15.34%	8.16%	27.55%	-19.39%
Metals Mining	5.32%	-3.14%	19.70%	-22.85%
Aerospace (airplane makers)	13.09%	4.35%	27.95%	-23.59%
Oil & Gas (Drilling)	17.48%	8.49%	32.76%	-24.26%
Gold	13.06%	-7.15%	47.41%	-54.56%

The table above shows the stock groups that do best when the Government is divided (the top half of Table 3) and best when the Government is unified (the bottom half of table 3). In total, we analyzed 43 “old” S&P stock groups back to 1945. Eleven groups responded favorably to divided Government, fifteen stock groups responded favorably to unified Government and seventeen stock groups did not show an affect based on political alignment. One high profile group that does **not** seem to be affected by the make-up of the Government is technology. See appendix B for a complete listing for all groups studied.

- If we could derive a story from these groups, it would be the groups that do well in a divided Government era are those that suffer from the threat of increased regulation. Groups like Tobacco, Telephones (AT&T break-up), Drugs, Beverages (Alcoholic), Electric Utilities and Consumer Financial have long been favorite targets of Washington.
- Many groups that do well in a unified Government era are those that do well in an inflationary environment -- Gold, Oil, Metals & Mining, Aluminum, Paper and Forest. Additionally, transportation related groups also do well in a unified government era – Railroads, Aerospace (airplane makers), and Airlines. Earlier we suggested that increased regulations act like another form of inflation, so it is not surprising that the stock groups that benefit from inflation perform better when the Government is unified.

Yes, many of the stocks listed in the Gore and Bush portfolios cited above can be found in these groups. **However, the important distinction here is that it is not who wins the Presidency, but the configuration of the Government.**

What Is The Market Currently Discounting?

So far we have been talking about history. What is the market currently doing and what does it expect? The table below shows both the year-to-date returns (as of September 29) and *Leuthold's Group* ratings.

Table 4

Current Rating and Performance of Groups that do well when the Government is Divided			Current Rating and Performance of Groups that do well when the Government is Unified		
Stock Group	Rating	YTD Returns	Stock Group	Rating	YTD Returns
Beverages (Alcoholic)	Attractive	14.50%	Aerospace (airplane makers)	Attractive	23.14%
Beverages (Soda)	High Neutral	4.66%	Airlines	Neutral	6.44%
Consumer Financial	Attractive	43.14%	Aluminum	Unattractive	-37.01%
Foods	High Neutral	12.18%	Broadcast Media	Unattractive	-9.30%
Footwear	Neutral	1.39%	Containers (Packaging)	Neutral	-38.23%
Health Care (Drugs)	Attractive	26.34%	Entertainment	Neutral	12.93%
Household Products	Neutral	-27.31%	Gold	N/A	-24.21%
Retail - Foods	Attractive	10.76%	Household Furniture	Neutral	-14.37%
Telephones	Unattractive	-24.45%	Machinery	Neutral	18.27%
Tobacco	N/A	29.77%	Metals Mining	Neutral	-34.02%
Utilities - Electric	Attractive	58.46%	Oil & Gas (Drilling)	Neutral	67.52%
			Oil Domestic Integrated	Attractive	21.96%
			Oil International	Neutral	3.26%
			Paper & Forest	Neutral	-37.23%
			Railroads	Neutral	-5.78%
Average		13.59%	Average		-3.11%

As of September 29, 2000

Not surprisingly, the stock groups that do best when the Government is divided (left side of Table 4) are handily outperforming the stock groups that do best when the Government is unified (right side of Table 4) by 13.59% to -3.11% respectively. The Government is currently divided so these results should be expected.

Looking forward, we also show the current ratings from *Leuthold's Groups*. Given the outstanding predictive ability of these ratings, we believe they can be an excellent indicator of future performance (Year-to-date through September 29, the top 20 rated *Leuthold's Groups* have returned 26.2%, and the bottom 20 rated groups have returned -14.0% while the S&P 500 has returned -2.2%). By scanning Table 4, one can see that the divided Government groups have overall higher ratings than the unified Government groups. The average rating for the divided Government groups is between "Attractive" and "High Neutral." The unified Government groups have an average rating of "Neutral."

Looking at these *Leuthold's Group* ratings, it appears the stock market is discounting a continuation of divided Government. Currently the House of Representatives has 222 Republicans and 210 Democrats (three seats are either open or held by independents). The Senate has 54 Republicans and 46 Democrats. These divisions are razor thin (historically speaking), and a lopsided presidential victory **either way** could produce coattails large enough to unify the Government. It appears the marketplace does **not** expect this to happen.

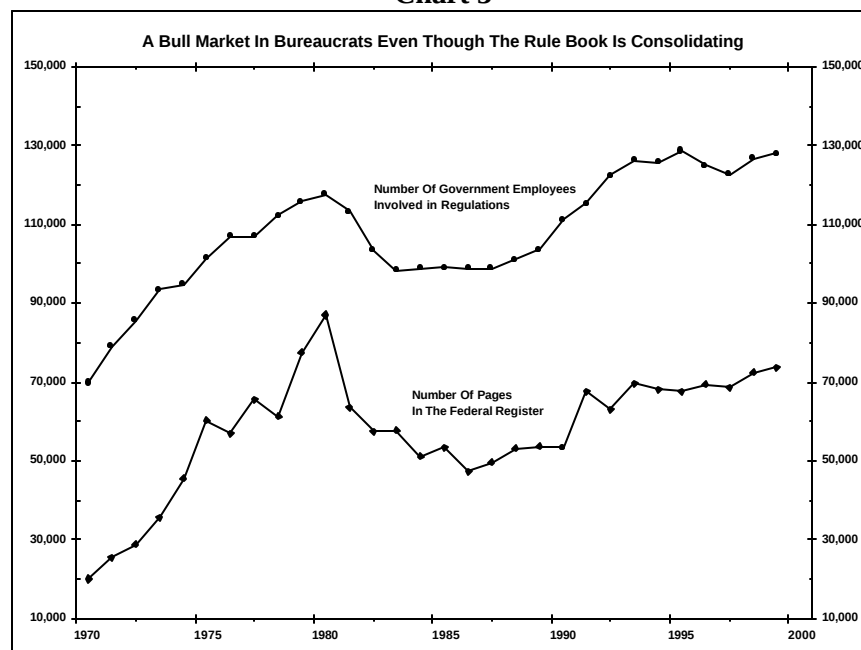
Government Employees and Regulation

Divided Government restrains the expansion of government regulations, which in turn is bullish for bonds and stock groups that Washington is trying to regulate. So, are these groups safe if we maintain a divided Government?

The short answer is, "only if Government regulation stays in check." Chart 3 on the next page shows a disturbing trend. The number of Government employees involved in overseeing Government regulation is near an all-time high, even though the rulebook (the *Federal Register*) has held steady. The Federal Government currently has about 1.8 workers per *Federal Register* page – up from 1.35 in 1980. While these employees cannot create laws, having more employees to enforce regulations could suggest stricter compliance with existing regulations. This might have the same effect as Congress passing additional laws.

(The number of employees involved in regulations can be found in the paper “Regulatory Changes and Trends: An Analysis of the 1999 Budget of the U.S. Government” by Christopher Douglass, Michael Orlando, and Melinda Warren. It was published by the Center for the Study of American Business, <http://csab.wustl.edu>).

Chart 3



Conclusion

When watching the election returns next month, the big question for investors will be whether “political gridlock” (divided Government) continues. If so, this is bullish for bonds and the stock groups that benefit from divided Government. However, the story of this commentary does not end on November 8. Beyond the election, we must watch the new Congress and President to see if they are expanding regulation and/or Government employees involved in regulation. Increasing regulations, or the number of bureaucrats enforcing those regulations, has the power to undo the bullish event of the election of a divided Government.

Unfortunately, we do have examples of this occurring. From 1973 - 1975 (the 93rd Congress), we had a divided Government, yet the *Federal Register* ballooned at an annualized pace of 28.52%. During this era, both stock and bond returns suffered. Stocks were **down** at an annualized rate of 20.78% and bonds returned a meager 1.59% annualized.

Should next month’s election result in a divided Government, we must watch to see that it actually behaves like a divided Government. This means a continued slow pace (or, even better, a negative pace) of regulatory growth. If so, it will be bullish for bonds and the stock groups Washington wants to regulate (many of which have favorable ratings in *Leuthold’s Groups*). Should a future divided Government allow the pace of regulatory growth to increase (that is, act like a unified Government), we believe all financial markets could be at risk. Like architecture, “less is more” when it comes to the pace of government regulation.

We will be closely following developments regarding the make-up of the Government (divided or unified), the pace of regulatory growth (the size of the *Federal Register*) and the number of bureaucrats collecting a paycheck. We will report on any of these trends should we believe they are about to affect portfolio performance pursuant to the guidelines in this commentary.

Follow-Up To Last Month's Commentary – Why is Value Outperforming?

*Portfolios focusing on value stocks that look cheap relative to their earnings, revenue and other measures enjoyed a distinct performance edge during the third quarter, according to preliminary figures released by Lipper Inc. "Value is doing well, just like it did during the last quarter," said Edward Rosenbaum, Lipper's Director of Research, referring to the April-June period. **"Many companies classified as value plays are sensitive to the upturns in the economy, and the strong growth in the U.S. economy during 2000 has helped them boost their businesses,"** [our emphasis] Mr. Rosenbaum says. – The Wall Street Journal, October 3, 2000*

Last month our commentary was entitled "Some Kind Words (And Profit Opportunities) Regarding Value." So far "value stocks" continue to perform better than "growth stocks". The "attractive" ratings of the *Leuthold's Groups* are continuing to expand with stock groups that have "excellent" value ratings. Our comments from last month still apply.

In that commentary, we spent a great deal of time explaining why we thought groups with excellent value characteristics outperform groups with similar growth characteristics. Our conclusion was that a slowing economy favors value groups. Therefore, we are surprised to read the comments in the quote immediately above. It suggests that a strong economy favors value stocks. If this is the case, why have growth stocks consistently outperformed value stocks during the longest expansion ever (111 months and counting)? We stand by our original analysis and take issue with the statement above (which seems to be a common belief).

**Copies of last month's bianco@leuthold can be
obtained by calling The Leuthold Group at
612-332-1567.**

Additional information on recommended securities is available upon request.

Weeden & Co. LP and/or affiliates or employees may hold positions or options in securities discussed herein.

The material herein is based on data from sources we considered to be reliable, but it is not guaranteed as to accuracy and does not purport to be complete. It is not to be construed as a representation by us or as an offer or the solicitation of an offer to sell or buy any security. Any opinions expressed are subject to change. From time to time, this firm, its affiliates, and/or its individual officers and/or members of their families may have a position in the subject securities which may be consistent with or contrary to the recommendations contained herein; and may make purchases and/or sales of those securities in the open market or otherwise. Weeden & Co. LP may make a market in securities mentioned.

It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. However, multiple copies are available to clients upon request and limited reprint arrangements are available. © The Leuthold Group and Weeden & Co., L.P.

Planned changes in The Leuthold Group Equity Portfolio are subject to market conditions including price volatility and share liquidity.

Appendix A **Two-Year Annualized Growth Rates** **1936-1998 by Congressional Session**

Congressional Session		Annualized change			Unified Government Only			Divided Government Only		
Number	Years	Change in <i>Federal Register</i>	S&P 500 Total Return	Long Bond Total Return	Change in <i>Federal Register</i>	S&P 500 Total Return	Long Bond Total Return	Change in <i>Federal Register</i>	S&P 500 Total Return	Long Bond Total Return
75	37 to 39	16.24%	-7.69%	2.83%	16.24%	-7.69%	2.83%			
76	39 to 41	33.08%	-5.22%	6.02%	33.08%	-5.22%	6.02%			
77	41 to 43	54.90%	3.15%	2.07%	54.90%	3.15%	2.07%			
78	43 to 45	18.23%	22.78%	2.44%	18.23%	22.78%	2.44%			
79	45 to 47	-1.51%	11.98%	5.18%	-1.51%	11.98%	5.18%			
80	47 to 49	-17.40%	5.60%	0.33%				-17.40%	5.60%	0.33%
81	49 to 51	-0.23%	25.10%	3.20%	-0.23%	25.10%	3.20%			
82	51 to 53	12.20%	21.15%	-1.42%	12.20%	21.15%	-1.42%			
83	53 to 55	-8.35%	22.94%	5.39%	-8.35%	22.94%	5.39%			
84	55 to 57	3.12%	18.39%	-3.46%				3.12%	18.39%	-3.46%
85	57 to 59	0.24%	13.09%	0.45%				0.24%	13.09%	0.45%
86	59 to 61	18.43%	6.06%	5.45%				18.43%	6.06%	5.45%
87	61 to 63	-3.98%	7.62%	3.88%	-3.98%	7.62%	3.88%			
88	63 to 65	22.43%	19.60%	2.36%	22.43%	19.60%	2.36%			
89	65 to 67	-6.36%	0.58%	2.16%	-6.36%	0.58%	2.16%			
90	67 to 69	9.56%	17.36%	-4.83%	9.56%	17.36%	-4.83%			
91	69 to 71	-0.09%	-2.43%	3.16%				-0.09%	-2.43%	3.16%
92	71 to 73	22.18%	16.62%	9.39%				22.18%	16.62%	9.39%
93	73 to 75	28.52%	-20.78%	1.59%				28.52%	-20.78%	1.59%
94	75 to 77	12.82%	30.36%	12.91%				12.82%	30.36%	12.91%
95	77 to 79	3.67%	-0.54%	-0.91%	3.67%	-0.54%	-0.91%			
96	79 to 81	21.02%	25.22%	-2.59%	21.02%	25.22%	-2.59%			
97	81 to 83	-16.99%	7.45%	19.57%				-16.99%	7.45%	19.57%
98	83 to 85	-5.61%	14.10%	7.86%				-5.61%	14.10%	7.86%
99	85 to 87	-3.51%	25.13%	27.66%				-3.51%	25.13%	27.66%
100	87 to 89	5.95%	10.87%	3.30%				5.95%	10.87%	3.30%
101	89 to 91	0.28%	12.84%	11.99%				0.28%	12.84%	11.99%
102	91 to 93	8.96%	18.56%	14.23%				8.96%	18.56%	14.23%
103	93 to 95	4.12%	5.56%	4.42%	4.12%	5.56%	4.42%			
104	95 to 97	0.92%	30.05%	14.22%				0.92%	30.05%	14.22%
105	97 to 99	0.92%	30.05%	14.22%				0.92%	30.05%	14.22%
106	99 to 01	????	????	????	????	????	????	????	????	????
Median		3.67%	13.09%	3.30%	9.56%	11.98%	2.44%	1.54%	13.60%	8.63%
Average		7.58%	12.47%	5.59%	11.67%	11.31%	2.01%	3.75%	13.55%	8.94%
Std Dev		15.10%	12.31%	7.11%	16.92%	11.51%	3.13%	12.52%	13.29%	8.20%
Best		54.90%	30.95%	27.66%	54.90%	25.22%	6.02%	28.52%	30.95%	27.66%
Worst		-17.40%	-20.78%	-4.83%	-8.35%	-7.69%	-4.83%	-17.40%	-20.78%	-3.46%
Pct. Pos		67.74%	83.87%	83.87%	66.67%	80.00%	73.33%	68.75%	87.50%	93.75%
Pct. Neg		32.26%	16.13%	16.13%	33.33%	20.00%	26.67%	31.25%	12.50%	6.25%
Number		31	31	31	15	15	15	16	16	16

Appendix B
Two-Year Annualized Growth Rates
1945-1998 by Congressional Session
Price Returns Only (Unless Otherwise Noted)

Sector	All Periods			Divided Gov't Only			Unified Gov't Only			Divided minus Unified		
	Median	Average	Std Dev	Median	Average	Std Dev	Median	Average	Std Dev	Median	Average	Std Dev
Change in the <i>Federal Register</i>	2.63%	4.39%	11.69%	1.54%	3.75%	12.52%	3.90%	5.41%	11%	-2.36%	-1.66%	1.72%
Long-Bond Total Return	6.19%	9.07%	12.67%	10.52%	13.57%	13.25%	0.57%	1.42%	7%	9.95%	12.15%	6.32%
S&P 500 Total Return	16.55%	14.92%	18.50%	14.03%	12.25%	17.36%	22.24%	19.46%	20%	-8.21%	-7.22%	-3.04%
S&P 500 Price Only	11.99%	8.97%	17.09%	8.22%	7.02%	17.04%	15.01%	12.27%	18%	-6.79%	-5.25%	-0.51%
Aerospace (airplane makers)	7.80%	13.09%	33.72%	-3.46%	4.35%	29.24%	18.83%	27.95%	37%	-22.29%	-23.59%	-7.83%
Airlines	-9.93%	-3.50%	30.76%	-15.25%	-9.83%	24.73%	3.35%	7.26%	38%	-18.60%	-17.09%	-13.24%
Aluminum	4.93%	7.96%	31.31%	-7.68%	3.30%	28.86%	13.21%	15.89%	35%	-20.88%	-12.59%	-6.36%
Autos	5.74%	8.92%	29.87%	1.68%	7.22%	30.72%	8.04%	11.79%	30%	-6.37%	-4.57%	0.98%
Regional Banks	2.57%	4.78%	23.84%	0.53%	1.30%	25.50%	9.52%	10.69%	21%	-9.00%	-9.39%	4.91%
Money Center Banks	6.05%	5.04%	23.20%	2.26%	3.73%	26.74%	13.39%	7.27%	17%	-11.13%	-3.54%	10.16%
Beverages (Alcoholic)	2.24%	6.10%	30.43%	2.61%	9.01%	33.27%	0.83%	1.15%	26%	1.78%	7.86%	7.49%
Beverages (Soda)	7.40%	10.36%	25.86%	12.94%	14.01%	28.84%	-3.55%	4.15%	20%	16.49%	9.86%	9.18%
Broadcast Media	15.39%	15.34%	32.00%	2.37%	8.16%	32.86%	23.98%	27.55%	28%	-21.61%	-19.39%	5.01%
Building Materials	2.00%	1.87%	26.95%	-1.71%	-1.35%	27.35%	12.19%	7.34%	27%	-13.90%	-8.69%	0.60%
Capital Goods	6.47%	6.11%	20.26%	5.87%	2.82%	19.76%	12.92%	11.70%	21%	-7.06%	-8.89%	-1.11%
Chemicals	1.59%	3.15%	22.97%	1.06%	0.64%	22.18%	3.66%	7.42%	25%	-2.60%	-6.78%	-2.67%
Computer Hardware	16.12%	14.10%	30.47%	16.12%	13.03%	34.58%	16.70%	15.93%	23%	-0.58%	-2.91%	11.09%
Consumer Financial	5.52%	9.71%	30.22%	11.57%	10.47%	33.89%	5.30%	8.43%	24%	6.27%	2.04%	9.52%
Containers (Metal & Glass)	2.90%	2.80%	24.30%	-2.67%	0.62%	30.12%	8.90%	6.52%	8%	-11.57%	-5.91%	21.90%
Containers (Packaging)	7.46%	8.49%	31.15%	3.41%	1.85%	31.05%	17.93%	19.76%	29%	-14.51%	-17.91%	1.63%
Electrical Equipment	8.43%	12.45%	24.94%	8.43%	9.50%	26.70%	17.01%	17.48%	22%	-8.58%	-7.98%	4.67%
Entertainment	6.62%	8.55%	30.09%	-0.27%	2.38%	28.31%	22.68%	19.04%	32%	-22.95%	-16.66%	-3.26%
Foods	16.04%	10.62%	22.54%	17.55%	13.64%	25.60%	4.87%	5.48%	16%	12.69%	8.16%	9.57%
Footwear	0.05%	7.50%	31.64%	-4.05%	10.18%	37.99%	1.57%	2.94%	17%	-5.62%	7.24%	20.95%
Gold	-1.37%	13.06%	63.10%	-5.40%	-7.15%	21.15%	16.80%	47.41%	93%	-22.20%	-54.56%	-71.72%
Health Care (Drugs)	6.11%	11.85%	27.33%	6.11%	16.00%	32.23%	7.81%	4.80%	15%	-1.69%	11.20%	17.31%
Household Furniture	2.18%	4.95%	27.61%	-2.84%	-1.04%	28.43%	11.28%	15.14%	24%	-14.13%	-16.17%	4.31%
Household Products	12.77%	15.48%	26.89%	24.62%	19.42%	26.87%	9.94%	8.78%	27%	14.68%	10.64%	-0.07%
Insurance (Prop/Cas)	5.96%	5.96%	19.28%	2.38%	3.41%	18.70%	6.66%	10.29%	20%	-4.28%	-6.88%	-1.79%
Insurance (Life)	11.21%	8.62%	28.09%	6.46%	4.05%	25.39%	14.94%	16.38%	32%	-8.48%	-12.33%	-6.67%
Iron & Steel	-7.47%	-3.49%	26.48%	-8.24%	-6.81%	22.57%	0.76%	2.15%	33%	-9.00%	-8.96%	-10.06%
Machinery	2.65%	2.35%	24.27%	-2.45%	-3.23%	18.79%	16.87%	11.83%	30%	-19.31%	-15.05%	-11.47%
Metals Mining	-0.27%	5.32%	30.61%	-6.21%	-3.14%	23.47%	23.12%	19.70%	37%	-29.34%	-22.85%	-13.45%
Oil & Gas (Drilling)	17.99%	17.48%	40.93%	-10.73%	8.49%	40.61%	23.70%	32.76%	39%	-34.44%	-24.26%	1.96%
Oil Domestic Integrated	9.17%	9.58%	26.70%	-4.57%	2.73%	20.26%	18.14%	21.23%	33%	-22.71%	-18.51%	-12.77%
Oil International	12.76%	10.55%	22.11%	12.25%	5.25%	21.97%	22.39%	19.56%	20%	-10.14%	-14.30%	1.70%
Paper & Forest	3.49%	6.50%	29.46%	-3.02%	1.50%	20.27%	5.78%	15.00%	41%	-8.79%	-13.50%	-20.34%
Publishing	19.49%	8.88%	26.45%	16.80%	5.47%	26.25%	23.09%	14.69%	27%	-6.28%	-9.22%	-0.89%
Railroads	-2.39%	3.12%	22.83%	-7.27%	-2.16%	19.62%	9.38%	12.11%	26%	-16.64%	-14.27%	-6.44%
Retail - Dept.	4.15%	6.54%	21.88%	2.60%	3.16%	22.21%	5.80%	12.29%	21%	-3.20%	-9.13%	1.08%
Retail - Foods	4.75%	9.25%	27.19%	4.63%	12.43%	30.45%	4.99%	3.83%	21%	-0.36%	8.60%	9.57%
Telephones	3.24%	3.69%	18.10%	7.57%	7.98%	20.04%	-0.67%	-3.59%	12%	8.24%	11.57%	8.26%
Tobacco	11.86%	11.29%	21.80%	15.80%	17.20%	21.65%	2.00%	1.24%	19%	13.80%	15.97%	2.63%
Trucks & Parts	-2.80%	-2.07%	26.70%	-2.11%	-4.97%	30.07%	-3.32%	2.88%	20%	1.21%	-7.85%	9.83%
Utilities - Natural Gas	3.03%	9.69%	25.38%	3.03%	9.62%	28.92%	6.37%	9.81%	19%	-3.34%	-0.18%	9.60%
Utilities - Electric	4.83%	3.81%	18.68%	5.08%	6.11%	20.58%	-0.42%	-0.09%	15%	5.49%	6.20%	5.45%