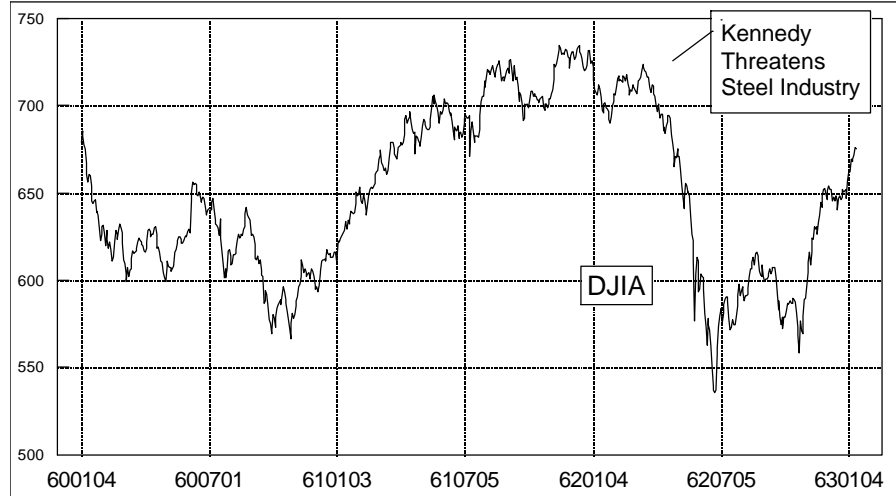
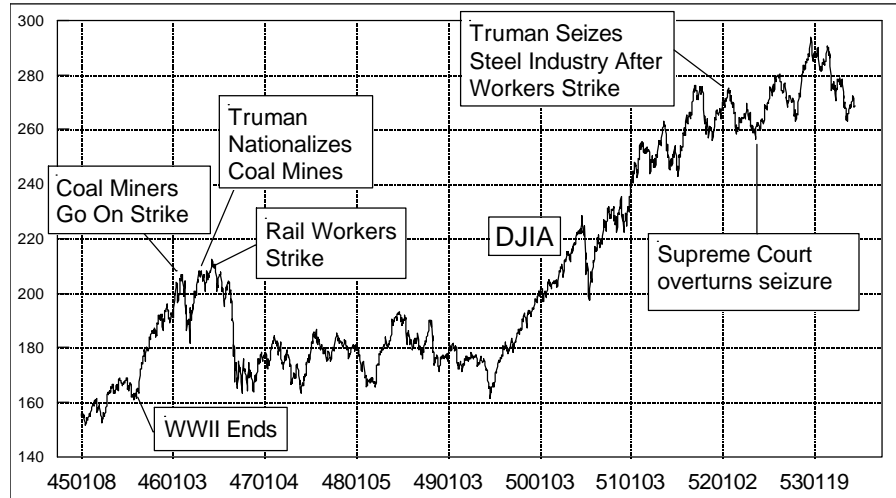
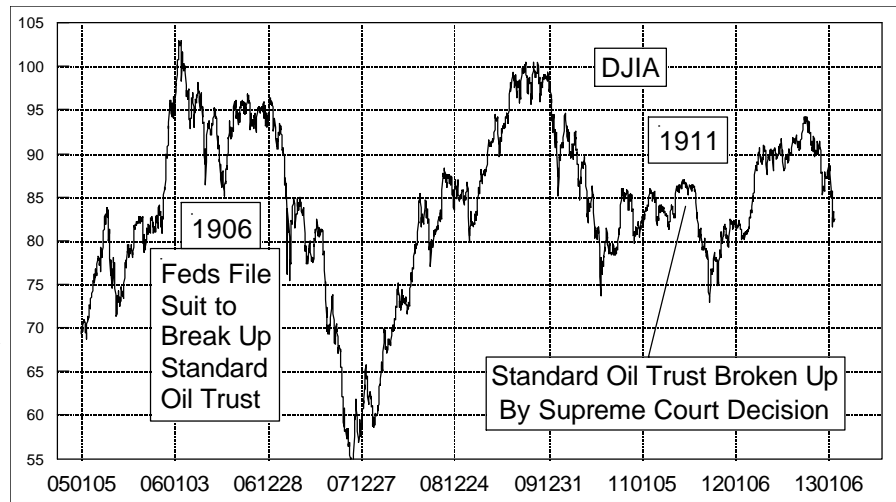


Wall St. Does Not Like Attention From Washington

The daily catch phrase in the news lately is “accounting scandal”. In fact, it seems that we seldom hear the word accounting all by itself any more without the suffix. Without more pressing problems to occupy its time, the press and the politicians have turned their attention to what is wrong with Wall Street, and history shows that investors have not really appreciated such episodes. That is not to say that the attention is undeserved, but rather that the market does not respond very well while the spotlights of political attention are being focused on it. For this special insert, we decided to take a look at some other examples of when the government has given extra attention and even intervention into the affairs of the business world, and how the market responded.

Standard Oil Breakup. The Standard Oil Trust was an interconnected collection of businesses controlled by John D. Rockefeller, and at its height it had a 90% share of the oil market. Teddy Roosevelt ran successfully for president on the platform of being a trustbuster. By 1906, the breakup efforts reached a climax when the federal government filed suit to finally achieve the breakup, and the DJIA declined from a high of 102.90 in January 1906 to a low of 53.08 in November 1907. The DJIA did not exceed its pre-breakup level until 1916. We are not saying that the government was wrong for breaking up Standard Oil’s monopoly, just that the market did not appreciate it.

Truman Nationalizes Rails, Coal, and Steel. After the end of World War II, coal miners went on strike for higher wages. They had been kept from doing so during the war, partly overtly and partly patriotically, but by February 1946 they reached a consensus to strike. The DJIA immediately dropped over 10%, and was in the process of recovering when President Truman issued an executive order nationalizing the coal mines. Rail workers struck as well in May 1946, and Truman even asked congress for the authority to draft striking workers into the armed forces. Our middle chart shows the depressing effect this had on the DJIA for the next 3 years. When the steel workers struck in 1952, Truman tried the nationalization trick again but this time the Supreme Court quickly weighed in and overturned Tru-



man’s executive order. The market recovered quickly once the decision was issued, proving that investors like it better when the government gets off the back of business. Again, we are not taking sides on the issues of the strikes and Truman’s response, but rather we are merely noticing what the market’s reactions were.

Kennedy Threatens Steel Industry. President Kennedy was elected with a lot of support from unions, and so when steel workers were preparing to strike in 1962, Kennedy made sure that executives of the steel companies were aware that he was not going to appreciate their efforts to thwart the wishes of the unions. He even sent FBI agents out in the middle of the night to knock on

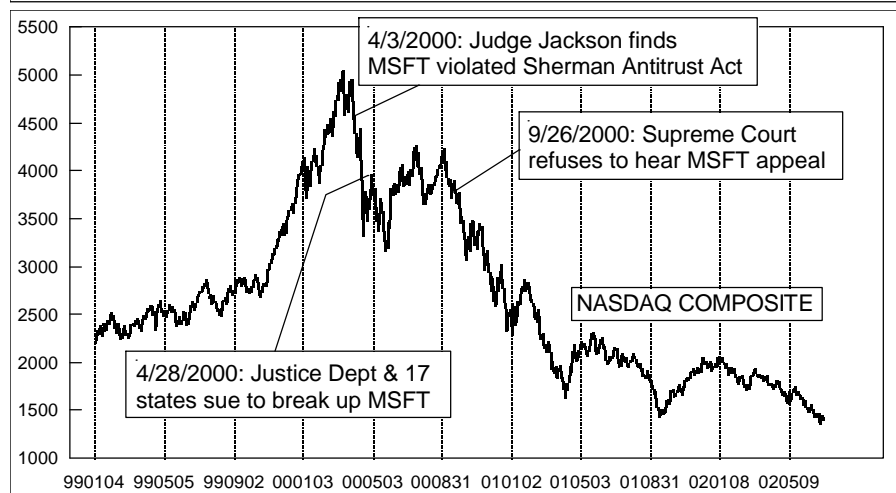
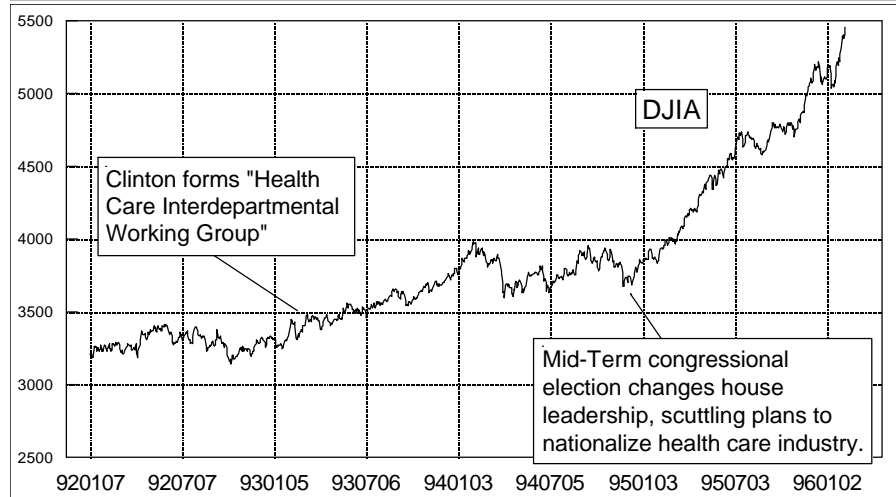
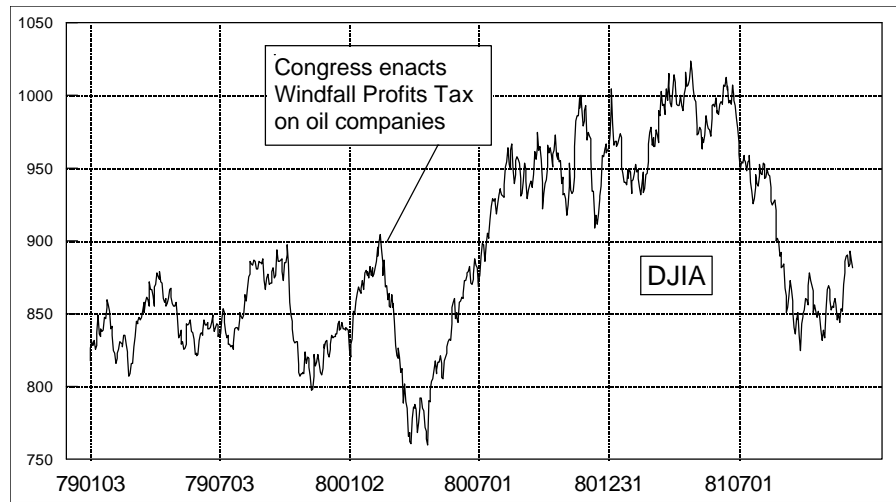
the doors of steel company executives and tell them to cancel a price increase. Wall Street took a dim view of this overt pressure, and the DJIA immediately went into a sharp 4-month slide. The severity of the drop was no doubt exacerbated by the fact that it came during the second year of Kennedy's term, which is the year when most bear markets appear.

Windfall Profits Tax. In 1980, crude oil prices shot up dramatically and politicians grumbled about how much money the oil companies were making on this run up. Memories of the high oil prices of 1973-74 were fresh in their minds. Congress responded by enacting the "Windfall Profits Tax", causing a 16% decline in just 6 weeks. But evidently, 6 weeks is the attention span of investors, and the market was able to pull itself up by its bootstraps and surge higher. There is a lesson here.

Clinton's Health Care Initiative. Shortly after his inauguration, President Clinton set about studying the healthcare situation and working toward a nationalized system of healthcare provision. First Lady Hillary Clinton headed up a "Health Care Interdepartmental Working Group", the membership of which resulted in lawsuits. This caused quite a stir in some political circles, and Wall Street was especially worried about the possibility of the government taking over an entire industry which some estimates held constituted 1/6th of the entire economy. The DJIA remained flat in one of the tightest trading ranges in history, until the mid-term elections in November 1994 resulted in a change in the majority party in congress and an end to the prospects of nationalized health care. The market reacted positively to the withdrawal of this potential burden.

Microsoft Antitrust Case: Shortly after the Nasdaq Comp's peak in March 2000, the judge in the Microsoft antitrust case ruled that Microsoft had indeed violated the Sherman Antitrust Act. That decision played a big part in the pricking of the Internet bubble, as investors perceived the government as attacking the leading software maker. While many applauded the action, Wall Street did not appreciate the politicians in Washington crashing their party, and a lot of ruin to share prices, portfolios, and actual companies has unfolded since then.

Lessons Learned: The recurring theme throughout all of these examples is that regardless of whether the government is justified in its actions, Wall Street would prefer to be left alone to do what it wants. That is not a statement



meant to take sides in any issue, but rather to point out the obvious. For as long as Wall Street perceives that Washington is looking over its shoulder, the major averages are not going to do as well as they would have if Washington's attention was directed elsewhere. A lot of the pain that investors are feeling is necessary as part of the healing process, but that still does not make it any fun.

Perhaps the best lesson we can learn is that "This too shall pass." Eventually, the scandals will get old, and something else will appear to amuse the press. Washington will turn its attention elsewhere. Unlike politicians, crooked CEOs get fired easily, crooked companies get the death penalty, and life goes on. And the oversold condition that the attention has created will rebound.