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TIME TO RETOOL PORTFOLIOS: GOP HOUSE LOSS LIKELY

For House Republicans, it was great while it lasted. Now, it looks like the House majority that Newt Gingrich built will collapse this fall, making Nancy Pelosi (D-CA) the next Speaker. There are many signs, big and small, that official Washington is preparing for a transition. One of the best group of weathervanes are corporate lobbyists. While some lobbyists are Democrats and others are Republicans, all have a need for access to those they anticipate will hold power in 2007. Gaining access is not the same as winning. However, it is a necessary condition, and for this reason corporate PAC campaign donations to Democrats rise when contributors believe the world's oldest political party has a growing chance of taking power. This is happening now. The top lobbying shops in Washington also appear to be competing harder to recruit well connected former Democratic House Members and staff. Trade associations are more often choosing to fill top jobs – those people who make industry cases to Congress – with Democrats.

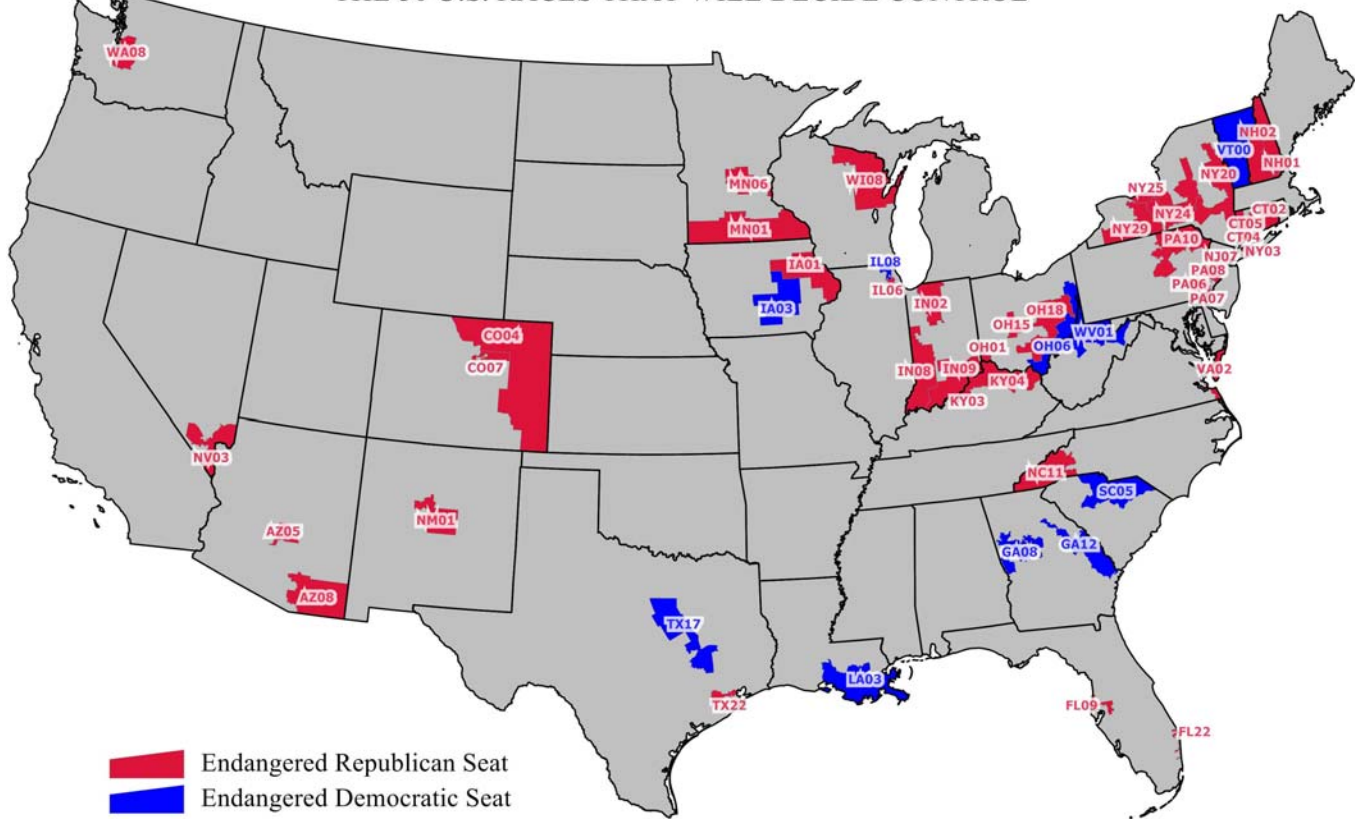
Then, there are the pundits who cultivate political operatives working on congressional campaigns and use the operatives' insights to fill their op-ed columns or to structure their TV appearances. It is almost impossible to find a commentator who does not think the GOP is headed for a rocky election. These also are useful signs to track.

What Do the Numbers Say?

Perhaps more significantly, their own pollsters are giving the GOP bad news. Unpublished polls from the House Republican Campaign Committee, which has the charge of maintaining the GOP House majority, show their candidates falling behind in districts where Democrats have not won for twenty years.

More evidence that the odds favor a Democratic House takeover on November 7 comes from a unique poll conducted by Public Opinion Strategies, prepared jointly by Republican pollster Glen Bolger and Democrat pollster Stan Greenberg in late July and released last week. Rather than polling the entire country, they polled "likely voters" only in the fifty most competitive congressional districts. Republicans are defending forty of these "at risk" seats and Democrats are trying to hold onto ten. This poll found that likely voters in these fifty swing districts prefer Democratic candidates by 49 percent to 43 percent, with 8 percent undecided. If the undecided 8 percent divide evenly, then the poll would find a Democrat advantage of 53 percent to 47 percent. By comparison, in 2004 these districts as a whole went Republican, 56 to 44. This is a swing of 9 percent of the electorate; a swing this large will result in Democrats winning about 35 of the 50 competitive House races, creating approximately a 228 to 207 Democratic House majority. A map showing the competitive House races follows:

THE 50 U.S. RACES THAT WILL DECIDE CONTROL



Anticipating The Possible November Market Reaction: Moves to Consider Now

Historically, the Democratic party has been hostile to certain industries, and their return to power should be reflected in the markets as investors assign a higher probability of adverse legislation passing as part of the bargaining process with a weakened Bush Administration. For this reason, it may make sense to lighten up now on securities in these industries:

- tobacco
- managed care
- research pharmaceuticals
- integrated oil
- airlines
- defense
- telephone
- cable
- meat packers.

If the Democrats take back the House, by November 8 CAN anticipates that investors will bid *up* securities of life insurers, and Fannie Mae and Freddie Mac. The new Chairman of the Ways and Means Committee would be Charlie Rangel (D-NY), a Harlem liberal whose opposition to lower taxation of large estates will boost the demand for life insurance products designed to minimize estate taxation. Similarly, the new Chairman of the Financial Services Committee will be Barney Frank (D-MA), a reliable Fannie/Freddie ally.

The House Committee Chairmen, Now and Later

Assuming that the House Democrats win and rely heavily on seniority to select Committee Chairmen, this is how Committee leadership is expected to change.

Major House Committees	Old GOP Chairman	New Democrat Chairman
Ways and Means	Bill Thomas (CA)	Charlie Rangel (NY)
Energy and Commerce	Joe Barton (TX)	John Dingell (MI)
Judiciary	James Sensenbrenner (WI)	John Conyers (MI)
Financial Services	Michael Oxley (OH)	Barney Frank (MA)
Appropriations	Jerry Lewis (CA)	David Obey (WI)
Armed Services	Duncan Hunter (CA)	Ike Skelton (MO)
Homeland Security	Peter King (NY)	Bennie Thompson (MS)
Resources	Richard Pombo (CA)	Nick Rahall (WV)
Education and Workforce	Bud McKeon (CA)	George Miller (CA)
Agriculture	Bob Goodlatte (VA)	Collin Peterson (MN)

One thing that will be on the minds of the new Chairman will be holding oversight hearings. During the first six years of the Bush Administration, House GOP Chairmen held the gavels and they rarely picked topics or witnesses that discomfited the White House. If partisan control of the House reverses, this will change. The new Democratic Chairmen will use subpoena power, if necessary, to compel reluctant Administration witnesses to appear before them to explain things like why the war in Iraq is a failure, why the clean up Katrina is faring so badly, why gasoline prices are so high, and what can be done to stop pharmaceutical companies from price gouging.

A Reprieve for the GOP?

An unexpected piece of good news for the Republican campaign committees arrived on Tuesday. Last weekend, when Gallup polled 1001 adults, Bush’s approval rating rose to 42 percent approve and 54 disapprove, up significantly from 31 percent approve and 65 percent

disapprove in May. When only registered voters were asked about who they planned to vote for Congress, this national sample favored Democrats 47 percent to 45 percent, compared to 54 percent to 38 percent in late June.

This poll may prove an outlier, or reflect the passing impact of the foiled terrorist plot in London. One poll does not make a trend. However, it is interesting to note that it was taken over a weekend, a time when pollsters say Democrats are oversampled. Bush and the GOP might have fared even better if the poll had been taken during the workweek.

Seek Shelter From the Storm

There is a chance that the lobbyists, trade association executives, pundits, and pollsters are reading the public wrong – or that unexpected events cause public opinion in the fifty top House races to shift before November 7. As Mark Twain reportedly noted, “The art of prophecy is very difficult – especially with respect to the future.” Nevertheless, it is wise to heed the animal instincts of the Beltway insiders who are fleeing a potential political storm. More often than not you will be glad you steer clear of potential trouble before your competitors do.

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