
CAPITOL ANALYSTS NETWORK, INC.

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OBAMA STIMULUS: MAKING A LIST, CHECKING IT TWICE

If all goes according to plan, just six weeks from now President Obama will sign into law one of his Administration's most important bills -- perhaps even on his first day in office. This law will be designed to prevent a 21st century Depression by spurring flagging aggregate demand with \$250 billion to \$300 billion in federal checks over two years to:

- ✓ State and Federal contractors who build and repair infrastructure
- ✓ Cash-starved states struggling to pay their Medicaid bills
- ✓ Virtual innovators with plans for faster lanes on the information superhighway
- ✓ Government administrators wanting to improve the energy efficiency of public buildings
- ✓ IT gurus with code and hardware to lead the medical community into its information age
- ✓ Unemployed workers and others who have tumbled into the economic safety net

At the same time, the newly-inaugurated President Obama may also sign into law a tax cut package of approximately equal size to the spending package – in part to honor his pledge that “95 percent of all taxpayers will get a tax cut,” but also to kick start his green energy program. Details on the tax plan are especially vague right now because his team, along with key Democrats in Congress, have yet to decide upon all the major components.

Perhaps the most unusual aspect of our proposed strategy today is not trying to predict whether a package will pass, which is most often the problem in managing federal political risk. The package that Obama and his Hill allies agree on soon will become law because it is highly likely to clear Congress. Right now, the primary task facing investors is trying to decide how big the package will be and speculating accurately on the size of its components. Santa is handing out gift-wrapped presents, but the value of the gifts may not be known until Christmas Day, or later, when they are opened. Cautious investors may prefer to wait until Obama announces his plan in detail. This likely will leave money on the table.

The stimulus package may, or may not, pull the U.S. out of its nasty recession quickly. It will, however, affect the price of specific sector security values. Therefore, it may pay to overweight these sectors, and certain companies within them, because they are on Santa's list under “nice.”

Roads and Bridges to Somewhere, Everywhere

One enduring theme of the Bush Presidency was that Congress wanted to spend more on highways and bridges than did George W. Bush. This was true even when Republicans controlled the Congress from 2002 until 2006, and it is true now. Only veto threats stopped the Republican Congress from sending Bush outsized highway bills that would make road contractor lobbyists blush.

Despite the media attention given to the federal highway program, some may be surprised to hear that state and local government provides 79 percent of the funds spent on roads in the U.S. With state finance in disarray as real estate related tax collections plummet, Obama and his allies in Congress plan to step in and help governors and mayors keep their roads in good repair. Recently, the nation's governors met and announced that they have \$136 billion in transportation and public works projects "ready to go." This is just a tad higher than the amount that state and local government spent on roads in 2006:

Revenues Used for Highways (\$Millions)

	FEDERAL FUNDING	STATE FUNDING	LOCAL GOVERNMENT		TOTAL FUNDING
	20.7%	50.6%	28.8%		
Highway User Fees/Taxes:					
Fuel/Vehicle Tax	\$32,304	\$50,997	\$2,239	51.7%	\$85,540
Tolls		\$6,713	\$1,395	4.9%	\$8,108
Other Taxes/fees:					
Property Taxes/Assessments			\$8,599	5.2%	\$8,599
General Fund Appropriations	\$1,556	\$4,860	\$19,563	15.7%	\$25,979
Other Taxes and Fees	\$282	\$4,975	\$4,621	6.0%	\$9,878
Other Sources	\$29	\$16,140	\$11,170	16.5%	\$27,339
Total Highway Funding	\$34,171	\$83,685	\$47,587		\$165,443

Source: <http://www.dot.gov/polhwaicy/ohim/hs06/finance.htm>

To insure that funds given to state and local officials to carry out increased and accelerated road spending are used promptly, Obama announced on Saturday that local officials will confront a "use it or lose it" incentive. This is good news for engineering companies, construction companies, road builders, and owners of road building materials. Demand for their services will be higher than otherwise in 2009 and 2010. Here are the names of companies cited by the business press as being favorably impacted by the Obama plan if it were to become law: Caterpillar (CAT), Cemex (CX), Chicago Bridge and Iron (CBI), Granite Construction (GVA), Jacobs Engineering (JEC), Terex (TEX), Foster Wheeler (FWLT), Fluor (FLR), Quanta Services (PWR), KBR (KBR), and Manitowoc (MTW). We also would put quarry owners like Vulcan (VMC), and Martin Marietta (MLM) on this list. They should have pricing power in a "use it or lose it" environment.

Health Information Technology: Just What the Economic Doctors Ordered?

The power of electronic networks rises exponentially with the number of individuals linked up. If only one customer has a telephone modem and wants to use it to send email to a supplier, it would be useless. When some suppliers and some customers first had email capability, early adopters found them useful and eventually everyone got it. This "chicken and egg" problem has bedeviled health care reformers who want to move the nation away from a system where doctors keep illegible records by hand and store them in filing cabinets toward a system where specialists, hospitalists, pharmacies, health insurers, and patients all can swap accurate data at the push of a button.

The potential savings from creating a robust health IT network could be dramatic. According to Peter Orszag, the incoming OMB Director and the current Director of the Congressional Budget Office, 30 percent of health spending is on “wasteful or low-value services.” Eliminating such spending would save \$600 billion annually, an amount greater than 4 percent of GDP! Many others, including former GOP House Speaker Newt Gingrich, believe there are vast savings to be had by using computer technology to reduce overhead, to prevent expensive avoidable medical errors, and to eliminate duplicative procedures.

In testimony before the Congress earlier this year, Orszag has extolled the potential of health IT to provide the framework for “evidence-based medicine” which uncovers wasteful tests and procedures, and identifies diagnostic testing and radiological services and medical procedures that could be cut. Testing and medical supply firms Quest Diagnostics (**DGX**), Laboratory Corporation of America (**LH**), Beckman Coulter (**BEC**) and Thermo Fisher Scientific (**TMO**) may see a drop in demand for their products and services.

To achieve some of the savings sought by Orszag, Obama may solve the “chicken and egg problem” by supplying both, with the help of federal carrots and sticks. The carrots likely will be grants to medical providers, including hospitals, to purchase and deploy standardized technology that will allow providers to electronically “talk to each other.” The sticks will be increasingly large penalties if they do not take the hint. Obama may be buying a lot of chickens and eggs. Eighty-five percent of all U.S. health care records are still on paper as only 25 percent of physicians now use some form of electronic records. **These “eggs” will hatch savings that will help pay for Obama’s plan to extend health insurance to the uninsured.**

Senator Obama has proposed spending \$10 billion in federal funds annually, for five years, on health IT. President Obama likely will get his way, with much of this included in the stimulus package. Accordingly, it may be especially timely to purchase leading health IT companies, including Google (**GOOG**), Microsoft (**MSFT**), McKesson (**MCK**), Cerner (**CERN**), HLTH Corp (**HLTH**), Eclipsys (**ECLP**), Allscripts (**MDRX**), Zix (**ZIXI**), and Quality Systems (**QSII**).

Upgrading the Information Highway to a Superhighway

President-elect Obama has reiterated his support for expanding access to broadband internet services to the approximately 45 percent of the population that does not use it now at home. Currently, 29 percent of Americans lack any internet access at home and another 15 percent rely on dial-up service. Over time under an Obama Administration, access to the internet will become a subsidized right for those who can not afford to pay, just like the “universal service” requirement for land-line telephone service. The first step may be to include spending to build out broadband access as part of the economic stimulus package.

Think tanks and lobbyists are already getting busy. On December 2, a 50+-member coalition comprised of major corporations, public interest groups, industry associations and the Communications Workers of America, issued a “Call to Action” for passage of a national broadband policy in 2009. The group believes its goal of universal access to affordable high-speed broadband will provide new American jobs and increased worker productivity that will

translate into economic growth. Their conviction is buttressed by a Brookings Institute analysis projecting that a one-percentage point increase in broadband penetration will add 300,000 jobs. (<http://www3.brookings.edu/views/papers/crandall/200706litan.pdf>).

In a separate call for a national broadband policy, the Aspen Institute estimates that the 20 percent of the U.S. population lacking access to broadband services could be “hot-wired” for \$20 billion (http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/A_Framework_for_a_National_Broadband_Policy.pdf). Aspen’s estimate is based on providing the latest wireless technology to rural areas. There might even be a faster and cheaper way. Although not mentioned in the latest policy white papers circulating inside the Washington beltway, a recent venture announced by IBM may cost-effectively speed elusive broadband to rural communities. Working with local electric cooperatives, IBM is providing the hardware to bring broadband to power line transformers, then deliver the signals to households through “broadband over power line” technology.

With federal government support, this 21st-century “virtual” infrastructure could be encouraged through public-private partnerships, tax incentives, grants, low cost loans, loan guarantees, and universal service subsidies, as part of the stimulus package. Like parkways merging onto an interstate highway, the current internet-access conduits of phone lines and satellites will be patched into newer, more dependable coaxial, fiber-optic and wireless speedways providing the latest and fastest internet service that delivers data at lightening speeds. This virtual infrastructure spending may well be the incentive for companies like Alcatel-Lucent (ALU), AT&T (T), Cisco (CSCO), Intel (INTC), Verizon (VZ), and XO Holdings (XOHO) to participate in the “Call to Action” coalition.

Key Players to Watch as the Stimulus Plan Moves Through Congress

Obama can count on the House, and its 257-178 Democratic majority, to do his bidding, especially during his “honeymoon” while an economic crisis rages. As for the Senate, currently there are 57 Democrats and 41 Republicans in the upper body, with the Minnesota Senate race yet to be decided and a replacement found for Senator Obama in Illinois. If the GOP prevails in the Minnesota recount and a Democrat has not replaced Obama by appointment by early January 2009, then Obama could need the help of three or more Republicans to defeat a filibuster of his stimulus plan. With the customary amount of haggling in such situations, investors should assume that those three Republican votes will be found. Investors should pay special attention to Senators Arlen Specter (R-PA), Olympia Snowe (R-ME), Susan Collins (R-ME), George Voinovich (R-OH) – and John McCain (R-AZ).

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