

## **The S&P500 and ObamaCare**

Now that ObamaCare is the law of the land, will it be the best thing since sliced bread or the end of civilization as we know it? The public seems about equally divided, with fortysome percent polling on either side of the divide.

But on which side is the smart money? To explore that, let's consider the varying fortunes of Obama's proposal. A bill passed the House in early November of 2009, but with a solid Democratic House majority, some version of the legislation passing the House was never seriously in doubt. The smart money always knew that the real game would be played in the Senate.

While the Minnesota Senate outcome was in doubt, and the Republicans could filibuster unimpeded, the likelihood of anything passing was a long shot. But on July 7, 2009, Al Franken was sworn in, the Democrats had a filibuster-proof Senate majority, and a whole new ballgame had begun. The vocal tea party protests during the August recess pared away almost all the bipartisan negotiations, but had no real impact on the legislation's momentum. Ted Kennedy's death on August 26<sup>th</sup> resulted in a momentary pause, but Massachusetts Gov. Patrick's proposal to name an interim replacement dispatched that hurdle. Gradually the votes fell into line, until on Dec. 19<sup>th</sup>, the infamous Nebraska Medicaid deal secured Sen. Nelson's vote. Passage, it seemed, was a done deal.

And then, on Jan. 19<sup>th</sup>, Massachusetts elected Scott Brown. The Democrats' filibuster-proof majority was history, the bill's future sincerely in doubt, and the Democrats were in disarray. But Obama rallied his troops, identified a prospective strategy, and most critically, during a pre-Super Bowl TV interview on February 7<sup>th</sup>, challenged the Republicans to a health care summit. The resulting theater changed no minds, but it steeled the Democrats' resolve. The two bill strategy was executed to perfection, and on March 23<sup>rd</sup> the first bill was signed into law.

So what does this have to do with the smart money? Look at the S&P 500 over the same time frame. On July 7, when Franken was sworn in, the S&P500 stood at 881. Over the next several months, as health care legislation progressed forward, the market climbed steadily, topping 110 in mid November. It had dipped 30 points immediately after Kennedy's death, but resumed its rise a few days later. By mid January it was nearing 1150. And then the Massachusetts election results hit.

Over the next 3 weeks, from Jan. 19 to Feb. 8, the index dropped almost 100 points, losing value in 9 of 14 trading days. Then it rallied, gaining on 20 of the next 34 trading days, to close at 1166 on March 22, the Monday after the companion bills cleared the House.

Now, no good statistician would suggest that correlation proves causation. There were many good reasons, the gradually strengthening economy recovery being the most obvious, for the market to rise over the last 9 months. But its only significant drop during that stretch exactly coincided with the 3 weeks between Sen. Brown's election and Obama's summit challenge, when the legislation's future was most seriously in doubt. And its complete recovery over the following 6 weeks exactly matched the health care bill's recovery from dead in the water to signed into law.

At worst, one could conclude that Wall Street sees no Armageddon in the new health care law. And the facts fully support the view that the smart money believes the Democrats, that this is a step towards lower long run deficits, and a move towards controlling the continued explosion in health care costs.

