

>: Why Picking the President Is A Lot Like Picking a Stock...

Thursday, August 28, 2008 / Dylan Jovine

CHOOSING A PRESIDENTIAL CANDIDATE IS A LOT LIKE BUYING A STOCK.

Some candidates, like some stocks, have sexy stories but little else. I remember back during the early '90s when the biotech wave hit Wall Street. Before you knew it, companies with two guys in a lab testing mice had billion dollar market caps as investors pinned all of their hopes on them. As with the internet bubble, 99% of those companies flamed out.

By contrast, some candidates are like stocks that have very little style but a lot of substance. To me, those candidates are like the tried and true blue chip companies like Coca-Cola (KO) or American Express (AXP). There isn't much sizzle to that steak, but you know you can bank on it, which is why you buy those types of stocks for your retirement account.

Many folks I talk to believe the upcoming Presidential election is the most important election in a generation. On both sides of the aisle there seems to be a cry for change.

But how do you get past these absurd commercials and press opinions to make a honest and objective and qualified opinion on which candidate to vote for?

It is not my place, nor is it the place of The Tycoon Report, to tell you how to judge a candidate's social policies. That's for you to decide in the comfort of your living room with your family and your God.

What I can share with you today is how I judge a candidate's economic policies. Indeed, my method for picking a candidate is a lot like my method for picking a stock...

And picking the right stock is all about starting with the right "framework." Today I'd like to share some important foundations to my process so that hopefully you can develop a "candidate framework" as strong as your "investing framework."

Who doesn't want universal health care?

Universal health care. Job security. Social security. Who doesn't want that? Who in this country thinks that an American should have to worry about bankruptcy because of medical issues?

But every economic plan has a cost - whether intended or not. For example, many people who want universal health care cite several European countries as the model we should follow. But at what cost?

Would we accept an unemployment rate of 12% and slow GDP growth to ensure that every American has universal health care?

Maybe. Maybe not...

My point isn't to take a position. That's for you to decide based on your own circumstances. But I do want to illustrate that there are real costs to any plan that any candidate proposes. Every action has an often unequal reaction and it is important to understand the nature of this relationship to determine what that reaction may look like.

Let's start today by looking at the relationship between U.S. Gross Domestic Product (GDP) and the U.S. Budget. Although it's important to look at data going back as far as possible, today I want to discuss 2007 so that we get a basic idea of the way this process works.

2007 GDP was \$13.671 trillion. That means that our country as a whole (you included) produced goods and services worth \$13.671 trillion dollars.

Likewise, in 2007 the U.S. revenues were \$2.568 trillion dollars, or 18.8% of GDP. That means Uncle Sam taxed America at a rate of 18.8% of GDP, which is actually a bit higher than the 18.2% average since 1970.

But incredibly enough, the amount of taxes Uncle Sam took from us wasn't enough to finance its expenses. To accomplish that, the U.S. had to borrow roughly \$162 billion in additional funds.

The reason it's critical to look at the Federal Budget as a percentage of GDP is because both individuals and businesses allocate capital more ~~efficiently than the U.S. Government~~. *The U.S. Budget was a total of 20% of GDP in 2007, slightly lower than the average of 20.6% since 1970.*

The relationship between GDP and the U.S. Budget er a percentage of GDP that Uncle Sam spends, the weaker our economy becomes. The smaller a percentage of GDP that Uncle Sam spends, the stronger our economy becomes.