First Trust
Monday Morning OUTLOOK
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Obamacare and Stocks

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For much of the past four years, we have felt like psychologists who constantly must help hypochondriacs over their fear of one thing after another. There is no reason to remind everyone of "the list" – it's been endless, but the stock market and the economy have moved consistently higher despite these fears.

So now that most everyone sees a relatively stable recovery, there are two things that seem to strike fear into investors' hearts – the tapering of the Fed's bond buying program and Obamacare. We dealt with tapering a couple of weeks ago (see *Back to Normal* on June 24), so now let's tackle Obamacare. The fear is that the new law is going to make it more expensive to hire, boost overall business costs, reduce profits, and grow government.

The law has already raised taxes and, if left untouched, will do so again as some companies dump relatively low-wage workers onto the government-run exchanges where they can get generous taxpayer-financed subsidies for health insurance. The original bill underestimated this cost.

Meanwhile, if the law is fully implemented under the current Administration, the government would make companies provide a very generous set of benefits in order to avoid fines, including more coverage of relatively minor everyday expenses that should not be covered by insurance at all.

We believe this is the opposite direction in which healthcare reform should be headed. We would rather see less government interference in the healthcare marketplace, more direct consumer interaction and fewer third party payers. True insurance should be for catastrophic situations.

Putting our disagreement aside, there is a huge difference between thinking Obamacare is a bad law and believing it will wreck the economy and tank the stock market.

In fact, the law faces major obstacles and problems that threaten its very existence. Already, the Obama team concedes difficulty in implementing the law, deciding to postpone for a full year, until 2015, the fines it was going to impose on companies with 50+ full-time workers if they don't offer enough insurance. Pretty amazing, eh? The law was clear about the starting date, but, oh well.

The Administration says it was responding to business requests for more time, but it really looks and smells like they believe the plan is a bad idea. Even left-wing blogger Ezra Klein, says the delay should be permanent.

Meanwhile, many small and medium-sized companies can maneuver to avoid the burdens of the law, by hiring more part-timers instead of full-timers to avoid hitting the 50 worker level.

In addition, many states are rejecting the Medicaid expansion offered in the law, even though the federal government would pay for almost all of it. These rejections will reduce the cost to federal taxpayers and leave the states that have rejected the expansion more nimble when some future Congress uses expedited budget procedures to curtail or even repeal the Medicaid expansion.

In the end, we think investors have already priced in the negative effects of Obamacare. Now, over the next few years, investors will have a chance to price in the positive effects of Obamacare being much tougher to implement, and more likely to be watered-down or eventually repealed.

Free markets work, in part, because they aggregate the wisdom of crowds in ways socialist planners never can. We still have faith that our democratic process will use the wisdom of the next few years to substantially change the law enacted three years ago.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-8 / 2:00 pm	Consumer Credit– May	$12.5 Bil	**$13.6 Bil**		$11.1 Bil
7-11 / 7:30 am	Initial Claims – July 6	339K	**343K**		348K
7:30 am	Import Prices – Jun	0.0%	**+0.2%**		-0.6%
7:30 am	Export Prices – Jun	-0.1%	**-0.1%**		-0.5%
7-12 / 7:30 am	PPI – Jun	+0.5%	**+0.4%**		+0.5%
7:30 am	"Core" PPI – Jun	+0.1%	**+0.1%**		+0.1%
8:55 am	U. Mich Consumer Sentiment- Jul	85.0	**84.5**		84.1