

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

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Stocks opened lower and finished higher led by technology and financial stocks. It was the sort of leadership and tape action one would like to see every day. Since mid-February stocks have moved steadily higher erasing January's losses. Some major averages are at recovery highs and others are close. But stocks are getting a bit extended and bargains are starting to disappear once again. The last two earnings seasons haven't been inviting times for equity investors although the months leading into earnings have been divine. My best guess, and it is only a guess, is that stocks may continue to move higher into earnings season. Traders will then watch the way investors react to earnings. If they sell on good news as they did in January, investors will back away. I won't guess; I'll watch and react.

It has been a very quiet week for both news and earnings. That is likely to continue for another week or so. Toward the end of March, companies will begin to give indications of March business activity and expected first quarter results. That will shape the way the market performs going into earnings season. But don't expect that this week or even next.

Amid the quiet, it might be appropriate to return to health care. I know there probably isn't a whole lot new to say. The right/conservatives hate everything about it. The left/liberals look upon it as a great new beginning. Needless to say, neither conclusion is probably accurate. But I want to revisit health care in a different light today, perhaps a more sober light than I am used to expressing and you might be used to reading. I do so now because we are at the cusp of a vote in the House on the bill. I presume Nancy Pelosi won't bring it up for a vote unless she is pretty sure she has the votes for passage. It means the bill the Senate passed with enough adjustments to get it to the next level needs reconciliation. The bill that makes it to the House floor, presuming that happens, isn't the bill that will become law. Speaker Pelosi has a tough task convincing skeptics within her own party to vote for something they don't all like to get to the reconciliation process. Indeed, it is quite possible that some Representatives will give her the benefit of the doubt and vote for the bill now but may not vote for what comes out of reconciliation. I think we can all conclude that there will be absolutely no Republican support. Whatever passes, if anything ultimately passes, will do so with the minimum Democratic vote necessary.

At the moment we don't know all the details, but the Senate bill is going to be the core. With that understanding, here is what we do know:

- The bill is going to cost American taxpayers something on the order of \$1 trillion over the next 10 years.
- 10 years of higher taxes are going to have to pay for 10 years of increased health care.
- Despite right wing concerns that the bill is a runaway expense machine, there are provisions in the legislation aimed to set up pilot programs to control costs and a commission to oversee reimbursement rates. It isn't the same as mandates to reduce costs, but it is premature to say they will be totally ineffective.
- Certainly more people will be covered by health insurance, at taxpayer expense, than are covered today.

- While there will be constraints on margins for health care providers, from hospitals to drug companies, nothing in the bill suggests anything more negative than is already priced into health care stocks today.

I want to make it clear that I have no idea what will pass, if anything. But it does appear that whatever happens will happen within the next 60 days or so. We are getting close to an endpoint. The House will vote up or down on the Senate bill setting the stage for reconciliation or it won't. If it passes, then the reconciled bill should come up for vote before the end of April. Once that happens, the good news is that everyone will know the new rules of engagement. They could range from today's status quo if nothing passes to a whole new ballgame if we get a \$1+ trillion health care package with attendant health care increases. But whatever happens, everyone, both individuals and businesses, will know the rules of the game and they can move forward. Obviously, if personnel costs are destined to rise courtesy of a new health care reform package, companies will respond by hiring fewer new people. If nothing happens and costs remain what they are today, they will respond differently. But either way they will respond. Right now, everyone is in a holding pattern. So my contention is that, in the short term, whether health care passes or fails, it will finally set in motion new corporate game plans.

Over the intermediate term little changes. Even if health care passes, little of economic significance kicks in for 4 years. Taxes begin to increase next year and that will be an economic drag. But, by itself, it won't create a recession; it will simply retard the rate of growth by a modest annual amount. As an investor, ignoring the direct impact on specific health care companies, whether health care reform passes or not will be a modest event, one that shouldn't have great impact on overall equity markets. Longer term, it is even harder to judge. The good news is that finally health care reform will be behind us. It will unclog the legislative calendar and investors can finally focus on a new world to which they have definition. My guess is either way, it will be good for markets. Investors hate uncertainty and, up or down, uncertainty will be eliminated.

Today James Taylor is 62. Barbara Feldon is 78.

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Additional information is available upon request.

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