

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

March 22, 2010

Stocks fell on Friday breaking an 8-day winning streak. But the losses were contained and stocks actually rallied slightly late in the day.

Of course, the big news over the weekend were the votes in the House of Representatives to pass the Health Insurance Reform bill previously passed by the Senate and to pass a set of modifications that now moves back to the Senate. The original Senate bill goes directly to the President for signature. While the Republicans will create some obstructions and may force modest changes to the bill of modifications, for all practical purposes, health insurance reform is a done deal.

Economically, there will not be a whole lot of direct impact over the next few years from legislation passed over the weekend. Most of the impact of tax changes on individuals will stem not from new taxes contained in the legislation but from the pending expiration of the Bush tax cuts. The Medicare surcharge, if it survives in the Senate which now appears likely, won't kick in until 2013 and will cost about \$200 billion over the ensuing six years. Taxes on medical industry participants will kick in over the next several years but the increased taxes have been well advertised over the past several months and appear to be a bit less than previously feared. The most immediate impact will be some features pertaining to access to health insurance for those who have been chronically ill and limits on the ability of insurance companies to raise rates on higher cost insured individuals.

Time will tell how this plan works. Both sides of the debate are adamant that either this is a huge cure all or a path to economic disaster. It clearly is historic but it will be years before we can tell whether it is going to be good historic or bad historic. Clearly, additional access to insurance is something many have sought for years but the obvious unanswered keys are (a) at what cost and (b) whether we are headed in the direction of a single payer system. There is a huge increase in Medicaid imbedded in the package and it isn't clear whether the increased costs are adequately funded. If they are not, which seems probable, the key is how the gap will be closed. To date, the Medicaid gaps have been closed by states and the Federal government simply paying below market rates for goods and services. However, at some point, industry participants will push back and refuse to provide Medicaid coverage. Medicare faces similar predicaments. Indeed, we are already at the point where some refuse to provide Medicaid or Medicare services. To date those refusing to provide care are relatively few in number. Time will tell how and when that might change. Clearly, there is a limit, yet undefined, how much cost can be shifted from government programs like Medicare and Medicaid to the private sector. That shifting is responsible in large part for the large increase in private insurance premiums we are seeing today. The bills passed last night are more likely to accelerate that shift than slow them down. The key will be the size of revenue sources, mostly taxes on industry and high income individuals plus added insurance premiums paid by the young and healthy now required to have insurance coverage. Everyone has an opinion but it will be at least another half decade before we have most of the answers.

The psychological environment today is a lot more hostile today than when Medicare passed more than 40 years ago. The legislation creates an infrastructure that could have teeth but it also lacks firm requirements that guarantee any effective cost cutting. Yet virtually everyone agrees that unless costs can be contained the reform package is headed down a very potholed path. Insuring more people, insuring that the most ill are covered, and raising taxes to pay for

the added costs is a recipe for disaster. But as noted right at the start, it will be years before we know whether this plan is the right start or requires significant modification.

The next question is what happens to the Obama administration's agenda from here. Is he going to use the success getting health care reform passed as a slingshot to accelerate the movement of the rest of his agenda or will Democrats be shell shocked to put controversial and high cost reform programs on the table in front of the mid-term elections. My own immediate view is that although the President will spend the next few years trying to convince the American public and Congress that he is now an effective reform leader, it is going to be a rough path building that courage among Democrats up for reelection this fall. Therefore, I think only those agenda items deemed necessary or highly popular are likely to get done. Some programs like cap and trade appear dead on arrival. Others like immigration reform are probably too controversial to get done this year. Some tax legislation is possible. The dividend tax, due to increase now to as high as 43% after the Bush tax cuts expire may be reined in. I keep noting that the estate tax needs to be fixed but that might wait until after elections if no consensus can be reached. Financial reform is another controversial item that contains some features with broad consensus and other parts that are controversial. So far, Democratic leadership won't separate the two parts but I suspect that some watered down bill will ultimately pass this year.

There isn't a whole lot of news away from Washington today. Over the weekend, India raised interest rates. Asian markets were weak, worried about regional growth rates and inflation. Futures this morning point to a lower opening. Some retracement of recent gains appears logical but a full-scale correction, at least at this point in time, appears unlikely. Certainly, nothing in the health care legislation is going to move the economic needle over the next year or two.

Today Reese Witherspoon is 34. Andrew Lloyd Webber is 62.

James M. Meyer, CFA 610-260-2220

Additional information is available upon request.

* - Boenning and Scattergood may act as principal in buying this stock from or selling it to the public.

- The author of this report or accounts under his management at Tower Bridge Advisors owns this security.

Additional information on companies in this report is available on request. This report is not a complete analysis of every material fact representing company, industry or security mentioned herein. This firm or its officers, stockholders, employees and clients, in the normal course of business, may have or acquire a position including options, if any, in the securities mentioned. This communication shall not be deemed to constitute an offer, or solicitation on our part with respect to the sale or purchase of any securities. The information above has been obtained from sources believed reliable, but is not necessarily complete and is not guaranteed. This report is prepared for general information only.

It does not have regard to the specific investment objectives, financial situation or the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed in this report and should understand that statements regarding future prospects may not be realized. Opinions are subject to change without notice.