



## Thought for the Week: Monday, May 21<sup>st</sup>, 2012

### One Way to Play Presidential Election Year

Presidential election years and cycles are full of statistics to tempt investors who believe in such backwards-looking numerical indicators. There is certainly plenty of evidence to suggest that the last two years of a presidential term are more beneficial to equities than the first two.

Since 1940, the Standard & Poor's 500 Index returned on average a cumulative 9.3% during the first two years of a president's term. In the second two years, the index boasted on average a far healthier cumulative return of 25%.

However, recent years have not rewarded this approach. For example, the last election was in 2008; the final year of President Bush's second term, which saw a decline in the S&P of 37%.

Here's another way we might seek to benefit from an election year:

#### Political Advertising and the new Super PACs

Our view is that during the potentially heated upcoming election, new legislation which creates an additional method to fund political advertising will lead to increased spending on political advertising. Investing in companies with exposure to these revenues may therefore be beneficial to investors.

In 2010, the United States Supreme Court held in *Citizens United vs. Federal Election Commission* that laws prohibiting corporate and union political expenditures were unconstitutional. *Citizens United* made it legal for corporations and unions to spend from their general treasuries to finance independent advertising in support of, or against, political candidates.

Political Action Committees (PACs) are the organizations in the United States that were historically funded to campaign for or against political candidates under the previously restrictive rules. The new organizations that, under *Citizens United*, do not have to work under the previously limiting funding rules have been dubbed "Super PACs."

The Super PACS will be able to raise an unlimited amount of money to spend on television ads or other communications that call directly for the election or rejection of particular candidates.

2012 will be the first presidential election year with these 'Super PACs' and their new source of political advertising expenditure. This should lead to additional income for the broadcasters from increased political advertising spending.

#### Network Broadcasting Theme

Bearing in mind our investment discipline requires us to seek the highest quality, most stable companies and balance sheets; we feel the following investment theme may prove profitable during 2012:

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We are focusing on three main areas, many of which pay a dividend as an additional reward for holding the stock:

### 1. Diversified Media

For example: CBS Corp (CBS), Walt Disney (DIS), Gannett (GCI), Discovery Communications (DISCA), General Electric (GE), News Corp (NWSA), Time Warner (TWX), Viacom (VIAB).

- a. **Advantages** - Strongest balance sheets, multiple sources of revenue, lowest default risk, modest price appreciation during 2004 election, low risk.
- b. **Potential Risks** – low yields, diversified revenue streams means political advertisements will have less of an overall impact on companies performance, lower exposure to US.

### 2. Local Broadcasters

For example: Belo Corp (BLC), Cumulus Media (CMLS), Emmis Communications (EMMS), Entercom (ETM), Entravision (EVC), Gray Television (GTN), Salem Communication (SALM), Sinclair Broadcast (SBGI), Lin TV Corp (TVL)

- a. **Advantages** – High overall exposure to US advertisement revenue (including political revenue), higher yield, good revenue growth.
- b. **Potential Risks** – High leverage within balance sheets, volatile prices during election year.

### 3. Advertising

For example: Clear Channel Outdoor (CCO), Lamar Advertising Co (LAMR)

- a. **Advantages – Typically large margins**, U.S. advertising business is well consolidated, positive growth in digital advertising boards which has led to increased national advertisements.
- b. **Potential Risks** – Low exposure to U.S. political advertisements, volatile price potential during election year.

### DIAS Investments to Date:

To date we have made the following investments along this theme (generally 1% holdings) in selected portfolios:

- General Electric (GE), Disney (DIS), Sinclair Broadcast Group (SBGI), Gannett Co. (GCI) and News Corp. (NWS).