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Dear Friends and Readers,

As Winston Churchill famously said, "Democracy is the worst political system devised, except for all the others that have been tried."

Tomorrow's election looks like a pivotal one with the general belief that the Republican party will make significant inroads in both the House and Senate. Financial markets have had a nice rally over the last two months with the prospects of legislative gridlock being viewed positively. I suppose voters are feeling that inaction is better than potentially damaging acts. Historically, the market has run up ahead the election when a President has lost *one* chamber of Congress and then drifted off in the succeeding two months. When *both* chambers are lost, the rally has continued for another two or three months. Historically, one of the best indicators of election results is real disposable income. When voters feel richer, they reward the party in power - my guess is most people still feel their wallet is lighter now than it was a few years ago and that will be reflected in the results.

Investors are quite focused on prospects for Quantitative Easing - part 2 (QE2) as well. The Federal Reserve board meets the day after the election to discuss further economic stimulus. If they choose to intervene further, markets will likely continue to rally out of belief that policy makers will succeed in reinflating the economy. If they choose not to act that may also be taken positively since investors will interpret it to mean the Fed believes the economy is gathering strength. In either event, I continue to believe economic conditions will be substantially better in 2011 and 2012 and there is great value and potential from investing in equities - particularly companies with a history of paying consistent dividends and with the financial strength to raise them in coming years.

On the other hand, bond yields remain compressed and even Pimco co-founder Bill Gross concedes that the "Great Bond Bull Market" of the last 30 years is nearing an end. If you are investing fresh capital in bonds, the place to be is likely high-quality corporates, agency mortgages with yields well in excess of treasuries and emerging market debt with attractive yields.

Regards,

Terry