I realize many of you have strong opinions about health care reform, with some of you for it and some of you against it. Yet, as investors, it is important to put political beliefs aside and be cognizant of the changes that Washington is bringing. In the case of health care reform, both new opportunities and pitfalls will emerge. Understanding what these are will help you manage your portfolio and your tax exposure better.

One important aspect, from the viewpoint of an investor, is that certain industries within the health care sector will benefit and others will suffer. This potential change in business conditions will impact both those of you who directly own health care stocks and those of you who indirectly hold health care stocks through mutual funds and ETFs.

To identify the potential winners and losers, I contacted three fund families that operate health-care-oriented mutual funds: Fidelity, Janus and T. Rowe Price. Find out what their fund managers said on page 7.

Another important aspect is taxes: The new health care reform bill levies new taxes. Mitchell Freedman explains what the new taxes are and what can cause someone to be exposed to them on page 9.

One common theme expressed by the mutual fund managers and Mitchell Freedman is that many of the regulations and rules needed to implement the new law have yet to be written. Therefore, both the potential investment opportunities and the new tax rules could change. Nonetheless, it is helpful to understand what the current playing field looks like in order to start planning for the impact of reform.

Speaking of taxes, Julian Block discusses how your investment decisions can impact your Social Security benefits. Dividends, capital gains, withdrawals from IRAs in excess of the required minimum distribution, Roth IRA conversions, and even interest from municipal bonds can increase the amount of Social Security benefits that are taxed. Julian expounds on page 12.

Fortunately, there is more to life and investing than taxes and government regulations. This is why I made sure to cover a mixture of subjects throughout the rest of this month’s issue.

For example, Peter Katt told me recently that many high-net-worth individuals continue to be pitched opportunities to either sell their life insurance policies or buy the policies of complete strangers. Life settlements, as these products are called, are only a worthwhile opportunity in limited situations. Learn why on page 15.

Those of you who follow a value-oriented approach to investing will want to read this month’s screening article. Prior to his passing, Benjamin Graham worked with James Rea to create a three-criterion system for identifying potential investment candidates. Wayne Thorp discusses the system and lists several stocks that match the criteria beginning on page 18.

Speaking of stock selection methodologies, Richard Tortoriello of Standard & Poor’s backtested more than 1,200 strategies to determine what factors were predictive of future “excess returns.” As part of his research he found out that fundamentals, valuations and price momentum all matter. You can learn more about Richard’s research on page 23.

If you find Richard’s work interesting, then you definitely should check out John Bajkowski’s First Cut. John worked with Richard to create a screen based on four quantitative strategies using AAII’s Stock Investor Pro. See the stocks it identified on page 27.

The basics of portfolio allocation are the subject of this month’s Beginning Investor. Learn what an asset class is, find out why diversification is important and get some simple allocation strategies on page 28.

Finally, those of you who invest exchange-traded funds (ETFs) should take note of the AAII Model ETF Portfolio’s performance this year. The portfolio was up 8.9% as of the end of March. James Cloonan explains what is driving the portfolio higher on page 30.

Wishing you prosperity,

Charles

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