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CHANGE HAS ARRIVED IN WASHINGTON. WHAT DOES IT MEAN FOR YOUR MONEY?

We all know that Barack Obama campaigned for president on a theme of change. What wasn't clear at the time was how substantial that change would be and how it would affect our finances. The answers are coming into relief: The change will be profound, and all of our finances will be affected.

What kind of change? During the campaign, Republican candidate John McCain argued that Obama planned to raise taxes on the middle class in order to "spread the wealth," the phrase that Obama said to Joe Wurzelbacher, aka Joe the Plumber. Obama, McCain argued, had "socialist" tendencies.

The Arizona senator was perhaps half-correct, but not for the right reasons. As the federal government acquires equity in financial institutions and enacts industrial policy with the auto companies, both Republicans and Democrats have advocated for a greater government role in the private sector than at any time since the New Deal. Meanwhile, President Obama is proposing a massive public works program intended to spur economic recovery. The old ideological divisions have taken a backseat to saving the economy. We are all socialists now.

Whether the new president's economic policies will work—and if so, how long they will take—are open questions. After all, his policies have already adapted to quickly changing circumstances.

To help you plan for your financial future under an Obama administration, *Worth* presents this guide—because information is the best means to profit from change.

*Pay*CHECK

19 WAYS THE OBAMA ADMINISTRATION WILL AFFECT YOUR FINANCES.

BY JAN ALEXANDER

President Obama has never minced words about how and why his policies will affect your wallet. As he infamously stated during the campaign, he believes everyone is better off when we "spread the wealth." He has also said, however, at a campaign rally in Sarasota, "I love rich people! I want all of you to be rich." Whether you'll stay or grow rich during the next four years depends on countless micro- and macroeconomic factors, of course. But without question, the policies of the new president will have a tangible impact on your finances. *Worth* looks at 19 ways your money will be affected, for better or worse, by the 44th president.

Taxes

YOUR TAXES WILL GO UP. Dealing with the economic crisis might force Obama to push a new tax bill. The latest that taxes will change is in 2011, when the Bush-era Jobs and Growth Tax Relief Reconciliation Act of 2003 (aka the 2003 Tax Act) expires. With a Democratic majority in Congress, Obama will almost surely deliver on his promise to raise the rate on adjusted gross incomes above $250,000. If Obama's plans proceed quickly, the top bracket is likely to become 39.6 percent for 2009, as it was under Clinton, rather than the 35 percent of the Bush years.

YOU'LL PAY MORE IN CAPITAL GAINS TAXES. For taxpayers in the highest bracket, Obama has proposed raising the capital gains tax, from 15 percent to 20 percent, on assets you sell after holding them more than a year. Gains on assets held a year or less will continue to be taxed as ordinary income, meaning that your short-term capital gains rate could rise from 35 percent to 39.6 percent.

DIVIDEND TAXES WILL BE HIGHER. Obama has talked about taxing qualified dividends as ordinary income. That would be a large tax hit, as dividends were taxed at just 15 percent under Bush. The rate is currently scheduled to revert to ordinary income tax rates when the 2003 Tax Act expires, but with the present need for fiscal stimulus this is a tax rate that Congress might vote to change—i.e., raise—well before then.

FUND MANAGEMENT COMPENSATION WILL BE TAXED AS ORDINARY INCOME. If you happen to run a partnership through a hedge fund or a private equity fund, you've probably grown used to the highly favorable tax rate on carried interest: When you derive income from long-term investments held by the partnership, you pay a long-term capital gains tax on the income instead of the higher ordinary income rate. Because many fund managers are essentially paying taxes of 15 percent on the income they get from doing their jobs, the Obama administration and the Democratic Congress see this tax treatment as a travesty of fairness. Expect this tax break to be eliminated.

THERE WILL BE FEWER TAX HAVENS. Obama has talked about joining the U.K., France and Germany in cracking down on the world's offshore banking centers, which the IRS estimates cost the U.S. government at least $50 billion a year in lost tax revenue. Tax experts in offshore havens such as the Isle of Man and the Isle of Guernsey are

"Spread the wealth."

KYLE T. WEBSTER

already adopting legal schemes such as protected cell companies to shelter capital gains, but the global heat is likely to reduce the number of tax-sheltered banking jurisdictions, now hovering at around 40.

Estate Planning

THE ESTATE TAX IS BACK FOR GOOD. The 2003 Tax Act is perhaps best known for the way it made the federal estate tax disappear in 2010 only to reappear in 2011. But never mind those provisions: The new administration is chomping at the bit to reinstate the estate tax for 2010 and provide clarity going forward. The Obama plan would exempt the first $3.5 million from estate tax—with a possibility that in the next few years the amount will rise to $5 million—and tax assets above that amount, most likely at 45 percent.

GIFTING IS BACK. Obama has shown no inclination to change the law that allows you to make gifts of up to $1 million per beneficiary over your lifetime without the recipient having to pay any gift tax. But his expected estate tax laws create an incentive to give above the lifetime exemption if the taxes on your estate are likely to be higher than the gift taxes. "As long as there was a chance that there might eventually be no estate tax, people were reluctant to make taxable gifts," says John Olivieri, an estate attorney with White & Case in New York. Now, he notes, substantial gifting makes sense—especially if you live in a state that imposes its own inheritance tax, which will add still more to the tax liability on your estate.

PORTABILITY WILL MAKE ESTATE PLANNING EASIER. Obama has said he favors instituting a technique known as portability that might save you legal fees by simplifying your estate planning. Under current law, portability is not available—if a spouse dies without setting up a credit shelter trust for the estate-tax exempt portion of his assets, the surviving spouse can transfer only her own exempt portion without incurring estate taxes. Under the portability proposal, when a spouse dies the unused exemption would transfer to the surviving spouse so that the higher exemption allowed for a married couple (currently $7 million for 2009) will pass to an heir without incurring federal tax.

Liquidity

DO NOT RUSH TO MOVE OUT OF CASH. In the current dismal market, prudence has led many investors to follow the example of Warren Buffett and keep large cash holdings. The new president cannot promise higher interest rates on U.S. Treasuries—which have recently been trading as low as 0 percent on 30-day notes—but at least treasuries and other cash instruments are safe. In October, the Treasury had to buy assets from troubled money market funds; if necessary, Obama will continue that temporary plan.

YOU MIGHT FIND SPECIAL RISKS AND REWARDS IN LENDING. If you are in possession of substantial cash reserves, you might consider lending to credit-strapped companies. Various hedge funds, private equity funds and venture funds will be taking debt or convertible debt positions. The federal government has a history of creating temporary incentives to address financing needs, so if the credit crunch continues we might see a guarantee or a special tax rate for loans to selected industries. Needless to say, these will be high-risk debts.

Investment Strategies

HIGHER TAXES WILL SERVE AS AN INCENTIVE TO INVEST IN INSTRUMENTS THAT OFFER PREFERENTIAL TAX TREATMENT. These include municipal bonds, insurance and annuities. Any structure that allows you to reinvest hedge fund returns on a tax-free basis until distribution is also likely to have its attractions.

PREFERRED STOCK WILL HAVE LESS APPEAL. One reason to invest in preferred stock is its guarantee of a regular (usually quarterly) dividend. Since 2003, qualified dividends have been taxed at a mere 15 percent. With tax reform comes a strong likelihood that dividends will be taxed as ordinary income, as they were before 2003, diminishing the value of preferred stock.

YOU CAN USE A ROTH IRA AS A WEALTH TRANSFER VEHICLE. Around the same time the new administration gets around to restoring the estate tax, a new regulation will make Roth IRAs a useful estate tool. These retirement accounts are now limited to people with taxable incomes below $100,000, but that ceiling is scheduled to be eliminated in 2010. While a regular IRA gives you a tax deferral on the contributions and earnings until you make withdrawals, a Roth IRA works the opposite way: You pay income tax on contributions but not withdrawals. Although you will have to pay taxes (but not penalties) if you convert another retirement account into a Roth IRA, Jeanine Racanelli, a managing director at J.P. Morgan who heads the bank's Wealth Advice Lab, suggests converting to a Roth if you want to create an investment account for your heirs with after-tax dollars. In the long run, that will reduce your taxable estate.

A PREPAID VARIABLE FORWARD (PVF) CONTRACT WILL BE A USEFUL TAX PLANNING VEHICLE. The main purpose of a PVF is to hedge risk, but it also allows you to defer the capital gains taxes that will likely be higher under Obama's tax code. Buyers of this type of contract take a concentrated position in a stock and receive an upfront cash payment, typically 75 to 90 percent of the stock's market value, in exchange for a commitment to deliver a variable amount of shares or cash in the future.

Capital gains tax can be deferred until the shares are either delivered or sold. In a higher tax environment this technique can be useful. "You can generate the proceeds now but the capital gains in the future," says Racanelli.

EXOTIC INSTRUMENTS WILL BECOME MORE STANDARDIZED. With the financial crisis forcing its hand, the new administration is under pressure to ramp up the financial regulatory structure—a move Obama mentioned in campaign speeches as far back as March 2007. Perhaps not this year, but soon, we'll see the creation of centralized exchanges for trading the unregulated investment insurance policies known as credit default swaps, which played a key role in bringing down AIG and other financial institutions. The exchanges will have to trade standardized credit default swaps, so that the value of the instruments will be easier to fix. That means that if speculators use them to bet on companies' credit worthiness the risks will be somewhat tempered—as will the potential rewards.

YOU MIGHT PAY LOWER HEDGE FUND FEES. The standard annual fees that investors pay their hedge fund managers, a two percent flat fee and a 20 percent performance fee, with the most exclusive funds going as high as five percent and 50 percent, are almost surely a thing of the past, and under a more vigorous Securities and Exchange Commission (SEC) hedge funds will face stricter regulation.

Closely Held Companies and Partnerships

BUSINESS TAXES WILL BE HIGHER. Obama has promised higher taxes on businesses with taxable incomes over $250,000 a year and has also talked about increasing payroll taxes.

THE TAX BENEFITS OF FAMILY LIMITED PARTNERSHIPS (FLPS) MIGHT DISAPPEAR. As the tax law stands now, you can pool your family's assets into one limited partnership to minimize estate taxes. Shares of the partnership can be transferred between generations, enabling parents to move assets out of their estate. However, the IRS has been suspicious of what it perceives as abuses for several years now. "It's an issue of substance—the IRS likes to see that you're doing something for the economic advantage, not just to follow loopholes in the tax code," says Phil Tortorich, a partner in the trusts and estates department at the Chicago law firm Katten Muchin Rosenman. Obama has called for an economic substance doctrine in his statements on tax fairness, saying that he will stop companies from creating abusive tax shelters.

GENERALLY SPEAKING, YOUR INVESTMENTS WILL BE SAFER. As the Bernie Madoff scandal showed, the Bush administration's SEC was a weak and incompetent organization. Now, Mary Schapiro, Obama's appointee to head the SEC, faces a Herculean task in reforming the agency. Schapiro, the country's top Wall Street regulator and investor protector, has said that investor trust "is the lifeblood of financial markets." But whatever moves she makes, the SEC could hardly be more ineffectual than it was under former chair Christopher Cox.

The BRAINS *Behind Obama's* ECONOMY

BY LIZA PORTEUS VIANA

In seeking to lead the country out of recession, Barack Obama has sought advice from economists across the political spectrum. But the advisors he's bringing into his administration are mostly centrist and, at the moment, more pragmatic than ideological.

What else do they have in common? Most are connected with Clinton-era economic policymaking, particularly with former Treasury secretary Bob Rubin. And given the events of the last few months, all agree that it's time to put a halt to the laissez-faire approach to the economy.

PAUL VOLCKER. Chairman of the Federal Reserve under Jimmy Carter and Ronald Reagan, Volcker left the Fed in 1987 with an international reputation as an anti-inflation zealot and the guarantor of sound American monetary policies. Now 81, he believes that Americans live beyond their means and that the U.S. finance system operated unhealthily beyond the purview of government regulators. "This new system has failed the test of the marketplace," he testified before the Joint Economic Committee of Congress last May. Volcker has called for the appointment of a new senior official at the Fed to bolster supervision of the banking and financial industries.

Though his position as head of the President's Economic Recovery Advisory Board gives Volcker no official power, his stature gives him weight in the administration. His gravitas may also serve as a check on the sometimes bruising ambition of National Economic Council director Lawrence Summers (see below).

Stained by the freefall of Citigroup, Democratic Party wise man Bob Rubin has lost some of his Teflon coating.

TIMOTHY GEITHNER. As president of the Federal Reserve Bank of New York, Geithner played a key role last fall in trying to save some of the nation's financial institutions and has called for an aggressive response to mismanagement at Fannie Mae, Freddie Mac and Lehman Brothers. During the Clinton administration, Geithner held several positions culminating in the post of undersecretary for international affairs. At Treasury, he helped formulate U.S. exchange rate policy, designing the international financial response to the emerging market financial crisis of 1997-98, and negotiating reforms of the International Monetary Fund and the World Bank. But Geithner's views on fiscal policy, trade and other issues are somewhat of a mystery, and some economic pundits have argued that he's too close to Wall Street.

LAWRENCE SUMMERS. The director of the National Economic Council has a reputation for having bad manners and a big ego, but his ability to absorb and interpret information knows few equals. Summers impressed with his intellect while serving as deputy Treasury secretary under Bob Rubin, then as secretary after Rubin resigned. But while Summers was Harvard president from 2001 to 2006, his aggressive push for change and arrogant leadership style divided the campus. Considered a moderate during the Clinton years, Summers moved to the left during the 2008 presidential campaign, arguing against income inequality and for stimulus spending. The question now is, can Obama harness Summers' great brain while reining in his bullying streak?

PETER ORSZAG. The new Office of Management and Budget chief was most recently director of the Congressional Budget Office (CBO), where he focused on health policy and how cost increases for Medicare and Medicaid will balloon budget deficits. Also a Clinton administration economics advisor, Orszag believes health care reform will be crucial to addressing the nation's fiscal gap. He argues that greater attention to behavioral economics in health policy might mitigate the increasing health care cost shouldered by patients and the growing gap in life expectancy between rich and poor. "Just as economists have put behavioral insights to use in the retirement and pensions fields to boost personal savings, especially among those at the lower ends of the socioeconomic spectrum, thinking carefully about these intersections between psychology and health care is vitally important," Orszag wrote in October on his CBO blog.

ROBERT RUBIN. Once considered one of Obama's most influential economics advisors, Bob Rubin isn't the iconic Bob Rubin of old. Stained by the freefall of Citigroup, where Rubin pulled in over $115 million in compensation, the Democratic Party's wise man has lost some of his Teflon coating. Still, Rubin has so many relationships with so many Obama advisors that he's bound to be influential.

Rubin views deficits as a threat to long-term interest rates and a sound dollar. He also supports creating a national infrastructure investment bank to fund states' road, highway and bridge projects and to create jobs. On trade, Rubin isn't convinced that worker protections in trade agreements are always effective, which might put him at odds with Obama, who supports such protections. Geithner, Summers and Orszag are all believers in "Rubinomics": balanced budgets, free trade and financial deregulation. But the last element of that pyramid is in complete disrepute, and deficit spending is clearly the order of the day.

JASON FURMAN. As economic policy director for Obama's presidential campaign, Furman is expected to play a key role on the National Economic Council. He headed the center-left Hamilton Project, the Washington think tank also frequented by Summers, Rubin, Orszag and others on Obama's team, which advocates enhancing individual economic security and having the federal government make public investments. Furman favors spreading the benefits of trade through a more progressive tax code and installing a stronger social safety net for workers displaced by globalization—i.e., expanded unemployment and wage insurance and worker training. He also strongly supports universal health care and opposes Social Security privatization, an idea that the stock market crash has probably killed anyway. Yet he enraged liberals when he lauded free trade for the influx of low-priced goods at Wal-Mart and creating competition that leads to innovation. Furman previously worked with Joseph Stiglitz (see below) on Clinton's Council of Economic Advisors.

CHRISTINA ROMER. The chair of the Council of Economic Advisors (CEA) is a leading macroeconomist and economic historian. Romer and her husband, David, are known for their research and writings on America's recovery from the Great Depression and—timely enough—on whether tax cuts can provide stimulus to a depressed economy. Their conclusion: Tax cuts provide short-term stimulus but aren't necessarily matched by cuts in government spending. After the Romers submitted their first draft of an Obama economics speech to his campaign, the then-candidate sent it back, asking for more research and better documentation. They gave it to him, and he was apparently impressed enough to hire her. Word is that Romer's work on the Depression was what really caught Obama's eye.

AUSTAN GOOLSBEE. The University of Chicago economist and longtime Obama advisor is the Economic Advisory Board's staff director and a member of the White House Council of Economic Advisors. His work has focused on taxation and capital formation. Goolsbee advocates more investment in education to raise wages and reduce inequality, and has praised the GI Bill for stimulating investment in "human capital." Goolsbee takes a slightly more positive view of globalization's economic impact than does Obama. He has also defended subprime lending on the grounds that it expanded homeownership for minorities, and is opposed to supply-side tax cuts and personal retirement accounts for Social Security. Goolsbee has advocated raising the top marginal tax rate to 39.6 percent from its current 35 percent. "There was no evidence that that sent us into an economic tailspin in the '90s, and there's no suggestion that it would today," he has said.

DANIEL K. TARULLO. After the election, Obama tapped the Georgetown law professor to head the administration's economic policy working group and to fill an open seat on the Federal Reserve Board. Tarullo's specialties are banking law, international economic regulation, and economic policymaking. He served in the State Department under Clinton as the president's representative to the G7/8 group of industrialized nations. He was a critic of deregulation, which sometimes put him at odds with Summers and Rubin, both of whom strongly supported deregulating the financial industry. Tarullo, who says trade liberalization serves U.S. economic and foreign policy interests, has criticized the Central American Free Trade Agreement as "badly flawed" and not representative of "smart trade policy." He has also called for downsizing the World Bank, improving the International Monetary Fund's (IMF) surveillance of countries' exchange rate policies and linking additional IMF funding to reform.

JAMES GALBRAITH & JOSEPH STIGLITZ. If Obama is looking for ideas from the left, he might call upon these two economists, both of whom were campaign advisors. Both think the housing crisis is the root of the economy's troubles. Galbraith, a professor at the University of Texas at Austin, proposed a new version of the Home Owners' Loan Corporation of the 1930s, which refinanced homes to prevent foreclosure. He wants to see at least $900 billion poured into the economy aimed at jobs, infrastructure projects, state and local governments, the elderly population, and housing support—all in the first year of Obama's administration.

Stiglitz, a 2001 Nobel Prize winner from Columbia University, proposes having the government lift the mortgage burden from those unemployed for long periods of time, reforming bankruptcy laws, and a restructuring of the Troubled Asset Relief Program. In 1992, Stiglitz had an eerily prescient view of finance, arguing against reselling and securitizing mortgages because "when banks retained the mortgages which they issued, they had greater incentives to screen loan applicants." In the 1990s, Stiglitz blasted the deregulatory and free trade policies of Rubin and Summers, and the relationship between them is less than cordial.

But in the latter part of 2008, Summers and Stiglitz seemed to agree on at least one point: Massive government spending is needed to get the economy back on track. But, Stiglitz wrote recently, he remains concerned that Obama is relying too heavily on "the same people on Wall Street and in the economic establishment who got us into" the present crisis.

POWER*Plays*

WHAT INVESTMENT SECTORS WILL LIKELY BENEFIT FROM PRESIDENT OBAMA'S DOMESTIC PRIORITIES? HERE ARE THREE TO CONSIDER.

BY JENNIFER BARRETT

The United States government isn't generally supposed to pick winners and losers from the business world. But even before the Bush administration plunged into the bailout business, Barack Obama was running for president on a platform that included tax and loan incentives to increase broadband Internet access, along with increased federal funding for electronic health information technology, infrastructure development and green technology. As Obama moves into the White House, new incentives will open new investment opportunities, particularly in these three areas:

Renewable Energy

THE PLAN: Electricity demand in the U.S. is expected to grow by nearly one-third in the next two decades, according to Energy Information Administration estimates, and Obama wants 25 percent of electric power to come from renewable sources by 2025 (versus about eight percent now). He plans to allocate $1 billion annually to a federal program that will distribute funds to manufacturers that modernize facilities to produce new clean energy technologies. Obama also wants to spend $15 billion a year to support private-sector efforts toward producing clean energy.

THE RISK: If oil still cost $145 a barrel, public sentiment would be rallying behind renewable energy. But once oil dipped below $50, public pressure to develop other energy sources diminished. There's also the problem of the credit crisis, which has left many renewable energy companies strapped for cash and abandoning, slashing or postponing expansion plans.

THE PLAY: Investors should always look for companies with strong cash flow, but many good companies in this capital-intensive industry have burned through their cash. You might consider taking a chance with a financially distressed renewable energy company that would be a smart candidate for a buyout. With Obama's incentives in mind, cash-rich utility companies that lack a renewable pipeline are likely to be eyeing acquisitions that can give them green status.

The solar power sector is down now, but the Department of Energy calls it "arguably the biggest winner" from the Energy Improvement and Extension Act of 2008, which provides a two-year extension of the production tax credit for electricity produced from solar power facilities. (The act extended a one-year tax credit for wind energy.) There is also a tax credit available for 30 percent of the cost of residential and commercial solar installations. The credits should help add $232 billion in new capital investment to the sector by 2016, according to a Navigant Consulting report commissioned by the Solar Energy Industries Association.

Sanjay Shrestha, a managing director and senior analyst at Lazard Capital Markets who covers the alternative energy sector, believes demand for solar power companies should pick up "significantly" by early 2010. First, he says, a shakeout will consolidate small companies. But Shrestha believes that next year the economy will improve, oil prices will rise and credit markets will loosen. Bob Auer, manager of Auer Growth Fund, which has three solar power stocks in its top 25 holdings, says he looks for companies with net earnings up at least 25 percent, net sales up at least 20 percent from the same period a year earlier, and a price-to-earnings ratio of 12 or less.

THE METHOD: Angel funding, private equity, small-cap stocks, green energy or solar energy ETFs, socially responsible or general alternative energy funds.

Infrastructure

THE PLAN: Obama has said it is a top priority to upgrade highways, rail lines, water treatment facilities, power transmission, schools, medical information technology, broadband and all of the bridges to somewhere that were built for 20th century traffic. As Obama makes plans for massive public works spending, the administration has projected that infrastructure funding from government alone will add about $35 billion per year in new economic activity. Though it will take time for funds to flow to builders and contractors and into the broader economy, "every dollar spent on building new infrastructure translates to an estimated $1.59 increase in GDP," says Mark Zandi, chief economist at Moody's Economy.com.

THE RISK: Infrastructure funds are proliferating, in the U.S. and around the world, many offering a diverse range of projects to spread the risk.

Nevertheless, infrastructure is always a long-term bet and much could go wrong during construction, including costs that soar above forecasts, cutting into profits. If a fund does do well, the performance fees can be as high as 20 percent. Cities and states generally finance infrastructure projects by issuing municipal bonds, which offer the investor earnings that are exempt from most federal, state and local taxes. High-grade municipal bonds have been flooding the market at bargain prices since December, when local governments issued a near-record volume of new bonds, testing the waters after the credit crisis. Yields are high because investor hesitation has made bond prices low. In December the average annual interest was 6.5 percent, up from 4.6 percent a year before, according to industry publication *The Bond Buyer.*

THE PLAY: Preqin, an independent private equity data provider, says 20 private equity funds specializing in infrastructure entered the sector globally in 2008, with unlisted infrastructure funds raising nearly $25 billion through November (more than half, $14 billion, in the U.S.)—that's up sharply from the seven funds created and $3.9 billion raised worldwide in 2004. Brian Hamilton, CEO of the financial information company Sageworks, recommends investing in publicly traded highway construction firms, many of which are likely to see substantial growth under the new administration. Engineering firms and companies that produce or transport materials such as concrete and steel are chancier, says Andrew W. Bischel, CEO and chief investment officer at SKBA. "Housing is still one of the largest consumers of materials," he says, "and that's likely to remain weak, which takes away a big chunk of demand."

THE METHOD: Private equity funds specializing in infrastructure, global infrastructure ETFs, municipal bonds, stocks.

With Obama's incentives in mind, cash-rich utility companies that lack a renewable pipeline are likely to be eyeing acquisitions that can give them green status.

Biotech

THE PLAN: Obama has said he will reverse the Bush administration's restrictions on federal funding for human embryonic stem cell research. The move will open the door to more federal funds for medical research on stem-cell therapies. Obama has also said that he plans to increase funding for biomedical research and improve coordination between government and private and nonprofit partnerships. Those efforts may produce a wave of new therapeutics and technologies seeking investors over the next few years.

THE RISK: As stem cell therapy research gets off the ground in the U.S., small biotech companies will be climbing over one another to land venture capital. At the same time, the market forces are working against IPOs, and recession-era caution has taken root among the pharmaceutical giants that are the traditional buyers of successful biotech ventures. As with most investments in the pharmaceutical industry, you are often betting on a company whose fortunes depend on the success of one product.

THE PLAY: In addition to stem cell research, much of the excitement in the VC community revolves around products targeting major diseases including cancer, diabetes, Alzheimer's and Parkinson's, as well as cardiovascular drugs, says Tracy Lefteroff, global managing partner for PricewaterhouseCoopers' venture-capital practice. A startup that has already achieved important milestones, through federal grants or private funding, offers investors somewhat greater assurance that a product will get into the pipeline.

Anyone considering becoming an angel investor in stem cell research might want to attend the 2009 World Stem Cell Summit in Baltimore, to be held September 21 to 23, hosted by Johns Hopkins and the University of Maryland.

THE METHOD: Angel funding, venture capital and mezzanine capital funds, private equity, small-cap stocks.