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Market Summary and Commentary for Individual Investors from Adviser Investments

July 24, 2008

Elections and the Markets

Our markets of late have been defined by uncertainty and volatility, and the upcoming presidential election has raised many questions about where our country and the economy are headed. From an investing standpoint, however, those in the know can ignore the impact the election will have on investors.

While there are plenty of reasons to focus on who you'll vote for in November, investing isn't one of them. Yes, taxes are a concern for many, but in terms of pure stock market action, either party could argue that their winning candidates spur more earnings in the markets (either while they're in power or in the years afterwards as the effects of policies instituted during their tenure began to trickle down through the markets).

Before we show you why the historical trend doesn't overwhelmingly favor one party over another, keep this in mind: the election is likely having its greatest influence on Wall Street right now. Investors don't like uncertainty, whether its uncertainty in elections, earnings or anything else. Presidential polls that show a narrowing gap between the candidates give Wall Street the jitters.

That's good for investors who can run contrary to the crowd. At Adviser Investments, we've always believed that you should use the market's weakness to do some buying. If you've been saving some extra cash, you may want to deploy it as the campaign heats up. When the furor dies down after the election, Wall Street will once again focus on interest rates and earnings, the two factors that have more to do with where stocks go than anything else. No matter which candidate finally wins, you can rest assured that there will be a much greater focus on economic issues for the next few years than there has been in the previous few. And that, ultimately, should be good for the market and investors.

Now, as promised, here are but a few of the many statistics used to bolster the case for a bull or bear market based on the election outcome. If the findings prove anything, it is that statisticians from both political parties can claim bragging rights to the stock market's long-term gains.

Democrats' Stats

Since 1901, the Dow Jones Industrial Average has risen at an 8.5% annual rate under Democratic presidents. (Up only 6.4% on average under Republicans.)

Since 1926, the S&P 500 has risen an average 14.9% under Democratic administrations and has gained an average of 20.9% the year after an election where a Democrat succeeds a Republican. (Up just 9.7% on average when Republicans have held the White House and 11.6% when a Republican replaces a Republican in the White House.)

Real GDP under Democratic presidents has risen an average of 4.4% per annum since 1948. (The Republican record: a 2.7% average gain.)

Why It Could Pay to Elect a Republican

Since 1901, the Dow Jones has risen in 11 of the 14 presidential election years when a Republican was elected. (It rose in just 7 of the 12 years when a Democrat won the vote.)

Stocks have risen in the latter half of an election year 13 of the 14 times that Republicans have won. The average six-month gain: 11.8% (The market rose in the second half of 8 of the 12 years when a Democrat won. The average gain in those years was just 6.3%.)

Other Thoughts
See the table below for a slew of numbers you can use to argue for one party or the other.

How stocks performed

	S&P 500 1926-2007		DJIA 1901-2007	
	Democrats	Republicans	Democrats	Republicans
Years in Office	40 years (30 up, 10 down)	42 years (29 up, 13 down)	48 years (32 up, 16 down)	59 years (36 up, 23 down)
Avg. 1-year Return	14.9%	9.7%	8.5%	6.4%
Avg. 4-year Total Return	74.2%	38.3%	38.4%	29.9%
Avg. Year 1 Return	13.8%	0.8%	6.0%	3.9%
Avg. Year 2 Return	9.1%	8.2%	1.3%	4.0%
Avg. Year 3 Return	23.4%	16.5%	22.8%	4.5%
Avg. Year 4 Return	17.1%	12.6%	3.9%	13.6%
Biggest 1-year Gain	54% ('33)	52% ('54)	82% ('15)	49% ('28)
Biggest 1-year Loss	-35% ('37)	-43% ('31)	-33% ('20)	-53% ('31)

On a final note, since 1901, the Dow Jones Industrial Average has risen an average 8.9% during the last half of an election year. If that holds true in 2008, the Dow, which closed at 11350 at the end of June, can be expected to rise to 12360 by New Year's, giving the index a 6.8% loss for the year. But we wouldn't recommend you hold your breath—nor make any investment decisions—counting on this result. Market cycles often have little to do with which party holds the White House nor election results, and casting your vote based on your investment portfolio is not likely to earn you any extra returns.

About Adviser Investments

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