ADVISER INVESTMENTS

# ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

August 17, 2012

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## Elections and the Markets

Set against the backdrop of uncertainty in Europe and a slow-growth environment, 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 mostly 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 begin to have an impact).

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 it's uncertainty in elections, earnings, foreign markets 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. 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.

### Democrat Stats

Since 1901, the Dow Jones Industrial Average has risen at an 8.9% annual rate under Democratic presidents. (Up only 5.7% on average under Republicans.)

Since 1926, the S&P 500 has risen an average 14.9% under Democratic administrations and has also gained an average of 14.9% the year after an election where a Democrat wins an election. (Up just 8.6% on average when Republicans have held the White House and down 6.6% when a Republican replaces a Democrat in the White House.)

Real GDP under Democratic presidents has risen an average of 4.1% per annum since 1948. (The Republican record: A 2.6% average gain.)

**Republican Records**

Since 1901, the Dow Jones has risen an average of 13.0% the year before a Republican was elected. (It's risen an average of just 1.9% preceding a Democrat's victory.)

The Dow has 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 eight of the 13 years when a Democrat won. The average gain in those years was just 4.1%.)

Since 1926, the S&P 500 has risen an average of 9.3% the year after a change of political parties in the White House, compared to an average gain of 7.4% when the incumbent party wins.

**Dinner Table Talking Points**

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 1926-2011 | | DJIA 1901-2011 | |
|---|---|---|---|---|
| | Democrat | Republican | Democrat | Republican |
| Years in Office | 43 years | 43 years | 51 years | 60 years |
| | (33 up, 10 down) | (29 up, 14 down) | (35 up, 16 down) | (36 up, 24 down) |
| Avg. 1-year Return | 14.9% | 8.6% | 8.9% | 5.7% |
| Avg. 4-year Total Return | 74.2% | 32.5% | 38.4% | 26.8% |
| Avg. Annualized 4-year Return | 13.7% | 5.4% | 6.8% | 4.1% |
| Avg. Year 1 Return | 14.9% | 0.8% | 7.3% | 3.9% |
| Avg. Year 2 Return | 9.7% | 8.2% | 2.2% | 4.0% |
| Avg. Year 3 Return | 20.8% | 16.5% | 21.7% | 4.5% |
| Avg. Year 4 Return | 14.1% | 8.1% | 3.9% | 10.6% |
| Biggest Calendar-Year Gain | 54% ('33) | 52% ('54) | 82% ('15) | 49% ('28) |
| Biggest Calendar-Year Loss | -35% ('37) | -43% ('31) | -33% ('20) | -53% ('31) |

Sources: Standard & Poor's, Dow Jones; Analysis: Adviser Investments

While we've presented a lot of ways to slice and dice the data, the fact remains that most of it is not what we'd call statistically significant, as some of the scenarios have only played out a handful of times over the last century. So while the numbers may make for some lively conversation around the dinner table or online, they should be considered strictly anecdotal.

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