ADVISER INVESTMENTS

SPECIAL REPORT

Focus on Market Cycles, Not Election Cycles

ONE SECRET TO INVESTMENT SUCCESS

Set against global economic uncertainty and dire electioneering forecasts for the worst of times here, it's hard to stay focused on the evidence for continued slow growth (not no growth) in the U.S.

The 2020 primary-to-presidental election campaign is provoking more concern about our country's future than any in recent memory. But amid heated rhetoric and lofty promises, we will not be deterred from our well-reasoned, evidence-backed investment discipline.

In this exclusive report, we'll discuss why, from an investing standpoint, you can mostly ignore all the melodrama leading up to and through 2020's election outcome.

Voters will have plenty of personal reasons for choosing one party's candidate over the other next year. However, in terms of investment performance, history clearly shows that both Democrats and Republicans could rightly argue that their candidates spur better market gains while they're in power (or in the years that follow) as a result of policies they've implemented.

What we know: Our analysis suggests that markets have tended to rise regardless of who resides in the White House. Either party can (and will) claim credit for producing these long-term investment gains, even if those gains do not appear to be significantly impacted by policy. Here are a few ways the data can be spun:

- Since 1901, the Dow Jones Industrial Average (DJIA) has risen at an 8.8% annual rate under Democratic presidents and has risen 5.8% on average under Republicans. It has risen an average of 13.0% the year before a Republican was elected and it has risen an average of just 2.1% preceding a Democrat's victory.
- Since 1929, the broader S&P 500 has risen an average of 10.5% annually under Democratic administrations and has gained an average of 11.9% the year after an election

How Stocks Performed

	S&P 500 1929–2018		DJIA 1901–2018	
	Democrats	**Republicans**	**Democrats**	**Republicans**
Years in Office	48 years (34 up, 14 down)	42 years (26 up, 16 down)	56 years (39 up, 17 down)	62 years (37 up, 25 down)
Avg. Annual Return	10.5%	3.3%	8.8%	5.8%
Avg. 4-year Term Return	32.2%	17.3%	40.1%	26.7%
Avg. Annualized 4-year Return	6.9%	2.5%	7.4%	4.1%
Avg. Year 1 Return	11.9%	-2.8%	8.4%	5.2%
Avg. Year 2 Return	5.6%	3.8%	2.4%	3.4%
Avg. Year 3 Return	14.7%	10.6%	19.8%	4.5%
Avg. Year 4 Return	9.8%	0.8%	4.8%	10.5%
Biggest Calendar-Year Gain	47% (1933)	45% (1954)	82% (1915)	49% (1928)
Biggest Calendar-Year Loss	-39% (1937)	-47% (1931)	-33% (1920)	-53% (1931)

Note: All data is based on index level, not total, returns.
Sources: Morningstar Direct; Analysis: Adviser Investments.

when a Democrat wins. Meantime, the S&P 500 has gained 4.3% a year on average when Republicans have held the White House and has fallen 4.3%, on average, in the first 12 months after a Republican replaces a Democrat.

- In the year after political parties in the White House change, the S&P 500 has risen an average of 6.7% versus an average gain of 6.6% when the incumbent party wins.
- Real GDP under Democratic presidents has risen an average of 3.7% per annum since 1948 while Republican presidents have overseen a 2.8% average gain.
- The Dow has risen in the latter half of an election year 14 of the 15 times that Republicans have won. The average six-month gain: 11.1%. The market rose in the second half of nine of the 14 years with a Democrat's triumph. The average gain in those half-years was 3.9%.

The "facts" bolster our investment view that staying focused on economic and market cycles—not to mention investing in top-notch managers who know how to defend and profit in them—is far more important than obsessing over any single presidential candidate or election year.

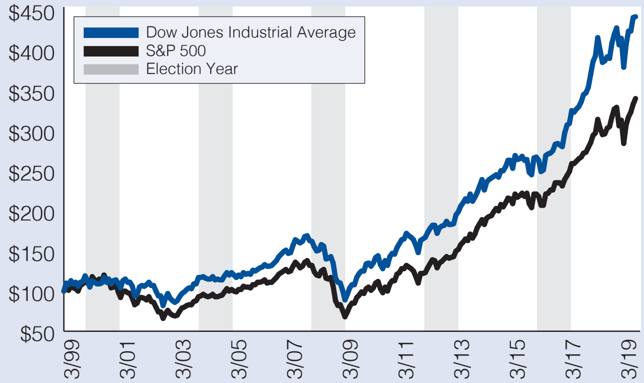
We Vote for Long-Term Investment Success

While we've sliced and diced the election-related data many ways, even a century-plus of U.S. presidential election cycles represents a small enough sample size to fall short of statistical significance; some of the scenarios we've mentioned have only played out a handful of times since 1901. The numbers may make for some lively conversation around the dinner table, but we view them as anecdotal at best.

Most important: Keep in mind that the election's biggest influence on Wall Street volatility will likely come in the months leading up to Election Day. While some level of uncertainty is endemic to investing—be it doubt about elections, earnings, foreign economic policy or any other crisis *du jour*—it unfailingly gives traders the jitters and newspapers their headlines.

At Adviser Investments, we are not day traders nor are our investment decisions based on headline news. In fact, while it may feel like the last few months (let alone the last few years) have been difficult times to invest, we know that it's times like these that create long-term wealth.

Markets, Not Elections, Create Wealth



Note: Chart shows hypothetical growth of $100 using total returns of the two indexes over the 20 years through March 2019.
Source: Morningstar Direct.

Political rhetoric is poised to get even more volatile—and we think the potential for a spillover effect of increased market volatility is highly probable, but unlikely to be durable. Post-November 2020, when the election results are in, Wall Street will swiftly return its focus to interest rates and earnings, two factors that have more to do with how stocks perform in the long term than anything else.

Of course, there will be enduring attention to political issues and other concerns, but ultimately, the pace of economic expansion and earnings growth will drive the future direction of the stock markets.

Buy the Managers, Not the Pundits

Our manager-focused, diversified investment discipline is far more attuned to the market and economic facts we know rather than any political promises being made.

Adviser Investments has always taken a long-term investment view. Presidents will change and political parties will rotate through the halls of power, but we are united in our commitment to helping you preserve your savings and achieve your financial goals. Who wouldn't vote for that?