



Politics and Stocks

By Louis E. Conrad II, CFA

- ▶ The U.S. political environment has historically had an impact on our capital markets, but perhaps not to the extent as over the past five years.
- ▶ This article highlights the impact that Congress and the President have had on the stock market's performance over time.

The latest political election cycle will end next month on November 6. Each of us will have the opportunity to vote for individuals seeking to fill presidential, congressional, and local seats in our democracy. One financial television channel has dubbed this the “economy election” and whether you vote your wallet in this election, politics have historically had a meaningful impact on our capital markets.

In fact, politics have never had such an impact on the capital markets during my career as they have for the past five years as we transitioned from the Financial Crisis to the Great Recession to the current subdued economic recovery. Over the last few years our economy has been dominated by unprecedented monetary policy actions from the Federal Reserve, while a dearth of fiscal action has originated from Capitol Hill.

Despite this era of political polarization, politics have always had an influence on the markets.

The Congressional Effect

Mark Twain has been credited with the following wisdom: “No man’s life, liberty, or property is safe while Congress is in session.” Apparently this also translates to the U.S. stock market’s returns. In a 1997 paper that appeared in the Financial Services Review entitled “The Congressional Calendar and Stock Market Performance,” four researchers found that during the period 1897 – 1993, “almost the entire advance in the market...corresponds to the periods when Congress is in recess. This is an impressive result, given that Congress is in recess about half as long as in session.”

[Continued on next page.]



Louis E. Conrad II, CFA
President

lconrad@compassinvest.com
(978) 828-5681
www.compassinvest.com

Advisor Corner

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the 2012 FIVE STAR Wealth Manager award, please visit our web site.

If you would prefer NOT to receive future editions of The COMPASS Chronicle, please send an e-mail with "UNSUBSCRIBE" in the subject line and you will be removed from the distribution list.

Politics and Stocks, continued

A mutual fund was launched in 2008 that invests on the premise that this relationship between the congressional calendar and stock market returns will continue in the future. Based on data on the fund company's web site, the annualized daily price gain of the Standard & Poor's 500 (S&P 500) from January 1, 1965 through 2011 was 0.72% when Congress was in session and 16.60% when Congress was out of session. Similar results have been experienced over the most recent ten years as well.

The Presidential Election

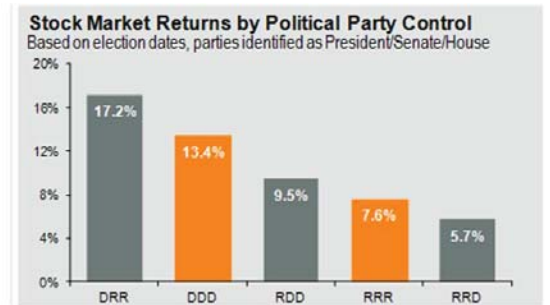
The political party occupying the White House also has had a significant effect on stock market returns. Studies have generally found that the U.S. stock market performs better during Democratic administrations than Republican administrations by as much as 9% annually. However, financial and economic factors impacting the capital markets at any point in time can outweigh the effect from election cycles.

According to data compiled by J.P. Morgan Asset Management for the period 1940 - 2008, while U.S. stocks have performed better under the watch of a Democratic president than a Republican president, they have performed best when a Democrat occupied the White House, but Republicans controlled Capitol Hill. In the current race, if the president is re-elected and the Republicans maintain control of the House of Representatives and take control of the Senate as many expect, such a result would coincide with the type of executive-legislative branch makeup that has led to the stock market's best returns historically.

The Market as Barometer

The stock market's recent returns may indicate that the presidential election's outcome is a foregone conclusion. According to the book "Don't Sell Stocks on Monday" and research by S&P, the stock market's performance during the August to October time frame in presidential election years is usually an accurate barometer of whether the incumbent president will gain re-election. According to S&P's data since 1900, when the S&P 500 gains during these three months,

the incumbent is re-elected 80% of the time. Conversely, when the S&P 500 declines, the incumbent is defeated 88% of the time. This year the S&P 500 gained 4.4% during the months of August and September...with less than one month to go.



Source: U.S. House of Representatives, U.S. Senate, Gallup Inc., FactSet, J.P. Morgan Asset Management
Stock market returns are price only and calculated from election date to election date 11/5/40 to 11/4/08