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HOW DO PRESIDENTIAL ELECTIONS AFFECT THE MARKET?

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President's Day, recognized the third Monday each February, is popularly viewed as a day to celebrate all U.S. presidents, past and present. In today's contentious political environment, it seems hard to believe anyone is celebrating anything but an extra day off and a nice long weekend!

In honor of this holiday, we felt it appropriate to recognize the fact that we are in a presidential election year. One of the most common questions we get as financial advisors during a presidential election year is, "what does it mean for my investments if 'enter party or candidate name here' wins?" While this can be a loaded question sometimes charged with preconceived bias, there are very real trends we've seen of the impact of presidential elections on the stock market.

The first thing we like to point out to clients is that the stock market really doesn't care what party wins the election. What the stock market tends to prefer is that whatever the outcome of the election, the federal government ends up in some sort of gridlock that won't allow for sweeping policy changes in the near term that could disrupt carefully conceived and laid out business plans. This is not to say that certain policies may be deemed to be more or less business-friendly in the long term, but in the nearer term, no change is good change.

So, what are some impacts to investments we have seen over past election years? Thanks to data compiled by Morningstar and Blackrock investments, we can look at the data over nearly the past 100 years. Since Jan. 1, 1926, the average return in the stock market has been 10.3%. Interestingly, the average return in presidential election years came in a little higher at 11.6%! During this same time frame, going a little deeper, the market typically launched the first two quarters of an election year sluggishly, with the third and fourth quarters earning the bulk of the returns during those times. One interesting trend that has been noted in the past 30 years of data has been investors tend to build up cash reserves in election years at twice the rate of non-election years. During election years, the average money market in-flows was $114 billion while for non-election years money market in-flows averaged $56 billion.

Now to tackle the question everyone wants to know the answer to, "which party is better for my investments?" While debates have and will continue to be waged as to what party's policies are best for the stock market and economy, we have looked at two periods of time to see what the data shows us. First off, over the past ten years since Dec. 31, 2013, $100,000 invested for the entire time would be worth $311,000 today. If the same $100,000 was invested ONLY during Democrat presidencies, the total would have grown to $172,000 while the same $100,000 invested for only Republican presidencies would have grown to $181,000. Going back the past 70 years, the numbers are even more distinctive. $1,000 invested in Dec. 31, 1953 for the entire time would have grown to an astounding $1,580,000! During only Republican tenures, $1,000 would have grown to $31,000 while only during Democrat tenures, $1,000 would have grown to $50,000.

The takeaway from all this information is what we stated at the beginning, "the stock market really doesn't care what party wins the election." The old adage of it's "time in the market," not "timing the market," clearly holds true. Maintaining a well-diversified, long-term investment approach will always win in the end. So, while there are a lot of differing political views, try not to let those views derail your long-term investing success so you can continue to Enjoy the Ride!

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