



THE FOXHALL GLOBAL OUTLOOK



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Dear Paul,

Does it make a difference to the stock market if a Democrat or Republican wins the Presidential Election next week?

I recently saw a study in **FORBES MAGAZINE** that concluded that Presidential election outcomes don't affect the stock market the way most people expect them to.

In this article written by Ken Fisher and published in the May 19, 2008 issue of Forbes Magazine, Fisher answers the question posed above. "We have a long history of elections and S&P 500 returns, and the pattern is pretty clear. First, years in which Democrats capture the White House are usually bullish years for the stock market. Second, inaugural years following a Democratic win in November are better than Republican inaugural years. There is a reason for this pattern. The market expects the worst of a Democratic President and then discovers that he's not so bad for investors. It tends to rebound after the initial premonitions that a Democrat will win. On the other hand, Wall Street expects the most of a Republican and is disillusioned after the election.

The average performance for years with Democrats elected is dragged down by two exceptional years. One was 1932, as FDR won and the Great Depression bottomed. The S&P slipped 8.9% that year (including dividends). The other year was 1940, another FDR win, this time with war under way in Europe. The market was off 10%. Take away those two bad years and you find that election years with Democrats winning have always been positive for the market."

The article goes on to say, "Republican inaugural years (there have been ten since 1925) have delivered an average 0.5% loss for the market. Only three Republican inaugural years were positive; seven were negative. Loser years include the first years in both of Eisenhower's and Nixon's two terms and in Reagan's first term, George W. Bush's first term and, of course, Hoover's single term.

In inaugural years we discover that Democratic presidents are phonies and never meant most of what they said in their populist, anti-capitalist campaigns. They could never get reelected if they really delivered on their campaign promises. Inaugural years for Republican presidents remind us that they are phonies, too; they don't do much for the economy or for investors. We get disappointed and pummel stock prices."

There you have it!

UNTIL NEXT TIME...

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