<u>January 2024 Blog: Real Impacts of Presidential Elections on the Stock Market</u>
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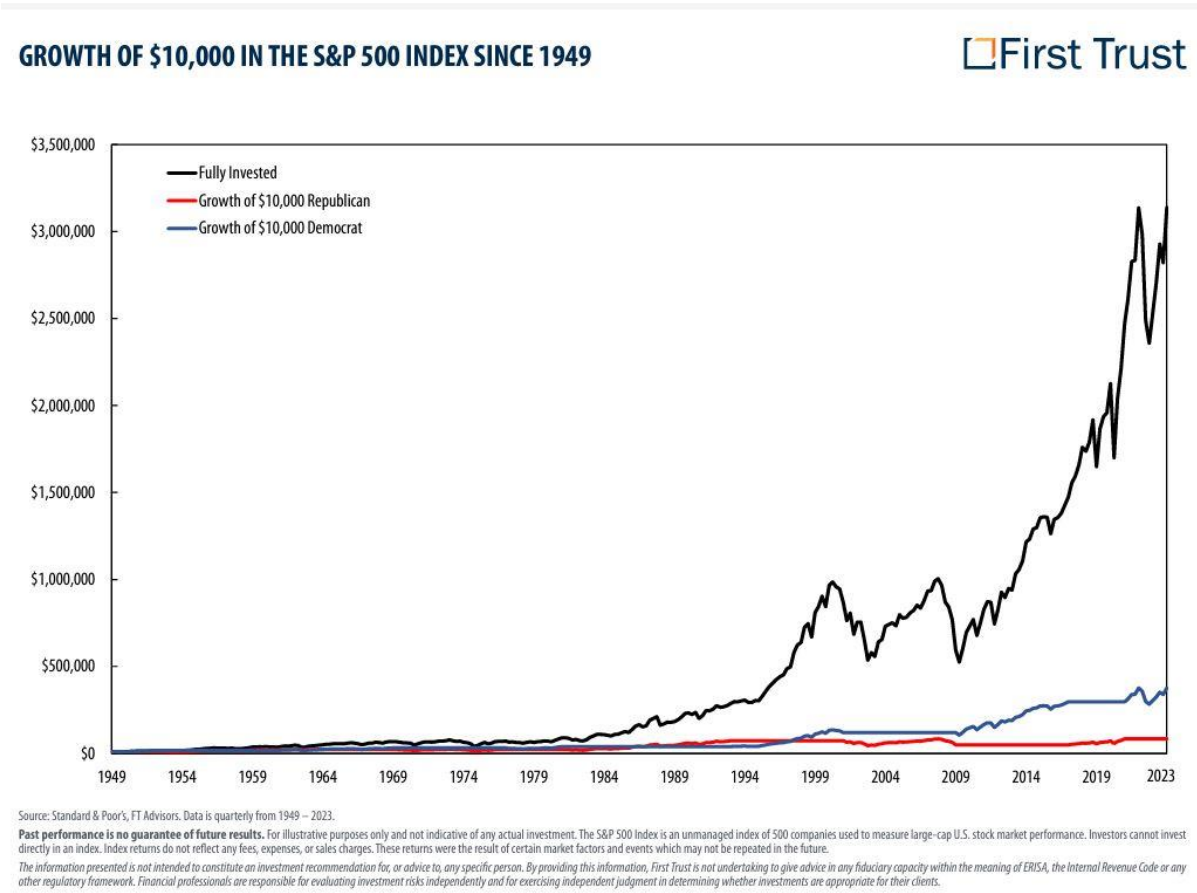
As we approach this year's Presidential Elections, many of our clients are troubled by the negativity of political discourse in today's politics. It is also quite natural to think that if their Presidential candidate isn't elected in November, the economy, stock market and civilization as we know it will come crashing down.

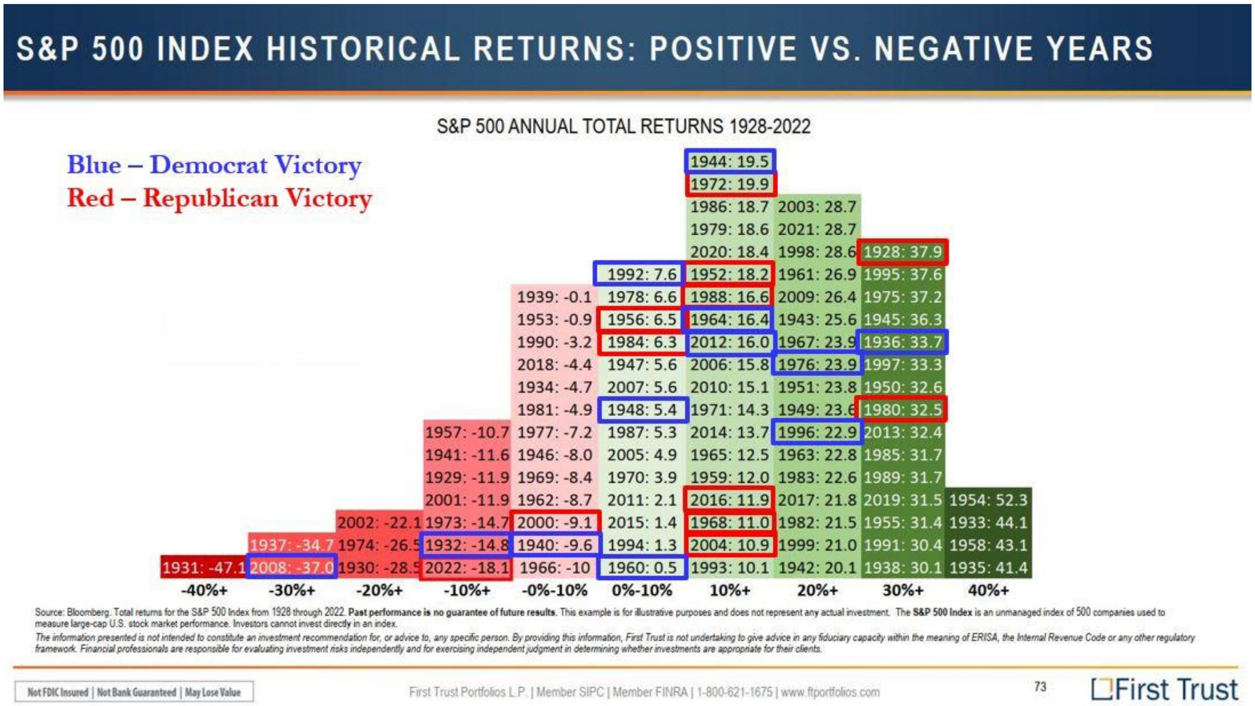
That poses the question: **What are the real impacts of Presidential Elections on stock market performance in those same election years and beyond?** Let's look at the data and ignore the gut-grinding anxiety that so many of us feel these days.

We have received countless analytical pieces from reliable sources which have highlighted some very interesting facts about how the markets are impacted by whether a Republican or Democrat is elected, whether all three houses of Congress and the Executive Branch are with a single political party. And the results are clear: Presidential Elections have very little correlation or impacts on the performance of the stock market.

For example, here is a chart courtesy of First Trust and Standard & Poor's about the long-term returns of the S&P 500 since 1949 and what happens if clients only invest during those periods when their preferred candidates are in office (Republican or Democrat) versus staying fully invested during the entire 75-year period. Clearly, you're far better off ignoring who is in office and remain fully invested!



The following chart illustrates how diverse the distribution is in those years in which the Democrats and Republican's win the White House. As you can see, this chart is a 'bell-curve' chart and you can see the greater number of positive years in the S&P 500 dating from 1928 through 2022.



In the actual Presidential election years, the data is an interesting mix when you consider the long-term averages between Republican and Democratic administrations. The average returns from 1928 through 2020 during those U.S. Presidential Election years show:

- When a Republican is elected: +15.8%
- When a Democrat is elected: +8.5%
- All election years combined: +11.58%

But what are the average returns over all four years of Presidential administrations over the past 92 years?

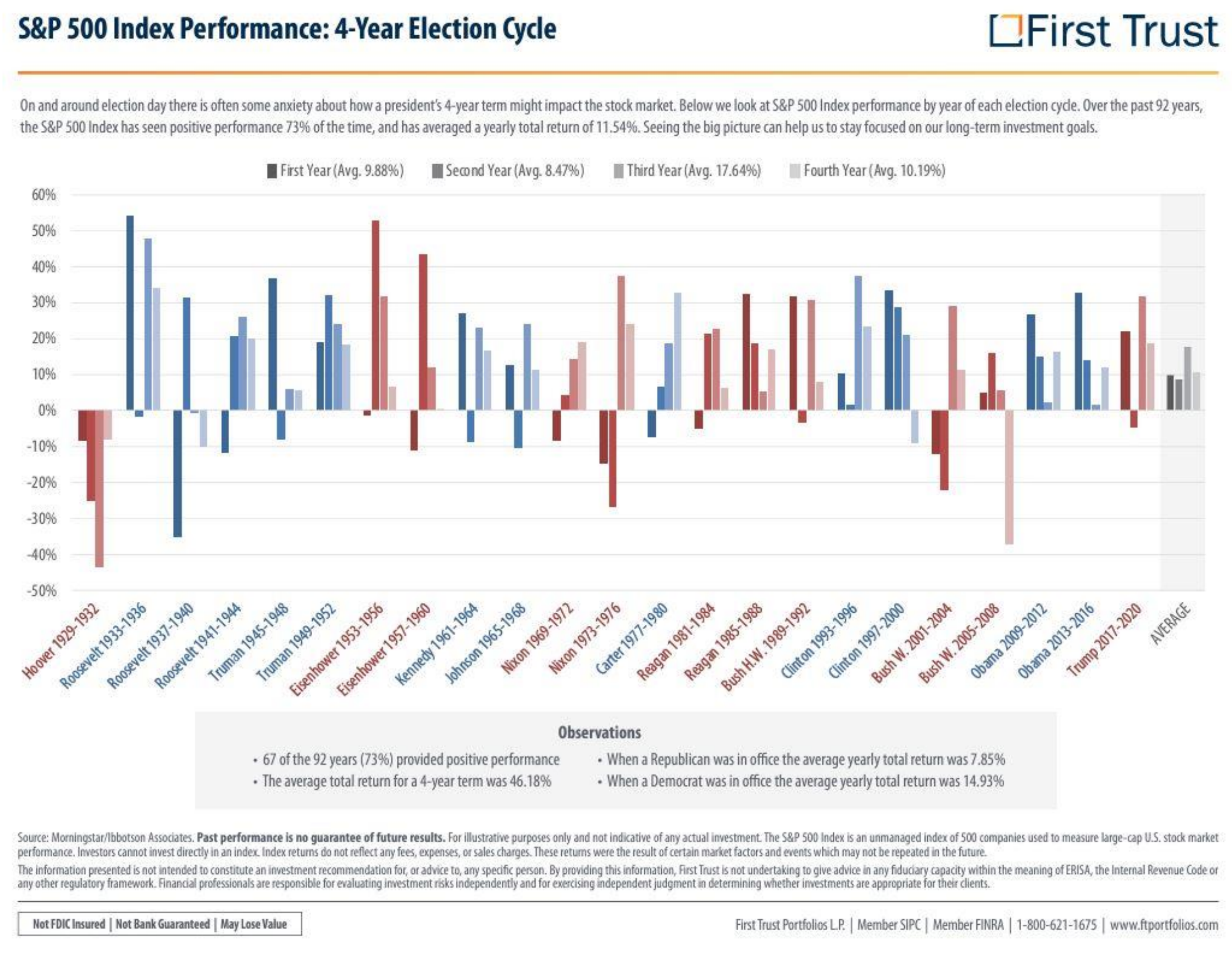
- The markets were position in 67 of the 92 years: 73% of the time
- Average return during Republican administrations: +7.85%
- Average return during Democratic administrations: +14.93%
- Average return over a 4-year term was: +46.18%
- Average return during the 1st year of an administration: +9.88%
- Average return during the 2nd year of an administration: +8.47%
- Average return during the 3rd year of an administration: +17.64%
- Average return during the 4th year of an administration: +10.19%

Here is a chart which shows each year of all Presidential administrations dating back to Herbert Hoover in 1929. Again, it is critical to see how few negative return years there are in the market versus the positive years in the market. There is a rule-of-thumb we use to educate our clients to help them be patient investors while the media whirlwind creates fear and anxiety: It is the rule of 55, 65 & 75.

Dating back to 1929, the stock market is up:

- 55% of all trading days during a year. (There are 252 trading days per year)
- 65% of all trading months during a year.
- 75% of all trading years.

As you can see below, that has been roughly the case since 1929, irrespective of Democratic or Republican Presidential adminstrations.



<u>Conclusion:</u>

It might be interesting to poke your friend on the other side of the political aisle about whether it's better or worse that a particular party's candidate is elected. It might make for some interesting banter back and forth…and now you have some clear cut data to use when aggravating your friends on the other side of the aisle.

However, in our opinion, it is absolute folly to make your investment decisions about whether to buy or sell out of your stock portfolio's based on election years and election results. ***The key to being an effective investor isn't timing the market, it's time in the market.*** A quick review of the very first graph in this blog tells you everything you need to know: don't consider the impacts of elections on the stock market because the data simply doesn't show that paying attention to who gets elected is a good way to make your long-term investment decisions.