

How has the market reacted to elections and new administrations?

Is an election year good for stocks? Well, let's look at some data. Keep in mind, it's only data – and as the old saying goes, past performance is no indication of future results. But the statistics concerning the Dow Jones Industrial Average sure are interesting. It is time to compare and contrast.

The Dow through Election Day. America has now seen 28 presidential elections since the first publication of the DJIA on May 26, 1896. In 20 of those 28 election years, the Dow posted a Y-T-D gain through Election Day.¹ Would that it was true this year. When the market opened on November 4, 2008, the Dow was down 29.71% from its close on the final day of 2007.^{2,3}

The Dow in “election season”. Between Labor Day and Election Day, the Dow rose an average of 1.92% in the 27 election years between 1896 and 2004. When the incumbent President was a Republican, the Dow's average gain between Labor Day and Election Day in those election years was approximately +0.6%.¹ This year certainly did not live up to statistical expectation: the Dow closed at 11,543.96 on August 29 (the last market day before Labor Day) and opened at 9,323.89 on the morning of November 4 for a loss of 19.23% over that period.⁴

The Dow immediately after a Presidential election. The short-term statistic is positive: on average, the DJIA has gained 1.90% between Election Day and New Year's Day in the 27 election years past. Here are two statistics seemingly at odds with each other: when a Republican President is in office during an election year, the DJIA gain has averaged approximately 4.6% between Election Day and New Year's Day. But when a Democrat is elected (regardless of what party holds the White House), the Dow has averaged roughly a -0.9% loss between the first Tuesday in November and New Year's Day.¹

On Election Day 2008, the Dow gained 305.45 or 3.28%. However, a day later, all the gain had been lost in the wake of troubling indicators.⁵

The Dow after a new President takes office. The DJIA has gained an average of 4.85% during the first year of a Democrat replaces a Republican in the White House, the average gain has been approximately +13.7% - but that

a presidency. But when a Democrat is elected, that average gain has been approximately 6.0%. Historically, when statistic is skewed, because the Dow gained 64% in the year after Roosevelt replaced Hoover. Put 1933 aside, and the average such gain is approximately 1.2%.¹

As for the S&P 500 ... TheStreet.com columnist Scott Rothbort tracked S&P 500 data going back to 1950 and found that the price-only return of that index in a post-presidential election year has averaged +3.06%.⁶ On the other hand, a research report released November 5 by the Zero Alpha Group (an international network of financial advisory firms) indicates that the S&P 500 has gained approximately 15.8% during Democratic administrations (as compared to about 11.2% during Republican administrations).⁷

And what about your financial strategy? While the above data is fascinating to consider, the fact is that we can't foretell the effect a new administration will have on our money. Long-term discipline is the most important factor in an investment strategy, and your financial professional can help you to practice it.

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