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"Hillary? Donald? Who Will the Markets Like?"

Democrat and Republican sympathizers will both tell you that *theirs* is the political party that creates jobs, jumps starts the economy, and grows the stock market. Who knows? We can only cast our votes and wait to see how things play out. Perhaps history can give us some guidance on which party might be best for our portfolios.

- **But First, is This a Pointless Exercise?** Barack Obama is the 44th President of the United States, and there have been only 56 Presidential elections in 200+ years of our history. Just 23 elections since the mid-1920s. Is that really enough observations to determine who's best?
- **Our President's Limitations:** The President of the United States is one of the least powerful national leaders when it comes to pushing through his/her own policies (George Friedman). He (so far) must work jointly with the House of Representatives, the Senate, and be upheld by the Supreme Court in order to enact policy. Most superpowers do not have as rigorous a set of checks and balances for their leaders.
- **Dems Do Well:** No amount of statistical massage can argue against the fact the DOW*, the S&P 500*, and CRSP Total Market Index* have all done better when a Democrat was in the White House. And by a wide margin: in the last 50 years, the S&P 500* was up an average +18.3% annually under Dems versus +4.5% for Republicans (BTN Research). It's a similar story going back further. But is this a fair comparison? No, it's not, because . . .
- **Today's Policies Often Bring Tomorrow's Results:** Change comes incrementally in our government. The U.S. government is *not* a business, where rapid decisions can be made. So, economic policies from one administration may not take effect until a new President is in the White House. When you look at the President's last *three years* in office, and *add the first year* of the next administration (accounting for policy lag effect), the average annual returns (S&P 500*) are quite close since 1926: +12.36% for Democrats, and +11.02% for Republicans (Robert French, McLean Asset Management). This is probably a little fairer.
- **Does the Makeup of Congress Have an Impact?** You bet. Since 1926, the CRSP* did a little better with a Republican House, but also a little better with a Democratic Senate (French). The best case, with a Democratic President and Senate, and a Republican House (CSRP* up +15.94% per year), happened only 4 years, so it's not a great sample.

- **When the President's Popular:** The stock market's not so hot. As a matter of fact, there's no clear relationship at all between Presidential popularity and stock market returns. In the last 60 years, George W. Bush had the lowest approval rating of 22% (it got as high as 86%), and his dad the highest at 89% (but got as low as 29%). President Obama has had a narrow range from 41% to 64% popularity. When approval ratings were below 35% (thankfully a rare occurrence) the DOW* has been terrible, down an average of -13.8% annually; and it's been up a measly +2.4% annually when approval was highest, over 65%. The sweet spot? Mediocre ratings of 35-50% for some reason (which was 37% of the time in the last 60 years), when the market averaged +11.8% (Gallup).
- **Correlation is Not Causation:** Did you know that markets do much better when the President is over 6' tall . . . with twice the returns of shorter Presidents? When the President is left handed, it does better, too (American Institute for Economic Research). Silly stuff, really. Does being tall and and/or left-handed *cause* a President to bet better for our economy? Of course not.

The party affiliation of the President does <u>not</u> determine the direction of the stock market, any more than height or handedness. Economic policies *do* have an effect, though. But the change comes incrementally, and is usually the culmination of debate and compromise (oh no, not that!) between both parties.

There are big differences between these candidates and, whoever prevails, people will still buy gasoline on the way to work and stop and pick up a Starbucks. We'll still take vacations, and shop on Amazon. Those behaviors drive the markets . . . not a 6' 2", left-handed, unpopular Democrat in the White House. We don't have any of them right now, anyway.

**All indices are unmanaged and investors cannot invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results*

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