

Stocks & Presidential Elections

What does history tell us — and should we value it?

As an investor, you know that past performance is no guarantee of future success. Expanding that truth, history has no bearing on the future of Wall Street.

That said, stock market historians have repeatedly analyzed market behavior in presidential election years, and what stocks do when different parties hold the reins of power in Washington. Through the years, they have noticed some interesting patterns, which may or may not prove true for 2020 or for any other election year down the line.

Do stocks really go through an *election cycle* every four years?

The numbers really do not point to any kind of pattern. If you examine the S&P index going back the last 21 election cycles, all the way back to 1928, there were only three years with an overall negative return. That may sound great, but you also have to consider that not every pattern we find necessarily demonstrates that one factor (e.g. a Presidential election) directly affects another (such as market returns).¹

For instance, it is also a fact that every year of the twentieth century ending with the number five (1905, 1915, 1925, and so on) turned a profit. That might be true, but it is not useful information when making financial decisions.¹

It is also worthwhile to keep in mind that as consequential as presidential politics may be, there may be other, larger factors looming. The S&P 500 returns dipped 37 percent in 2008. While that was a presidential election year, that was also in the wake of a major financial crisis. It can be important to keep that bigger picture in mind.

What about midterm elections?

Do the congressional elections, which come at roughly the midway point in a president's four-year term, have any relevance? As with presidential election years, it can depend on the year.

During the last five midterms, the S&P dropped an average of 18 percent. The year 2002, however, saw a much larger drop of 34.5 percent. This past year has also seen some declining numbers, in the form of two periods where the S&P 500 dropped more than 11 percent.¹

Investing with a long-term view in mind.

These numbers are interesting and may give you a great deal to think about in the short term. That said, if you are taking a longer view with your investment, you may see the markets rise and fall a number of times for any number of reasons. History can be informative and give you an idea of what might be possible, but it cannot tell you with any certainty what is coming next.

How much weight does history ultimately hold?

Not as much as you may expect. It is intriguing, and some analysts would instruct you to pay more attention to it rather than less. Historical *norms* are easily upended, however. Working with a financial professional may offer perspective on major events and allow you to think less in terms of the next few years and more toward your ultimate future.

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Citations.

1 - thebalance.com/presidential-elections-and-stock-market-returns-2388526 [8/24/18]

2 - marketwatch.com/story/stocks-historically-have-rallied-37-after-midterm-elections-will-it-happen-again-2018-11-08 [11/9/18]