ELECTIONS & THE MARKETS

It's that time again! Every four years, Americans participate in an election to choose the next President of the United States. Under normal circumstances, voting is a simple, uncomplicated act—but the months preceding it are anything but—and this year is no exception. After all, before we vote, we first have to endure the dreaded "campaign season." From endless television commercials to the plethora of yard signs, "politics" seems to become the order of the day.

If you're like us, you probably don't enjoy all the campaigning. But you also know how important the political process is. Being an informed, engaged citizen is crucial to maintaining the stability of our Republic. That means asking some pretty tough questions. And, getting the answers can be both frustrating and time-consuming.

Fortunately, there's one question you *don't* have to ask.

"How will the election affect the markets?"

This is a question we get every four years. And the answer is always the same:

Not much.

Since 1957, the S&P 500 has gained an average of roughly 9.8% every presidential election year.[1] Of course, there can be some massive exceptions. For example, in 1928, the S&P rose over 37%. In 2008, it fell over 38%.[2]

There is a danger, however, in using averages to try to predict what will happen. Take the "Presidential Election Cycle Theory" for instance. Once upon a time, many people believed that U.S. stock markets are always the weakest in the year *following* a presidential election. This was the case for Franklin Roosevelt. It also held true for Truman and Eisenhower.

But in George H.W. Bush's first year, the S&P 500 rose 27%. In Bill Clinton's first year, it rose 7%. Barack Obama's first year saw a 23% rise. Donald Trump's first year was 19%.

It's clear that the "Presidential Election Cycle Theory" just doesn't hold water. And that's true for actual election years as well. An average merely shows you what *has* happened, not what's *going* to happen. (Side note: this is why you often see the financial industry emphasize that "Past performance does not guarantee future results." Because it's true.)

"But what if the Democrats/Republicans win? Won't that have an effect?"

That's the next question we get every four years. Our answer:

Not really.

Don't believe us? Let's see what markets have done over the past 50 years. Below are the last eight presidents of the United States, with their political party next to their name. (We're skipping Ford as he took office in the middle of Nixon's second term.) The third column shows how the S&P 500 performed.[2] (You might want to cover the third column and try to guess the result—you may be surprised).

President	Party	Markets Up or Down?
Richard Nixon (1st term)	Republican	-11.36%
Richard Nixon (2nd term)	Republican	-17.37%
Jimmy Carter	Democrat	-11.5%
Ronald Reagan (1st term)	Republican	-9.73%
Ronald Reagan (2nd term)	Republican	**+26.33%**
George H.W. Bush	Republican	**+27.25%**
Bill Clinton (1st term)	Democrat	**+7.06%**
Bill Clinton (2nd term)	Democrat	**+31.01%**
George W. Bush (1st term)	Republican	-13.04%
George W. Bush (2nd term)	Republican	**+3.0%**
Barack Obama (1st term)	Democrat	**+23.45%**
Barack Obama (2nd term)	Democrat	**+29.6%**
Donald Trump	Republican	**+19.42%**

If a hypothetical investor had followed the "Presidential Election Cycle Theory", he or she would have missed out on some of the biggest gains in market history. The same is true if that hypothetical investor had made decisions based on politics. For example, an investor that didn't want to invest during a Democrat administration would have missed out on the market performance of Clinton's second term. Just as an investor that didn't want to invest during a Republican administration would have missed out on the market performance during Reagan's second term and the first Bush term.

As worked up as we often get about our political beliefs, neither party tends to have that much impact on the markets compared to the other. Historically, the S&P 500 has gone up 10.8% under Democratic presidents, and 5.6% under Republican presidents.[3] Either way, the markets go up over time. That's because the markets are driven by far more than just one person or event.

Obviously, it matters a great deal who our president is … but *not* when it comes to the markets. And that's a good thing! Here's why:

1. The Founding Fathers created a system of government where no branch (executive, legislative, or judicial) was supposed to dominate the other. The fact that neither political party, nor election years in general, have that much influence on the markets shows that our system of checks and balances extends to investing, too.
2. Again, the markets are driven by far more than just one person or event. They're controlled by the ebb and tide of trade, by the law of supply and demand, by innovation and invention, by international conflict and consumer confidence. The markets are like life. The course our lives take isn't determined by one gigantic decision, but by the millions of small decisions we make every day.

We don't know about you, but we find that comforting.

So, what's the takeaway from all this? The takeaway is that when it comes to investing, *we* control our own destinies, not politicians. The way to reaching your financial goals is by having a sound investment strategy, making informed decisions, and taking emotion out of it. *Not* by worrying about the election.

Sure, campaign seasons can cause short-term market volatility and any pre- or post-election uncertainty can too. Yet we know that making emotional decisions during periods of volatility can lead to bad results and that the best decision is often *not* to act in the face of market volatility. Why? Because it is so unlikely that we can perfectly time the market.

We also know that campaign seasons involve a barrage of information with often conflicting or negative news stories. When these stories are repeated over and over, they sometimes affect our ability to think independently, and may cause us to lose our focus on the long term. As we stay informed, we should try to avoid overexposure to the media, particularly when a news cycle repeatedly focuses on the same negative events. Everything in moderation, including the news.

So, yes watch the debates, chat amongst your friends, and decide who you want the next president to be. Do so with the knowledge that whatever happens, the markets will go their *own* way … and so will you. Regardless of the direction that you or this election takes, rest assured that your financial plan anticipates periods of volatility, that the disciplined investment strategies we have implemented together aim to achieve positive performance over time, and that history is on our side.

As your Wealth Partners with Purpose, we are always here for you. Please contact us with your questions or concerns anytime.

On behalf of everyone here at Hudock Capital, we wish you a happy (and headache free) election!

Sincerely,

Barbara B. Hudock CIMA®, CPM®
Chief Executive Officer
Founding Partner

Michael J. Hudock, Jr., CPM®
President and Founding Partner
Wealth Consultant

BBH:MJH/jz

[1] "What could the S&P 500 tell us about Trump's reelection?" *Forbes*, October 21, 2020. https://www.forbes.com/sites/greatspeculations/2019/10/21/what-could-the-sp-500-tell-us-about-trumps-re-election/#3b5151ef4664

[2] "S&P 500 Historical Annual Returns," *Macrotrends,* https://www.macrotrends.net/2526/sp-500-historical-annual-returns

[3] "Democratic presidents are better for the stock market and economy than Republicans, one study shows," *Business Insider,* August 24, 2020. https://markets.businessinsider.com/news/stocks/stock-market-election-democratic-republican-presidents-better-performance-economy-gdp-2020-8-1029528932#