



Market Performance and Presidential Politics: What Not to Believe

By David Raileanu*
October 21, 2008

Bloggers, pundits, and everyone down to Joe the Plumber agree: the upcoming presidential election, now in its last throes, is entirely about the economy. Buzzwords abound: subprime, bailout, recession ... but one question on the mind of the average voter is which party will be better for the stock market and the retirement accounts of millions of Americans. Everyone from [CNN Money](#) to [college professors](#) has attempted to answer this question using historical data. As we shall see, the historical data provide very few answers.

An October 14 [opinion chart](#) in the *New York Times* entitled “Bulls, Bears, Donkeys and Elephants” argued that a \$10,000 investment in 1929 would have fared better under Democratic administrations than it would have under their Republican counterparts. This is not the first time the *Times* has tried to make this assertion; indeed, a [book review](#) from August of this year suggested the very same thing.

The *Times* actively misleads its audience into thinking the market performs better under one party and thus represents the better choice for president in the upcoming election. Though admittedly opinionated, the chart suggests that the average investor should buy heavily during the Blue times and then sell everything off when the elephant comes back to town.

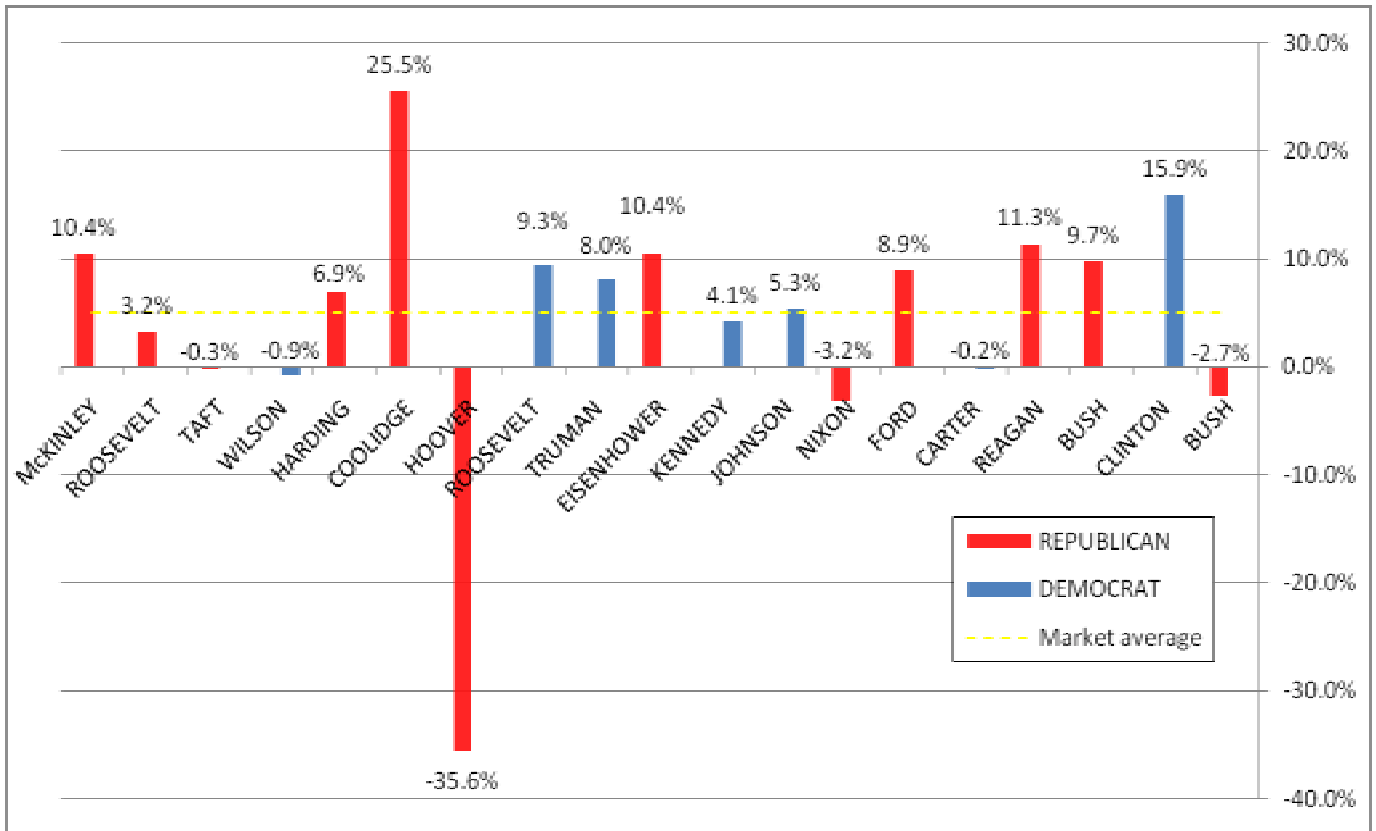
The *Times* calculated returns as of inauguration date. It's probably more meaningful to calculate returns as of election date, since the market will have already factored in expectations by the time the new president officially takes office. But that's a minor point compared to the more problematic aspects of analysis along party lines poses.

Several statistical and mathematical problems exist within the heavily biased diagram. The *Times* article looked at only the past 80 years – since 1929 – and used data from the S&P only. While the stock market has been operational since the Buttonwood Tree in 1792, significant data became available when Dow Jones started keeping its industrial average, right before the McKinley administration in 1897.

Since that time, there have been 19 presidents – 12 Republican and seven Democrats. The shortest, McKinley himself, held the office for a scant 881 days, a fortnight shy of Gerald Ford's 895 mark. The longest tenured, Franklin Roosevelt, clocked nearly 4,500 days in the Oval Office.



Using data from just 19 presidents is only slightly less problematic than examining simply the last 80 years. Without more robust statistics, it is impossible to draw any significant correlation between the political party of the candidate and the performance of the market. But don't take our word for it: let the numbers speak for themselves.



Yearly return by presidential administration, 3/4/1897 to 10/15/2008

Source: www.djindexes.com, 2008

Note: Percentage gains for each president are compounded annual growth rates.

Not all chief executives presided over a gain in the market. Nixon and Hoover, both Republican, posted losses of -3.2 and -35.6 percent annually, respectively, while Jimmy Carter's presidency saw a net change of only 8.35 points for an entire tenure loss of 0.9%.

From inauguration to inauguration, Calvin Coolidge, a notoriously laissez-faire, small-government conservative, moved the industrial average by the greatest margin, from 88.20 on August 2, 1923 (following the death of Warren G. Harding) to 313.86 on March 4, 1929, the day he handed over the reins to Herbert Hoover. This represents a growth of more than 250% during his 2,041 days in office, the largest of any



president. The gains, nevertheless, were more than undone by the time FDR took over, who inherited a market at just 53.84, representing an 83% loss during the Hoover administration.

Perhaps a different kind of statistic would be helpful to look at a president's and his party's effectiveness more clearly. From the first available data in 1897 to this past week, the market has netted a gain of about 8500 points. This represents an annual growth of about 5%. Theoretically, if a president enacted policies that had no appreciable effect on the market, he could expect that same yearly return.

Thankfully, most presidents actually beat this average. Eleven of the past 19 commanders-in-chief have posted an annual improvement of 5.0% or better. Unfortunately though, the party affiliations of these 11 executives do not differ significantly from the overall makeup of elected officials: Republicans enjoy a slight lead over the Democrats, 7-4.

The chart shows a remarkable amount of consistency after the turmoil of the late '20s and early '30s. Market performance tends to hover around the average, perhaps a little better over time. And no preference is apparent between either of the two political parties. The average percent gain in the markets, since 1897, under the Republican administrations was 3.7% annually, compared to 5.9% under the Democrats.

The *Times* article made a specific point of showing that even with the exclusion of the devastating Hoover administration, the collective Republican effort could not come close to what the Democrats had done. Using the Dow Jones average, and using a compounded annual growth rate, the GOP mark jumps from 3.7% with Hoover to 7.3% without him, beating the Democrat average of 5.9%. In all fairness, the worst Democratic president must be thrown out as well, though this only moves their average to 7.0%.

The lack of data points makes analysis virtually meaningless. Imagine a baseball manager comparing the statistics of two hitters, one who had come to bat 12 times and the other seven times. The lack of plate appearances means their batting averages offer no indication of their skill level – especially, as is the case with the political parties – when their averages are nearly identical.

Three other factors contribute to make it impossible to infer whether either party, at the presidential level, has an advantage when it comes to generating above-average market returns. First, there is no consistent pattern between important fiscal and monetary policies and party affiliations. For example, Kennedy, a Democrat, passed significant income tax cuts (albeit posthumously, by a Democratic Congress), and the first George Bush oversaw an increase in the marginal tax rate and reductions in tax breaks for the wealthy.



Second, such analysis does not take into consideration the makeup of the Congress. Due to fundamental differences in philosophy about the role of government, a president working with a Congress of the opposite party, similar to the current political climate, will have far less ability to influence policy and thus impact markets.

Third, any policy action taken by an administration will take anywhere from six months to many years to have tangible effect in the markets. The president who takes over in 2009 will inherit a struggling economy that may temper market performance, and it would be unfair to penalize the next administration when assessing its track record.

So, should investors build their portfolio based on whether they expect a Democrat or a Republican to be in the White House next year? There are surely more meaningful ways to select an asset allocation. And the next time someone says the market does better under one party or the other, ask them how many plate appearances a hitter should have before being called up to the major leagues.

**David Raileanu is an intern working for Advisor Perspectives.*

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>