Stocks and the Presidency

Investors with a sense of the history of the financial markets have high hopes for 2011. That's because since the 1930s the stock market has generally done best in the third year of a President's term. MarketWatch's Mark Hulbert, looking at the Dow Jones Industrial Average since 1896, has found that the average Dow return in the third year was 15.5%. In contrast, the first year of a President's term averaged 8.8%, the second 0.4% and the fourth 4.1%.

Writing in *The New York Times* about the 65 years since World War II, Floyd Norris observed that third years have had positive returns 94% of the time, with an inflation-adjusted median change in the S&P 500 of 18.0%. That's nearly three times better than the median for the fourth year of 6.7%. The fourth year, in contrast, has been best for growth in the Gross Domestic Product, with above-average growth 75% of the time. Indeed, during this time frame, 62% of all economic growth has happened in the third and fourth years of Presidential terms, just 38% in the first two years.

Unlike the "Super Bowl indicator," the third-year phenomenon is statistically significant, though no one has a satisfactory explanation for it. One popular theory is that Presidents do all they can to have a high-growth economy as they head into re-elections. The table below would seem to bear that out. The table shows total returns for the large companies represented by the S&P 500-stock index.

Develop your own plan

Of course, the real driver of stock market returns is the economy, but growth can be affected by politics. Congress headed off major tax increases set to go into effect January 1. This action, coupled with the "Quantitative Easing" policies of the Federal Reserve Board, may lay a foundation for solid growth this year. However, there is some concern that the ills of the housing market have not been fully resolved as yet. Lingering problems in foreclosures and unemployment could undermine the recovery.

If investing were easy, everyone would be good at it. The record suggests that such is not the case. If you would like an independent review of your portfolio management strategies, we will be pleased to be of service.

Post-war stock market performance
in the third year of a Presidential term

President	**Year**	**Total return, S&P 500**
Harry Truman	1947	5.71%
	1951	24.02%
Dwight Eisenhower	1955	31.56%
	1959	11.96%
John Kennedy	1963	22.80%
Lyndon Johnson	1967	23.98%
Richard Nixon	1971	14.31%
Richard Nixon/ Gerald Ford	1975	37.20%
Jimmy Carter	1979	18.44%
Ronald Reagan	1983	22.51%
	1987	5.23%
George H. W. Bush	1991	30.55%
Bill Clinton	1995	37.43%
	1999	21.04%
George W. Bush	2003	28.70%
	2007	5.49%
Barack Obama	2011	?

Source: M.A. Co.

(January 2011)