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MARKET MATTERS: Politics and Wall Street, opportunities amidst mixed signals


Joseph Matthews

There seems to be nowhere to hide from the incessant political drumbeats these days, what with the presidential election and many congressional races to be decided in less than 90 days.

For many of us, the ever present discussions, debates and advertisements are just white noise, yet, standing out in the rhetoric is a steady theme about the candidates' proposals for handling the economy and how that may impact the financial markets. Each has their own idea about the best way to stimulate the economy, bring jobs back to the U.S., maintain a bull market and reduce the national deficit.

Another common adage is that whoever presides in the Oval Office, along with the majority party in Congress, often holds influence over market performance. However, like other myths and urban legends, a review of the history of the stock market and presidential elections reveals that what some may consider common knowledge is not necessarily correct.

In fact, a recent review of the history of market activity compared to which party occupies the White House indicates that the stock market has historically performed better under a Democratic president than a Republican. However, much of this can be attributed to timing in the business cycle, rather than policy changes, and should not be viewed as a guarantee or indicator of future conditions, regardless of who wins the White House.

Another caveat to that statement is that the markets also tend to perform better when there is a Democrat in the White House and a Congress that is divided or Republican. In fact, a review of the S&P 500 returns comparing White House occupants and congressional control from December 31, 1928, to December 31, 2015, showed that the highest S&P price returns in that period — 13.6 percent — came during the years when a Democrat was president and control of Congress was split.

That also held true for the second-highest average level during that period — 13.3 percent — for years when a Democrat was president and both houses of Congress were controlled by the Republican Party.

Although the market typically is not fond of change and historically has not viewed a change of administration favorably, the data shows that returns average 7 percent during election years, with gains concentrated in the summer months. Considering that the market has trended upward this summer, it remains to be seen whether it will follow historical patterns.

Nonetheless, investors should keep in mind that markets typically do not respond well to uncertainty, and that history is no guarantee of future results. Avoiding knee-jerk reactions to market fluctuations can help investors stay on a path toward their long-term financial goals.

Other factoids that may give a glimpse of future investment opportunities include the finding that the third year of a presidential term usually is the best performing year for stocks, according to a review of the S&P 500 going back to 1931. Data also shows that the third year of a president's term has historically been the best for both parties, with the S&P 500 averaging close to 13 percent.

While much can be found from the review of presidential elections and the stock market, it should be repeated that business cycles are the prime motivator for market fluctuations, and those cycles generally ignore the party in the White House. Similarly, the popularity of the president has little to do with market trends.

Ultimately, financial success requires knowledge of the field, persistence and, above all, the ability to do solid, viable research to make the most of opportunities and trends. Similarly, buying into urban myths without applying research skills to the tenets of those myths is far more likely to result in disappointment than a windfall of profitability.

Joseph Matthews is a Financial Advisor with the Wealth Management Division of Morgan Stanley in Fairfield. He can be reached at 203-319-5165 or by email at joseph.matthews@morganstanley.com.