Santa Barbara Independent WHO. WHAT. NOW.

What Do the Election Results Mean for the Market?

Kevin Bourke Ponders the Futures

By Kevin Bourke

Friday, November 7, 2008

Election Day is in full swing as I write this, and one would have to drive deep into the countryside to miss the excitement in the air. On Monday, November 3, those unlucky enough to be on Highway 101 were faced with gridlock that took hours to untangle. The cause? A masked gunman demanded that he be allowed to attach a campaign flag to a freeway overpass. Many reports from across the nation indicate that this election has garnered unprecedented attention. Predictions are that we will see the largest turnout ever. It's an exciting time in America's history.

What can investors expect to happen when one or the other political candidate is elected president? What happens historically in the short term and in the long term?

Money Talks

The general belief is that a Republican president is good for the economy, and thus for the stock market. In the short term the numbers bear that out. Looking back over the last 120 years, in the day following a Republican win, the stock market has advanced 0.7 percent on average. If a Democrat wins the oval office? The stock market declines 0.5 percent the next day, according to Jeremy Siegel, in an August 29 Yahoo Finance article.

But looking at long-term results a different story unfolds, as can be seen if we look at stock market statistics going back to 1953.

During those decades the average annual return of the S&P 500 index under Republican presidents was 10.7 percent, according to Morningstar Direct 2008. Not bad. The return under a Democrat president? 12.8 percent. Surprised?

Another fact emerges when we look closely at the relationship between stock market returns and politics. If we look over the last 50 years or so, the best results have been attained when one party controlled the presidency and the other controlled Congress. The best results on average? A Democratic president combined with a Republican-controlled Congress.

What does all this mean for investors today? Should we start making decisions depending on who is elected to office? Probably not. What then can we learn? Not much, other than to illustrate that being invested over the long term makes sense. Whether Democrat or Republican presidents were in office, the market manages to advance over the long run.

More timely questions today would be: Are you properly diversified? Are you trying to time the market? If you work with a financial consultant, has that consultant experienced all sorts of market conditions, whether Republican or Democratic presidents are in office? Do you have clearly defined goals for your investments and a plan to get there?

This is a critical time for investors since attention has been focused on just a few issues, primarily the subprime mortgage crisis and the election. So Democrat or Republican, take a deep breath, review your goals, and get yourself back on track.

Kevin Bourke is a registered principal with, and offers access to securities through, LPL Financial, member FINRA/SIPC