The Historical Impact of Elections on the Stock Market

In the midst of the presidential election cycle hype, you might hear any number of wild claims being thrown out there: If Donald Trump wins, the bond markets will crash; if Hilary Clinton wins, the economy will go in the toilet. When you hear that kind of partisan rhetoric being cast about, realize that what you're hearing is spin. What happens during a president's term can impact markets, but until a person is sitting in the oval office and making policy decisions, there is no way to know definitively what will happen.

What we do have is 100 years of data to review what has happened, particularly in election years. According to a Nasdaq report released earlier this year, markets tend to fall in the election year itself. In fact, the markets, historically, have taken their biggest lumps in the final year of a president's second term.[1] As of October 11, however, the Dow Jones industrial is up 4.04% for the year, giving further validity to the claim that past performance is not indicative of future results.

The Presidential Election Cycle Theory

Stock historian Yale Hirsch developed the Presidential Election Cycle Theory, stating that U.S. stock markets are weakest in the year following a presidential election.[2] Early in the 20th century, that theory played out with the market down 27.3% in FDR's first year in office. More recently, we have seen a shift. In George H.W. Bush's first year, the market was up 25.2%, and the start of both of Bill Clinton's terms showed market gains of 19.9% and 35.9%.

As you sift through the outcome of this presidential election, keep the following ideas in mind as you make any changes to your portfolio.

Emotional Gut Check

Presidential elections are emotional for voters. There is no denying that fact, but leave your emotions at the voting booth. Do not let your emotions rule your investments. If you invest based on your heart instead of your head, then you could miss out on possible gains or hinder yourself from avoiding potential losses.

Presidential Policies

Do pay attention to policies being discussed by the candidates. What economic ideas could become a reality? Key issues to consider are the candidates' ideas on corporate taxes, Medicare, Social Security and jobs, just to name a few. Keep in mind though, any proposals could change or could fail to get Congress' approval.

Market Volatility

A 2016 Merrill Lynch study says if we've learned anything about previous election cycles, then we should expect volatility whether that extreme movement shifts up or down.[3] To prepare for this volatility, it is important to assess your current risk exposure and consider a structured, bucketed approach to provide for your various needs, such as asset protection as well as growth opportunities. For more on this approach, click over to our previous blog "Creating a Financial Plan for Today's Volatile Economy."

Regardless of which officials are elected this year, it is important to have a comprehensive plan that can adapt and succeed in any economy. For more tips on navigating the markets as part of your retirement plan, give us a call at (256) 715-0094 today to request a consultation to learn more!

1 http://www.nasdaq.com/article/how-presidential-elections-affect-the-stock-markets-cm586601
2 http://www.investopedia.com/terms/p/presidentialelectioncycle.asp
3 https://www.ml.com/articles/how-presidential-elections-affect-the-markets.html