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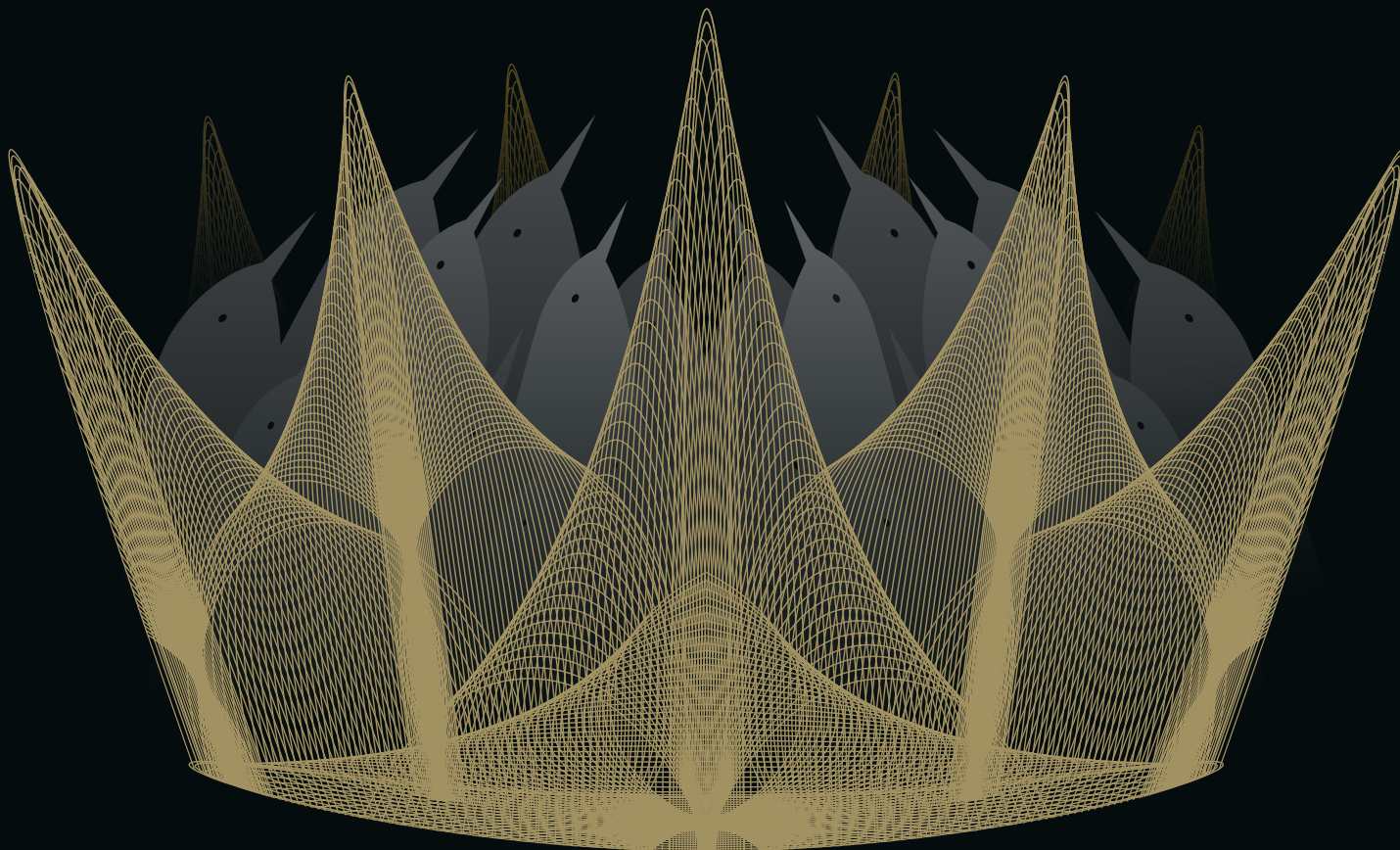
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# 18

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# “ How will this year’s presidential election influence the financial markets? ”

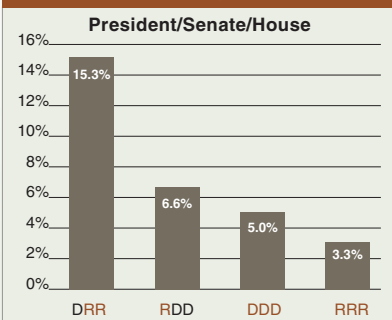
By Brian D. Holmes

Every presidential election highlights stock market performance as a function of whichever party is in office. Contrary to belief, the market has historically fared better during Democratic administrations. Since 1940, as Chart 1 illustrates, the worst-performing years have occurred during a GOP-controlled presidency, House, and Senate (3.3 percent annually). The best-performing years have correlated with split control, especially with a Democratic president and Republican-controlled House and Senate (15.3 percent annually).

Prognosticators believe 2012’s elections will bring what the markets historically like best: A Democrat, President Barack Obama, will be re-elected, and Republicans will take over the Senate. This fall, 33 Senate races are up for grabs, and

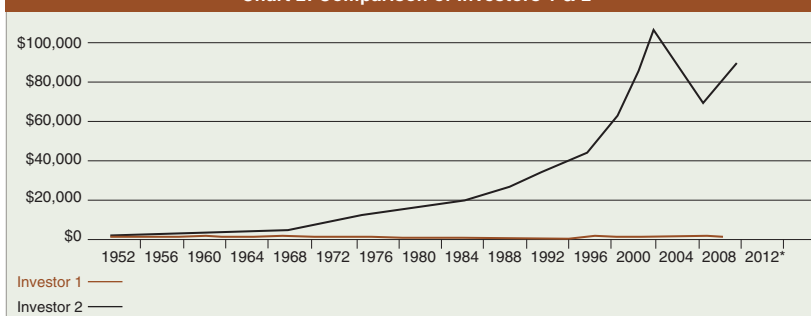
**Chart 1: Stock Market Returns by Political Party Control 1940–2010**

Based on election dates, parties identified as:



Source: U.S. House of Representatives, U.S. Senate, Gallup Inc., FactSet, J.P. Morgan Asset Management 6/30/2010

**Chart 2: Comparison of Investors 1 & 2**



\* Through March 31, 2012; data for final 9 months is unavailable.  
Source: Graziado Business Review (Pepperdine University), Standard & Poor’s


Republicans stand to pick up as many as six seats, for a 53–46–1 majority, with one independent. The House, now under GOP control, 242–192, will likely not change.

**If the stars align this way, additional good news is likely:** Since World War II, whenever an incumbent has won the White House, the markets have averaged over 9 percent, versus 2 percent with a loss. Even more astonishing: Market bottoms have occurred only once during the fourth year of the presidential term (2008). The market bottom has averaged 1 year, 6 months into the presidential term, and 13 out of 18 times during the president’s second year in office.

**There could, however, be storm clouds in 2013–2014.** Chart 2 shows how, since 1952 (when the modern Fed began influencing the economy), had Investor #1 invested in the S&P 500 the first trading day of

an inaugural year and liquidated September 30 the second year (21 months later), his/her portfolio would have earned minus 13 percent. Had Investor #2 bought over the next 27 months, from October 1 of the second year through December 31 of the fourth year, he/she would have earned over a total 8,595 percent\*.

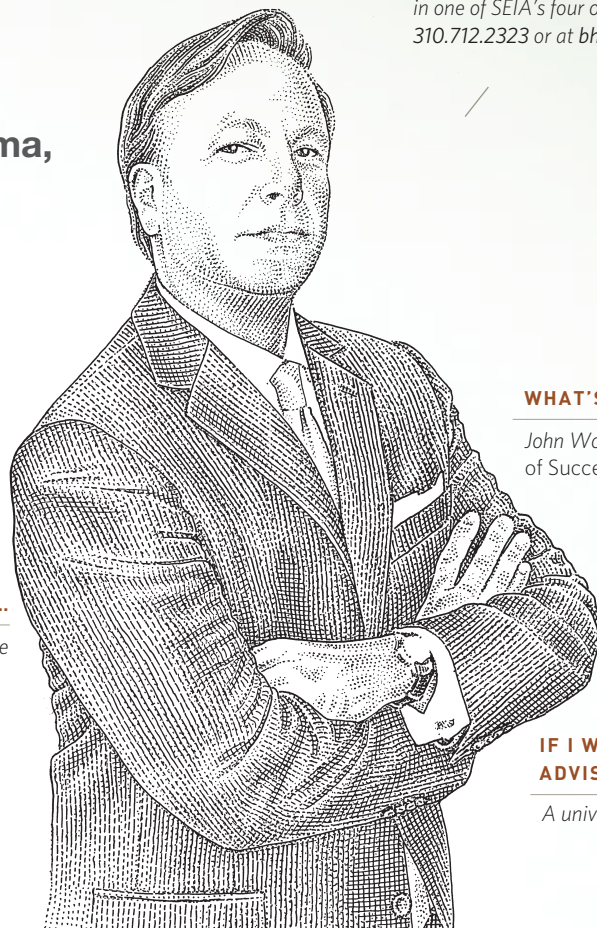
**In short:** Virtually all gains in the S&P 500 over the past 60 years have been earned during the last 27 months of the various presidential cycles.

Certainly, history has favored a Democrat in the White House and Republicans in the House and Senate after typically treacherous early months. Several business cycles must occur for a full-blown effect on the markets. Yet, as long as investor sentiment continues improving, barring unforeseen headwinds (a worsening European crisis), we could be in store for another positive fourth year of the election cycle. 

\*Calculated through March 2012, missing the final nine months of the current presidential cycle.

**“Many prognosticators believe the 2012 elections will bring what the markets historically like best: A Democrat, President Barack Obama, will be re-elected, and Republicans will take over the Senate.”**

—Brian D. Holmes



**How to reach Brian D. Holmes**

*I encourage a short initial conference call and then an in-person complimentary consultation in one of SEIA's four offices. I can be reached at 310.712.2323 or at bholmes@seia.com.*

**I NEVER LEAVE HOME WITHOUT...**

*Kissing my wife and children goodbye*

**WHAT'S ON MY DESK...**

*John Wooden's Pyramid of Success*

**IF I WEREN'T A WEALTH ADVISOR, I'D BE...**

*A university professor*

**About Brian D. Holmes**

Brian D. Holmes, MS, CFP, AIF, CMFC, is the president and CEO of Signature Estate & Investment Advisors LLC. For five consecutive years (2007—2011), Mr. Holmes has ranked in the top 25 in *Barron's* annual list of the Top 100 Independent Financial Advisors. He has been in the securities and insurance business since 1984 and is the managing partner of the Century City branch of the John Hancock Financial Network. Mr. Holmes is a past member of the Schwab Institutional Advisory Board and the UCLA Department of Economics Board of Visitors. He received his bachelor of science degree from the University of California, Los Angeles. A 26-year resident of Malibu, CA, he is involved with numerous charities throughout Southern California.

Assets Under Management  
**\$2.3 billion (firm, as of 3/31/12)**

Minimum Fee for Initial Meeting  
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Minimum Net Worth Requirement  
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\$1 million (investment services)**

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**Confidential**

Financial Services Experience  
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Compensation Method **Asset-based fees**

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ILLUSTRATION BY NANCY JANUZZI



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