Don't Play Politics with Your Portfolio

Like many Americans, you may wonder how election outcomes could affect the financial markets – and more importantly, your investment strategy. You may also wonder whether you should make any changes to your strategy based on election results. Although changes in government policies can have a sizable effect on investment returns, they're much harder to predict than you might think, and the consequences of policy changes are usually not as expected. As a result, we think it's better to follow time-tested investment principles and avoid letting politics influence your long-term strategy.

To help you better understand how financial markets have performed under various political parties in power in the past, review the following table.

Performance of Stocks, Bonds and the Economy

President	Congress	Stocks (DJIA) Since 1901	Industrial Production Since 1901	Inflation (CPI) Since 1901	Long-term Gov't Bonds Since 1925
Democrat		12.4%	5.3%	4.5%	3.7%
Republican		7.4	1.8	1.8	7.8
	Democrat	10.7	4.5	4.4	5.4
	Republican	8.0	1.5	0.7	6.4
Democrat	Democrat	12.2	6.3	4.6	2.6
Democrat	Republican	13.3	1.1	3.8	8.1
Republican	Republican	6.3	1.6	-0.4	5.5
Republican	Democrat	8.7	2.0	4.0	9.0
All Periods – Buy & Hold		9.7	3.4	3.0	5.7

= Democrat
= Republican

It's interesting to note that a study found more than 90% of the capital gains in the Dow Jones Industrial Average from 1897–2004 took place on days when Congress was out of session.

Source: "Congress and the Stock Market" academic paper by Michael F. Ferguson, University of Cincinnati Department of Finance, and H. Douglas Witte, University of Missouri Department of Finance. Updated March 13, 2006.

Source: Ned Davis Research, 3/4/1901 – 5/22/2012. Stock returns are average annualized returns beginning in 1901 and include dividends reinvested. Bond returns begin in 1925 and are total returns. Past performance is not a guarantee of future results. An index is not managed and is unavailable for direct investment. Dividends can be increased, decreased or eliminated at any point without notice. Congress is represented by the majority party – party with average % control in the House and % control in the Senate greater than 50%.

You may be surprised to learn that the stock market has increased under every political combination in Washington, providing an annual average return of 9.7% per year. And the economy has grown regardless of who controlled the White House and Congress.

As the table indicates, the stock market and the economy have performed better under Democratic presidents. They've also performed better when Democrats had the majority in Congress. However, inflation has been lower during Republican presidencies and congressional majorities. This has resulted in improved performance for the bond market.

It might be tempting to think these trends will continue in the future, but we think it could be dangerous to your wealth to predict what's going to happen in the financial markets based on the political configuration in Washington.

While political leaders may change our tax laws, government spending and industry regulations in hopes of having a positive effect on economic growth, jobs, interest rates and inflation, the results are not nearly as predictable as they hope.

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