Which Presidential Candidate Will Have a Better Effect on the Stock Market?

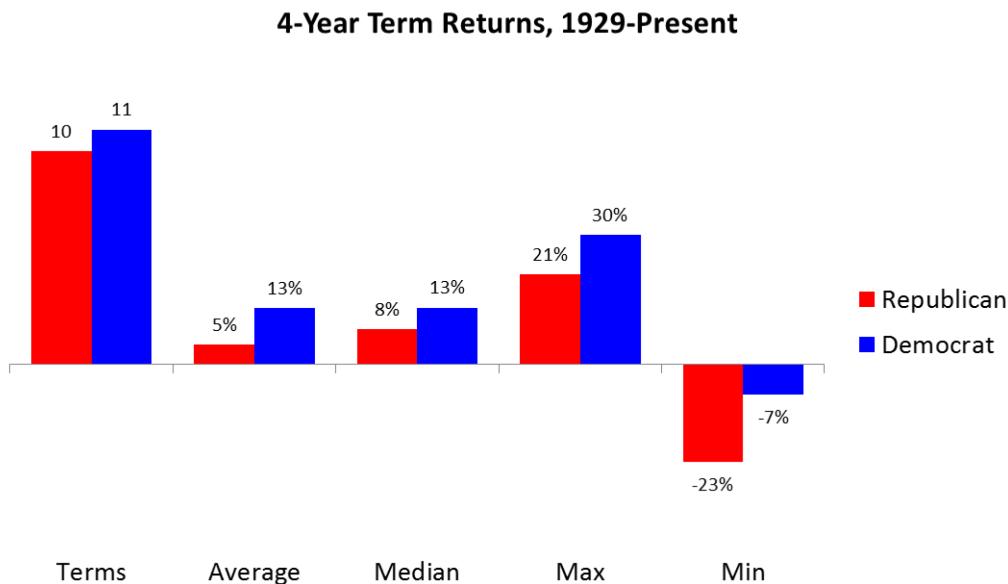
Americans decide on Tuesday November 6 who will lead this nation for the next four years. Which outcome will be better for the stock market? And how should you position your portfolio to take advantage of the result?

Let's look at the historical record for clues and possible answers.

This Game is Too Easy

We have good data for the total return (i.e., price appreciation plus re-invested dividends) of the S&P 500 index going back to the late 1920s. Herbert Hoover, a Republican, took office in early 1929, just a few months before the great stock market crash of that year. His victory was the first of 10 presidential races since then which were won by the Republican party. Barack Obama's first term ends in just a few months, 84 years after Hoover took office. Obama's is the most recent of 11 Democratic presidencies during that time frame.

Here is how those 10 Republican-led terms stack up against the 11 Democratic-led ones, in terms of average annual returns (using data through September 30, 2012 for Mr. Obama):



Source: Inkwell analysis of data from S&P, NYU, and Bloomberg

So the average annual return during a Democratic presidency has been 13% compared to just 5% for Republican presidencies. The median annual return is also higher at 13%, versus 8%. The maximum annual return is also higher (at 30% versus 21%), and the minimum annual loss is not as low (-7% versus -23%).

Well, that was easy. End of article. Case closed. If you want the market to go up, vote for Obama. Right?

Forget the Outliers

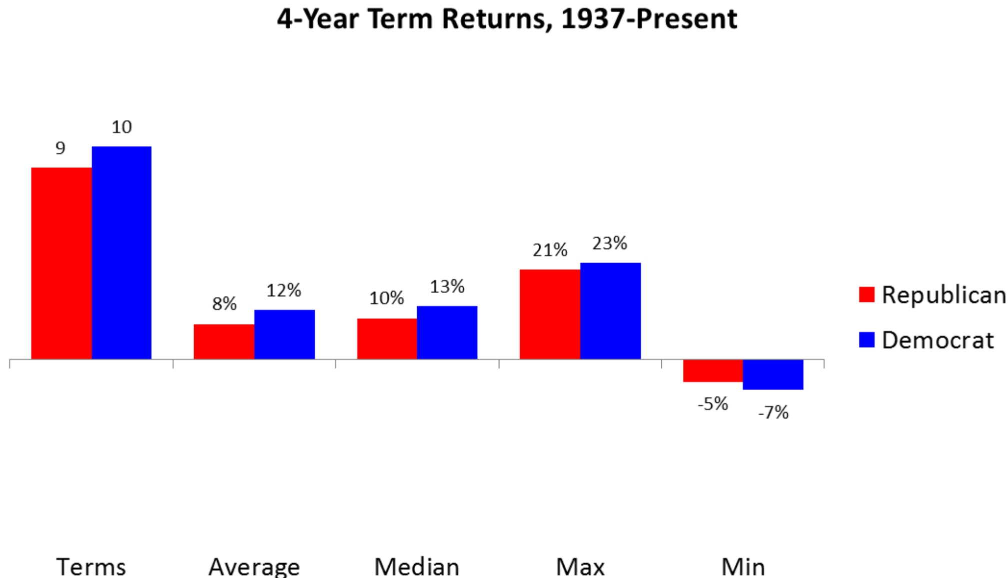
Well, not so fast.

Take another look at that chart above. See that red column on the far right with a label of -23%? Can you guess which four-year period that represents? It's the first one in the data: 1929 through 1932. The great crash of 1929 was merely the beginning of a multi-year malaise in the stock market, and the returns were abysmal.

Now look at the "Max" blue column label of 30%. Based on what we just saw after the Great Crash, would you care to take a guess as to which 4-year period saw an annualized return of 30%? Of course, it was the very next period: Franklin D. Roosevelt's first term from 1933 through 1936. After the market fell so far in the preceding four-year period, it seemed as if it had nowhere to go but up in the ensuing four years.

The first period occurred when the Republican Hoover was in office, and the second period occurred under the Democrat Roosevelt. So what if we just scratch those two terms, and re-do the analysis starting from Roosevelt's second term in 1937?

Here are the same numbers for the 9 Republican and 10 Democratic presidencies from 1937-2012:



Source: Inkwell analysis of data from S&P, NYU, and Bloomberg

That looks more like an even ballgame. The blue columns are still superior in three of the four categories, but the margin of difference is much smaller after we ignore the massive effects of the Great Crash and its immediate recovery.

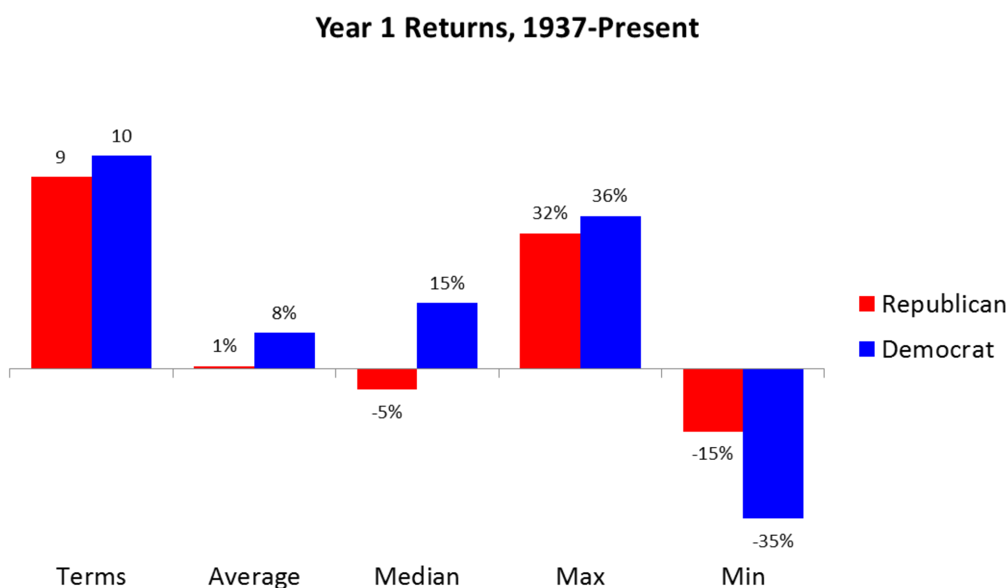
But the data still seem to point to a vote for Obama being tantamount to a vote for the stock market. Which seems odd, given all the bluster from the predominantly business-minded Republican voter base. After all, in 2008 Goldman Sachs employees as a group were one of the largest contributors to Mr. Obama's campaign. According to a recent Wall Street Journal report, though, they have given nearly $2 million to the Romney campaign.

By the way, this seems like a good time to point out that all of our data here is presented on a calendar-year basis. That is, the four-year annualized returns are being calculated as of the January 1 following each presidential race (but before the winning candidate took office) to the December 31 four years later. We would have preferred doing the calculation from November 1 to October 31—or even using the actual election dates—since those dates would have been more precise, but our S&P data goes back to the late 1920s only on an annual basis. We have monthly data going back only as far as the early 1970s. We did repeat the analysis for the ten presidential terms from 1973-2012, but the results were not significantly different from the 1937-2012 chart shown above.

What About 2013?

So those are the numbers for how the market has performed over those previous four-year periods. Obviously, a sample size of 19 presidential terms is nothing to get excited about, so we should take these results with possibly an entire shaker of salt. But what if we want to ask an even more narrow question: how does the stock market react in the first year of a president's term?

Repeating the same analysis as above, but ignoring the second, third, and fourth year of each presidential term, gives us these results:

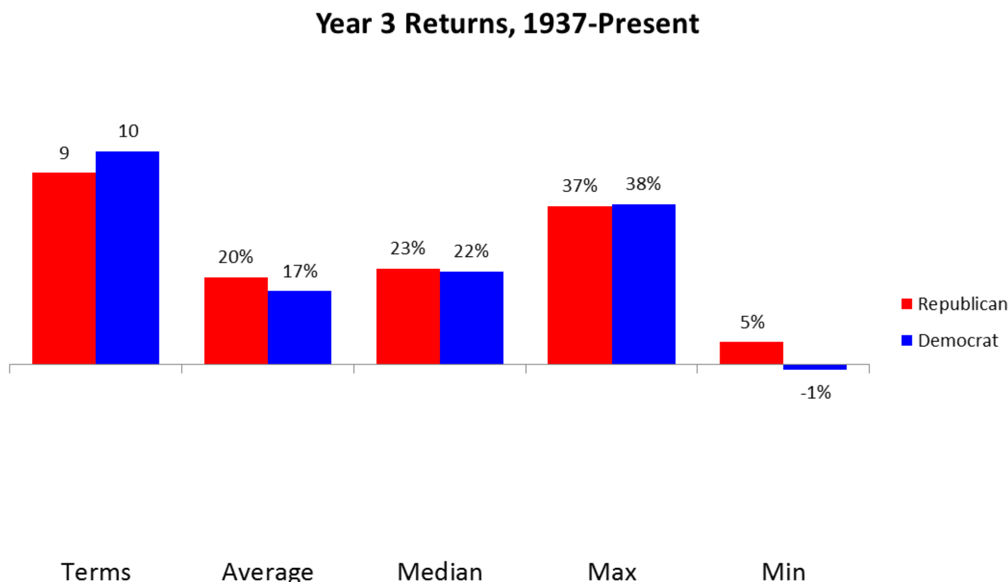


Source: Inkwell analysis of data from S&P, NYU, and Bloomberg

This chart seems to be an even stronger indication that an Obama victory in November will bode well for a strong stock market in 2013. Though the Democratic returns shown in the blue columns exhibit more volatility (i.e., a higher maximum and a lower minimum), the 8% average return during the first year of Democratic presidents' terms dwarfs the 1% average return for Repbulicans' first years. So if it's a strong 2013 for stocks you want, it seems like you should be rooting for the Obama-Biden ticket.

In Case of a Romney Victory, Be Patient

If the Romney-Ryan ticket prevails in November, though, and if 2013 plays out according to the preceding chart, then stock investors may want to position their portfolios in a more defensive posture. However, if historical trends hold up in the face of a Romney victory, then 2015 could be quite a good year for the market:



Source: Inkwell analysis of data from S&P, NYU, and Bloomberg

Typically, the third calendar year of any presidency is a good one for the stock market, no matter the political affiliation of the leader. As it turns out, that third year has been an especially good one during Republican administrations. Not only do these years show a higher average and median annual return for the Republicans' third years, but the minimum annual return of +5% in Year 3 is actually greater than the average annual return of +1% we saw in Year 1 above.

But Please Feel Free to Ignore All of This

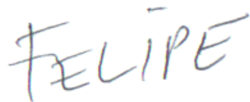
In the end, analyses like these are pretty silly—not worth the time or hassle. Does the stock market really behave in a certain way if one man is in the White House, and a different way if someone else is there?

Of course not.

Market forces are going to do their thing based on many other criteria than the affiliation of the leader of the Executive Branch of our government. If there is any take-home message from these charts, it should be how little impact the political party affiliation of the resident of the White House has on the stock market.

If you plan to risk your hard-earned capital in the market based on whether there is an R or a D listed beside the current president's name, then perhaps this sort of arithmetic will be of use to you. But surely you would rather risk your capital on more sensible terms than that. Stocks will be driven more by free market forces such as interest rates, employment statistics, international trade, and even good old fear and greed, all of which are out of the realm of control of our Commander in Chief.

So feel free to ignore this analysis, but we do hope it helps you sleep better at night. No matter who we choose as our next leader, the stock market is just going to keep doing its thing.



Felipe Garcia, CFA
Chief Investment Officer
INKWELL CAPITAL LLC

Aaron Byrd, CFA
President
INKWELL CAPITAL LLC