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INVESTMENT COUNSEL

Market Observations
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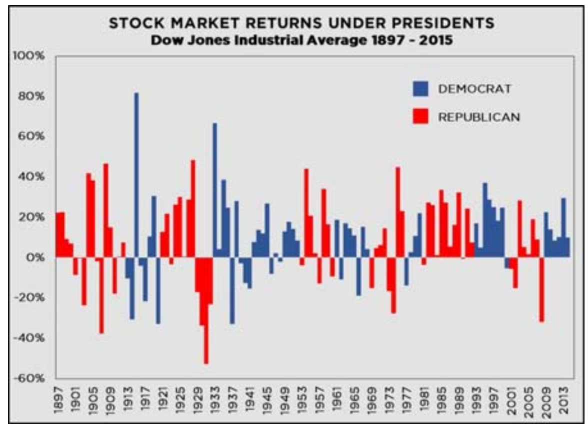
DOES IT MATTER?

As the field of candidates has narrowed in the campaign for the U.S. presidency, investors appear to be focusing more on potential economic and market outcomes under a new president. The general policy inclinations of the two major political parties are relatively clear. Each party asserts that its policy prescriptions will best lead to economic prosperity and, by inference, to better market returns. With respect to economic growth and stock market returns, does the president's party affiliation matter for investors? A review of historical outcomes can provide some perspective for assessing expectations from a new presidency.

Perspective

The 119-year history of the Dow Jones Industrial Average ("DJIA") provides the pattern of annual stock market returns shown in Chart I. Each year has been color-coded to show the respective party of the incumbent president. The record is 64 years of Republican presidents and 55 years of Democrats. A casual assessment of this pattern reveals few obvious biases. Favorable and unfavorable market outcomes occurred under both parties.

Chart I



The record of annual real U.S. economic activity dates from 1930. Over this 86-year period, the record is 47 years of Democrats and 39 years of Republicans. Chart II provides a comparison of outcomes by presidential party. Average real economic growth under both parties reflects the fact that the economy has grown in 68 of 86 years. The growth advantage falls to the Democrats with an average annual rate of +4.6%, above the average for all years of +3.3% and the Republican average of +2.1%. Chart III provides stock market return outcomes for the DJIA over the same 86-year period. Again, average annual stock market gains under both parties reflect positive stock market returns in 62 of 86 years. Investors fared better under Democrat presidents with an average annual DJIA return of +11.1%, above the average for all years of +8.7% and the Republican average of +6.8%.

Chart II

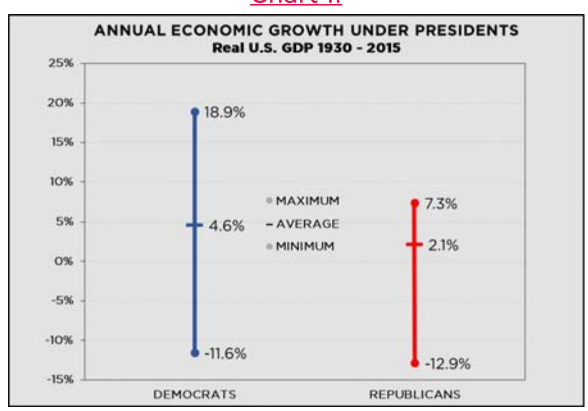
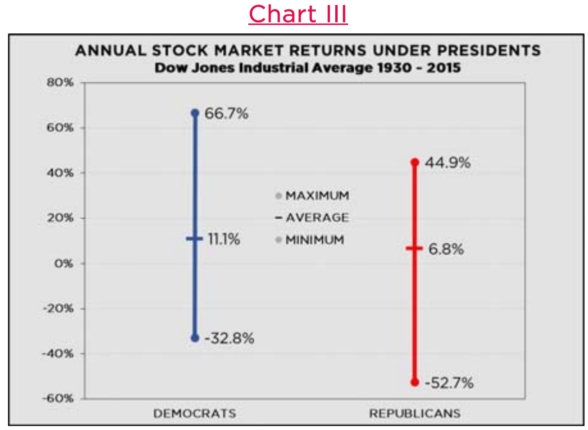


Chart III



Investment Implications

While historical outcomes are interesting, a cause-and-effect relationship between a president's political affiliation and rates of economic growth and stock market returns should not be assumed. The economy and the stock market each are impacted by a wide range of constituents: governments (federal, state and local); businesses (owners and managers); consumers (domestic and foreign); and investors (individual and institutional). The economy grows and stock markets gain most but not all of the time under any president. Portfolios are best managed with a clear understanding of this uncertainty and its implication for reaching specific investment goals.