

# How US Election News Affect The Dow

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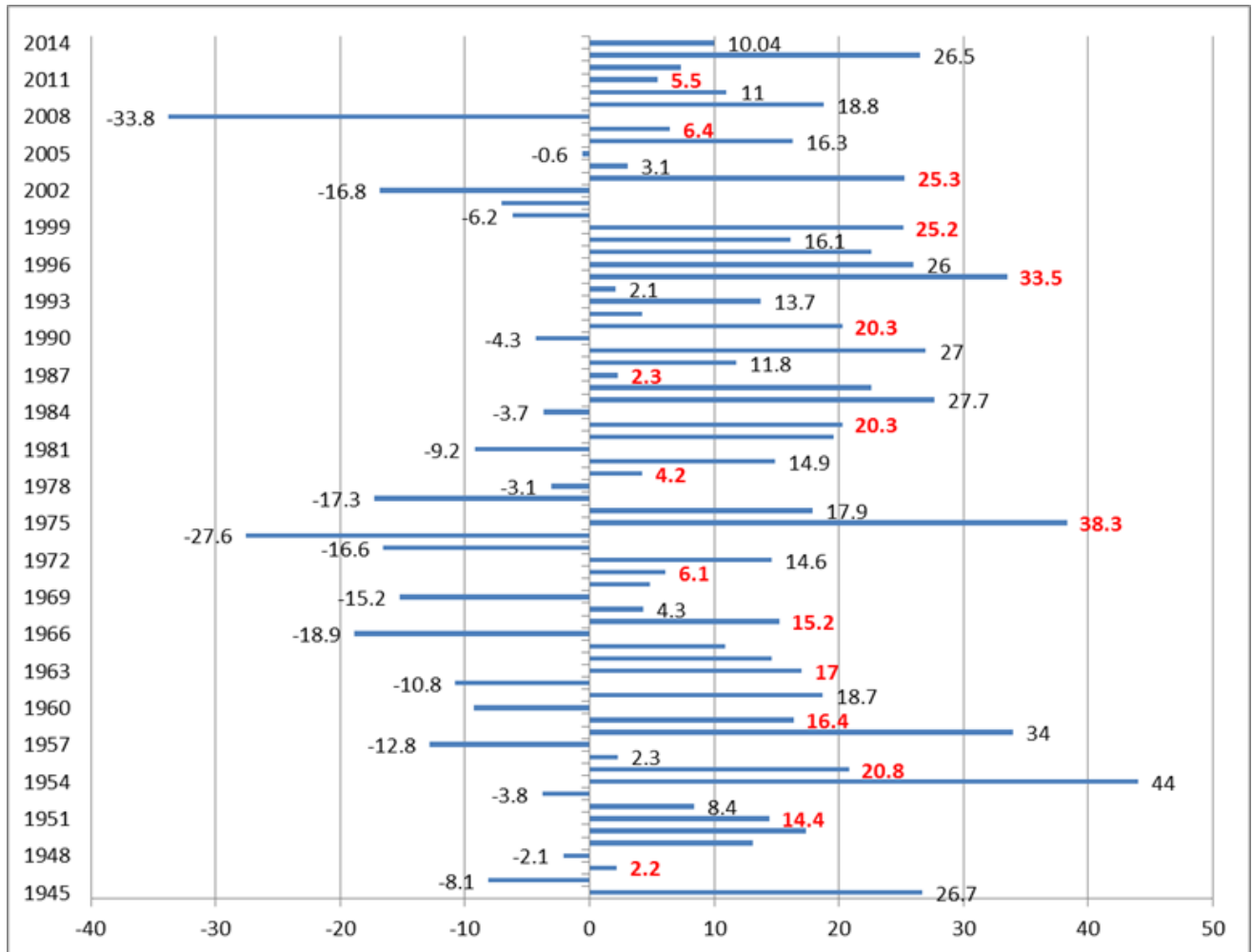
Politics is the distribution of benefits and burdens on society as a whole. The impact of the political process is a direct result of the public policies that are endorsed by elected officials. Over time, these policies have a dramatic impact on the US economy. With this in mind, many people follow US election cycle news in order to forecast the future impact of the policies promoted by our elected officials. A key measure of this impact is assessed by evaluating the performance of the Dow Jones Industrial Average Index (DJIA).

The chart below provides a summary of the calendar-year performance of the DJIA since 1945. Over this period of time, the citizens of the US have elected 12 presidents, with seven presidents serving two four-year terms (Nixon is an exception). Over the last 70 years, the Office of the US Presidency has been equally held by a member of The Democratic Party or The Republican Party.

## RESULTS OF THE DATA

The performance of the DJIA in relation to the presidential election cycle has been mixed over time. However, there are some key points that are worth noting. First, when a democrat has held the presidency, performance during the first year of his term has been very strong with the exception of Carter (1977), whereas performance when a republican has held the office has been weak, with the exception of Reagan's first term (1981) and HW Bush's term (1989). Second, the performance during the second year of the presidential term has been relatively unpredictable. This in turn has limited the technical investment value of such information. Third, the performance of the DJIA has always achieved positive results during the third-year of a

presidential term, and performance has exceeded 10% almost two-thirds of the time. This finding is the most significant of all of the results, and is highlighted in red in the table below.



Fourth, the performance during the fourth year (election year) of the presidential term has been relatively unpredictable. Again, such uncertainty limits the technical investment value of the information.

### FUNDAMENTAL EXPLANATION OF TECHNICAL IMPLICATIONS

The causal relationship of election news and the performance of the DJIA has been contemplated by many people from the standpoint of how US Presidents run their administration. Since the goal of most elected officials is to get reelected, the conventional wisdom is that US presidents take a certain amount of time to get established in office, to identify the problems that need to

be addressed, to develop a policy solution for the problem, and to get the policy implemented. It then takes more time for the policy to have an impact on society, which is broadly measured by the performance of the DJIA.

An analysis of the terms held by presidential incumbents may yield valuable insight into the relationship between US election news and the performance of the DJIA. It is believed that presidential incumbents run their administration from the standpoint of trying to be able to show strong performance in the third year of their term, with the intent of having favorable news leading into the election year. Results since 1945 show that the performance of the DJIA has been positive for incumbents in their election year over 70% of the time. Therefore, some people conclude that this fundamental concept as measured by the performance of the DJIA is a technical indicator that merits investment consideration. Whether or not the implications of a presidents' policy strategy has a material impact, nominal impact, or no impact on the performance of the DJIA is open to conjecture. Nevertheless, the performance trend in the third-year of a presidential term is undeniable and worthy of attention. With this in mind, investors should take into account the macro-level implications of presidential elections on their investment decision making process.

#### **THE BOTTOM LINE**

The relationship between election news and the performance of the DJIA is a technical metric that is closely followed by many political pundits, macro-economists, and common investors alike. While most academic literature casts a dark cloud on the forecasting value of technical indicators, the performance of the DJIA during the third-year of a presidential term is a very interesting finding that should not be overlooked. With this in mind, speculators and short-term investors should pay close attention to this macro-level technical indicator, as it may very well allow them to generate strong investment performance on a periodic basis over time.