portfolio construction forum

US elections have been good for long-term investors

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As the battle for the White House heats up, candidates are drawing attention to the challenges facing the nation – everything from economic instability to immigration. But while it might seem like we're living in highly troubled times, tumultuous events have been a constant theme for US presidential elections throughout history.

Look no further than 1968. Republican candidate Richard Nixon and Democratic nominee Hubert Humphrey vied for the Oval Office against a backdrop of violent Vietnam War protests, race riots and the assassinations of Robert F. Kennedy and Martin Luther King Jr.

Fast-forward 40 years to the 2008 election. As Barack Obama and John McCain faced off, the nation was gripped by the worst economic crisis since the Great Depression.

With all the negative campaign rhetoric highlighting the nation's challenges, it's no wonder investors grow more concerned during election years.

The key to successful investing in these times? Stay the course and rely on long time horizons – don't try to time the market.

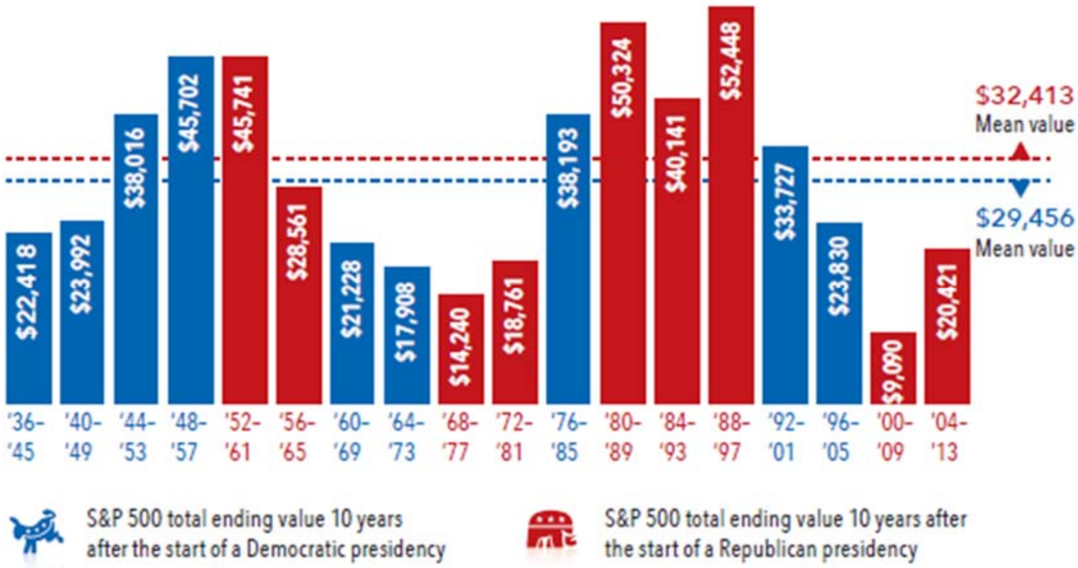
WHICH PARTY IS BETTER FOR THE MARKETS – REPUBLICANS OR DEMOCRATS?

The short answer is neither. Investment success depends more on the strength of the US economy than on which party occupies the White House. Whatever the outcome, we believe the impact on markets will be about the same.

Consider the historical performance of the Standard & Poor's 500 Index during the past eight decades. In 17 out of 18 presidential election years, a hypothetical $10,000 investment in the index made at the beginning of each election year would have grown larger 10 years down the road (Figure 1).

When a Democrat won, a hypothetical $10,000 initial investment totalled an average of $29,456 a decade later. When a Republican won, the average was $32,413. Both parties have had multiple instances when 10-year returns would have exceeded $30,000.

Figure 1: Growth of a hypothetical $10,000 investment made at the beginning of an election year in the US



Source: Thomson InvestmentView. Past results are not a guarantee of future results. Each 10-year period begins on 1 January of the first year shown and ends on 31 December of the final year shown. For example, the first period listed (1936-1945) covers 1/1/36 through 31/12/45.

For instance, a hypothetical $10,000 invested at the beginning of 1936 - when the US was in the grips of the Great Depression and Democrat Franklin D. Roosevelt won the election - would have grown to $22,418 by 1946, an 8.41% compound annual growth rate.

That same amount invested in the index in 1968 - the year Republican Richard Nixon was voted in - would have grown to $14,240 over the next decade, a 3.6% compound annual growth rate even as the US went on to invade Cambodia, the Watergate scandal erupted, and Nixon resigned.

Investing in 1988 - the year George H. W. Bush won office - led to the biggest election-year return, as $10,000 would have grown to $52,448 by 1998.

Which presidential election bucked the trend? George W. Bush's defeat of Al Gore in 2000 ushered in the so-called "lost decade" for stocks, with the S&P 500 posting a negative return for that period. But those 10 years include two seismic events - the 2000 dot-com crash and the financial meltdown of 2008.

THE BOTTOM LINE

Presidential campaigns draw the public's attention to bad news, which can be a serious distraction for investors. But those who tune out the noise, focus on long-term goals and avoid trying to time the market have tended to reap the rewards in the long run.

That's true during presidential elections - and any time of the year.

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