

# Inland Valley Daily Bulletin

## **Democratic Party win might boost market**

**By Andrew Moyle**

**Staff Writer**

**Monday, August 09, 2004** - Republicans, good. Democrats, bad.

Ask any investment adviser or political science professor, and he or she will tell you that this age-old mantra pervades the investing class.

According to the commonly-held perception, Republican presidents' business-friendly policies help to prop up the stock market, while Democratic presidents look out for interests other than big business, and thereby hurt the markets.

“Republicans like to lower taxes and reduce spending. Democrats look out for big labor and raise taxes,” said Nancy Langdon Jones, an Upland independent investment analyst, when asked about the common view.

So it comes as quite a surprise that the common view may well be wrong, and that it may be wrong precisely because it is a surprise.

According to a study released last year by Pedro Santa-Clara and Rossen Valkanov, professors at UCLA's Anderson School of Business, the return on the stock market is higher under Democratic presidencies than Republican ones.

And not just a little bit higher. Santa-Clara and Valkanov put the difference at nine percent for value-weighted sampling of the market, and 16 percent for the equally-weighted portfolio.

The study, titled “The Presidential Puzzle: Political Cycles and the Stock Market,” examines the performance of the markets during the 18 four-year presidential terms from Herbert Hoover through Bill Clinton.

In addition, growth in the country's gross domestic product – the total measure of all domestically produced goods and services – was slower under the eight Republican terms than under the 10 Democrat ones, although Democrat administrations oversaw significantly higher rates of inflation.

“The study is curious,” Langdon Jones said. “It seems to disagree with everything we're familiar with.”

That curiosity is accounted for in the study. According to the study, expected returns were 1.8 percent higher under Republicans, while unexpected returns were 10.8 percent higher under Democrats.

The difference, Santa-Clara and Valkanov contend, results from the markets being consistently positively surprised by Democratic fiscal policies.

Surprised, because they expect the exact opposite.

Mirtha Medina, spokeswoman for the New York Stock Exchange, sounded equally surprised at the revelations in the study, but added, “We don’t comment on the performance of the markets.”

One commonly held perception upheld by the study is that the markets are more volatile around election time. Interestingly, market volatility is greater in the 80 days before presidential elections won by Democrats than over the same span before Republican victories.

It’s that election-centered volatility Langdon Jones encourages her clients to avoid, especially in what’s amounting to a very close election.

“In this election, it’s a toss-up. I think it gives the markets a wait-and-see attitude,” she said.

But that volatility change shifts after the election, when Republican presidents oversee a more volatile securities environment.

Before and after elections, market performance is roughly equal between both parties, and only begins to truly diverge some 100 days after the election, when Democrats push into the lead. That separation continues throughout the remainder of the term, widening significantly after 800 days.

It should be noted that the study sample includes the -28 percent market decimation during the Great Depression-hampered 1929 to 1933 Hoover administration, as well as the 27 percent boom during Franklin D. Roosevelt’s following first term, but the disparity holds – albeit in smaller terms – over the study’s 1963 to 1998 subset.

The study doesn’t begin to speculate why public perception is the way it is toward the markets under Republican and Democrat presidencies, given the counterintuitive nature of historic market performance, except to suggest that the often psychologically driven markets love a surprise.

As for right now, what should conscientious investors do differently to prepare for what appears to be a close and vitriolic presidential fight?

Nothing, Langdon Jones says.

“We design a portfolio that’s balanced, that we expect to perform,” she said. “Those who invest should be thinking further than a presidential election, and we always think long-term.”

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