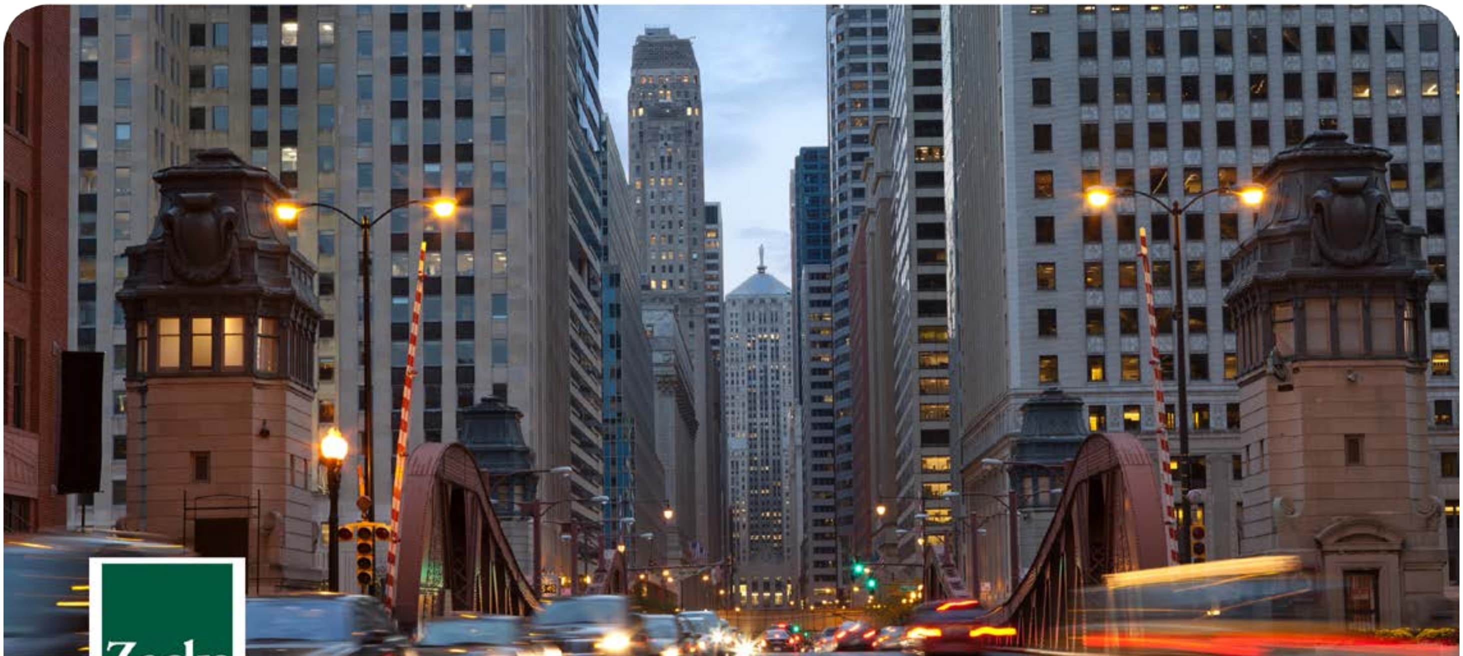

Zacks INVESTMENT MANAGEMENT

Mitch on the Markets

Stocks and Election Years – Worrisome or Welcoming?

By Mitch Zacks
Senior Portfolio Manager

The stock market is chock-full of patterns and theories that drive investment decisions like "sell-in-May-and-go-away," the "Santa Claus rally," and so on. Another popular pattern theory relates to how stocks perform during an election cycle. With the presidential election coming this year, it's worth taking a look at how stocks have done historically in the fourth year of a president's term.

Election Year Background

In "theory," the year following an election year is the weakest for stock market performance. In my view, it makes sense why – it is typically the one where the sitting president is most aggressive about policy setting. The result is that markets get agitated when there's a higher probability of regulatory, tax or property rights rules changing.

But, as a president moves deeper into their term, the likelihood of passing big, sweeping legislation falls. Congressional seats of the president's party are historically lost in the back half of the term and Congress has been known to stalemate on many big issues – pushing them off to the next president's first term. It's what we're seeing now.

It follows that, historically, stock performance has been the strongest in the third year of a president's term and above average in the fourth. Investors should not take this as an indicator that stocks are poised to do well this year – fundamental economic trends and corporate earnings still carry the most influence, in my view. But, the fact that it's a presidential election year should be taken as a net positive for the market's chances this year. It's another tailwind that isn't likely to work against the market.

Indeed, in the last 22 election years there have only been only four where the S&P 500 index finished negative:

- 1932 Roosevelt v. Hoover: -8.2% (part of the Great Depression)
- 1940 Roosevelt v. Willkie: -9.8%
- 2000 Bush v. Gore: -9.1% (part of the tech bubble bursting)
- 2008 Obama v. McCain: -37% (part of the most recent financial crisis)

I see two takeaways from this data. The first is that the negative election years almost always occurred when there was already a recession fully in progress. The second is that 2008 feels like an outlier, a version of the "100 year storm" that, to me, we are not likely to see to that extent again for some time.

And, the other negative election years weren't drastically negative. Losing 10% is difficult and undesirable for everyone, but it's not life-changing. Five of the last seven years have returned excess of 10%, sometimes much more.

Bottom Line for Investors

Again, I think the 'election year indicator' should more or less be taken as something you'd put in the "positive" column if you were making a list of factors that could either work for or against the market. In other words, while it might help drive some positive returns, I don't see a scenario where it hurts them. Regardless, I'd stay focused on fundamentals and corporate earnings as the real drivers of performance, which I think are positive going into the New Year.

- Mitch

About Mitch Zacks

Mitch is a Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

Zacks INVESTMENT MANAGEMENT

ZACKS INVESTMENT MANAGEMENT, INC.
One South Wacker Drive
Suite 2700
Chicago, IL 60606
www.zacksim.com

Disclosure:
Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice.

Any views or opinions expressed may not reflect those of the firm as a whole. Third-party economic or market estimates discussed herein may or may not be realized and no opinion or representation is being given regarding such estimates. This material has been prepared by Zacks Investment Research (ZIR) an affiliate of Zacks Investment Management, Inc. (ZIM) on the basis of publicly available information, internally developed data and other third party sources believed to be reliable. Neither ZIR nor ZIM has sought to independently verify information taken from public and third party sources and does not make any representation or warranty as to the accuracy, completeness or reliability of the information contained herein. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal.

Indexes:
The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large company stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees or other expenses. The volatility of the index is materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in this Index.