

Presidents and Stocks

(9/24/04)

In conversations with clients over the past several months, many have expressed their concern over the impact of the presidential election on the stock market. Certainly, there have been plenty of prognosticators in the media speculating on the outcome and which candidate will be better for the stock market. There is no doubt that uncertainty over the election has been cause for volatility in the stock market over the past few months as the prospect for each candidate has come into and out of favor based on the most recent poll. While we agree that uncertainty over the election has been (and will continue to be) a catalyst for market movements this year, we believe that the final outcome of the presidential election is not as critical for stocks as some would have you believe.

It's important to recognize that the president doesn't work in a vacuum. Congress is the other half of the equation, and the parties in control of the House and Senate are arguably just as relevant as who controls the White House. Also, there is a lagging effect to government action. It takes time for a president to formulate a policy and create a budget, and even longer for those initiatives to work their way through Congress and actually take effect (assuming they are even passed).

While history may suggest a causal relationship between the rise and fall of stocks and which party is in the White House, both parties have been at the helm during bull and bear markets, recessions and expansions, budget deficits and surpluses. The reality is that the economy is more likely to be the driving force, and the economy doesn't favor either party. One thing we do know is that interest rates are a key factor in the economy and the financial markets, since they influence debt costs, discount rates, and the relative competitiveness of bonds versus stocks. And interest rates (at least short-term rates) are determined by the Federal Reserve, which is not controlled by either party.

In the final analysis, does the president have any impact on the financial markets? Sure. But we believe some market pundits are making too much of it. The good news is that the uncertainty over the election outcome will soon pass. In the meantime, and for well after the election, we will continue doing our job for our clients - focusing on all of the fundamentals that drive the financial markets.

Feel free to email us or call us toll-free at 1-866-444-6246 for any questions on this article, your investments, or our portfolio management services.