April 8, 2016

Election Cycle Effects

> *"I holdout, that a little rebellion, now and then, is a good thing, and as necessary in the political world as storms in the physical."*
>
> -Thomas Jefferson

This July, some are wondering whether we will see political rebellion when leaders come together for the Republican National Convention in Cleveland. As long term investors, we may wonder how the markets might react to whatever ends up happening over the next several months.

This Presidential contest is showing signs of a little rebellion and as Mr. Jefferson said, that may be "a good thing". Maybe this rebellion will be a catalyst for the 42.5% of eligible voters who did *not* cast ballots in 2012[1]. I find that pitifully un-democratic.

Since 1960, there have been 14 presidential elections. The democrats and republicans have split those elections with seven wins apiece. Total votes cast for these two parties (rounded to the nearest million) show the democrats have received 661 million votes while republican candidates have received 672 million votes. Percentage-wise the democrats have received a little over 47% of the votes cast during those 14 elections while the republicans received a bit over 48%.

Obviously, these numbers do not add up to 100%, and therein lies a conundrum. George Bush (the former) beat George Dukakis with 53.4% to 45.6% of the vote. One percent went to other candidates and write-in votes. In the following election, we saw Bill Clinton win the race but with the smallest percentage of the vote that century. He received only 43% of the popular vote, Bush pulled in 37% and the spoiler, Ross Perot, was able to amass nearly 19%.

The largest margins of victory, with nearly 60% of the votes, were Johnson's campaign and Reagan's and Nixon's second terms. Generally though, we have statistically tight elections. As recently as 2000, we saw Al Gore lose an election while winning the popular vote[2].

If we look at market history since John F. Kennedy's election in 1960 (the beginning of the television election age), we find that domestic and world stock markets typically do not show significant movements attributable to the presidential elections. If we exclude the recession of 2008 from our data, the returns from election years average 9.1% compared to 8.8% in all years[3].

Whatever happens in July, and then in November, may have a significant effect on the political and social direction of the country, but we have little worry as to its long-term implications on our investments. We believe our prudent strategy of a well-diversified portfolio and a disciplined approach to investing is as effective and necessary now as it has ever been. We look forward to a pleasant and prosperous spring.

All the best,

John, Derek, Jon & Stacie

[1] Voter Turnout Data: National Archives & Records Administration

[2] All Voting Results Data: Federal Election Commission

[3] Watts, William. "2016 Predictions: What presidential elections years means for stocks," MarketWatch. 12/29/2015.

Derek Johnson is an Investment Advisory Representative of Ferguson-Johnson Wealth Management, a values-based investment management firm located in Maryland. Derek Johnson can be reached at (301)670-0994 or djohnson@mymoneymanager.com.