

## Election Impacts Are Debatable

*"When a man says he approves of something in principle, it means he hasn't the slightest intention of carrying it out in practice."*

*"Anyone who has ever looked into the glazed eyes of a soldier dying on the battlefield will think hard before starting a war."*

*"People never lie so much as after a hunt, during a war or before an election."*

-- Otto von Bismarck

Let the record show that Bismarck involved Prussia in the start of several wars, with Denmark in 1864, Austria in 1866, and France in 1871 en route to the creation of the German Empire. The Iron Chancellor also developed the modern world's first social insurance system and therefore could speak with authority on both guns and butter. While no videotape of him exists, one can assume he was able to speak complete sentences in his native tongue with a minimum of pauses between clauses, a standard that apparently is getting tough to meet.

A keen student of human nature, he probably would not have been at all surprised at how modern industrial democracies go about the business of selecting their leaders; as he said, "Universal suffrage is the government of a house by its nursery." He might have been surprised, however, how no recent American president could say, as Jefferson did, "I have sworn upon the altar of God eternal hostility to all forms of tyranny over the minds of men," and be received seriously.

### **If You Buy The Rumor, Buy The News**

One of the stranger attributes of our system is how we give people on the other side of the political spectrum greater latitude to make the tough decisions. The most memorable example of this in recent history is Nixon opening the door to China, although Clinton moving toward a budget surplus has to rank right up there, too.

Any honest observer of either politics or financial markets knows how events have a way of overtaking the best of intentions. All any of us can really do is get ourselves pointed in the right direction and then, in one of the sillier metaphors ever to see the printed page, surf the waves of events on the board of our instincts.

All of this is to say that attempts to trade stocks based on the projected images and duly-sworn promises of presidential candidates are likely to come a-cropper. Let's take a quantitative look at how various industrial groups have fared in the quadrennial elections since World War II. In each cycle, the performance of each of 42 industry groups will be compared to the S&P 500 in the four months leading up to an election, July-October, in the four months following the election, November-February.

A total of fourteen elections are represented, some of which were quite close and could not be discounted effectively by the market beforehand; these include 1948, 1960, 1968, 1976 and 2000. Some of the elections, such as 1952, 1956, 1964, 1972, 1984 and 1996 were never in real doubt. The elections of 1980, 1988 and 1992 broke late and conclusively for the eventual winner.

### **Results**

The data were sorted by those sectors which had the biggest four-month post-election changes relative to their four-month pre-election changes, all normalized to reflect gains and losses in the broad market. The three biggest gains and losses for each election are presented below.

### Post-Election Fall

1948	Aerospace	Steel	Publishing
1952	Money Center Banks	Metals Mining	Regional Banks
1956	Autos	Steel	Money Center Banks
1960	Gold	Broadcasters	Regional Banks
1964	Aerospace	Steel	Autos
1968	Gold	Entertainment	P&C Insurance
1972	Consumer Finance	Regional Banks	P&C Insurance
1976	Oil Drilling	Pharmaceutical	P&C Insurance
1980	Gold	Metals Mining	Machinery
1984	Gold	Life Insurance	Containers
1988	Food Retailers	Food Processors	Tobacco
1992	Dept. Stores	Footware	Food Retailers
1996	Oil Drilling	NG Utilities	Building Materials
2000	Aerospace	Telephones	Elect. Utilities

### Post-Election Rise

1948	Broadcasters	Entertainment	Pharmaceutical
1952	Life Insurance	Steel	NG Utilities
1956	Alcoholic Beverages	Computer Hardware	Soft Beverages
1960	Trucks & Parts	Aluminum	Publishing
1964	Airlines	Soft Beverages	Computer Hardware
1968	Tobacco	Metals Mining	Trucks & Parts
1972	Gold	Tobacco	Steel
1976	Entertainment	Regional Banks	Gold
1980	Containers	Footware	Regional Banks
1984	Entertainment	Broadcasters	Steel
1988	Gold	Footware	Metals Mining
1992	Autos	Metals Mining	Building Materials
1996	Tobacco	Footware	Soft Beverages
2000	Containers	Dept. Stores	Building Materials

Certain sectors appear multiple times in both the gainers' and losers' tables, including aerospace, banks, tobacco, pharmaceuticals, insurance, steel, mining and broadcasting. None of these sectors should surprise by their presence; all are industries whose fortunes are affected greatly by federal taxes, legislation and regulation. Other sectors, such as gold, reflect expectations for upcoming economic conditions.

But what is surprising is how each of these sectors frequently got bid up prior to an election, only to be dashed down, or vice-versa. The conclusion here is inescapable: If a sector moves prior to a presidential election, do not expect follow-through in either direction.

This is encouraging for those who believe in the discounting power of markets and discouraging for those who believe in campaign promises. You would have thought a Darwinian solution would have been visited upon the latter group by now, but no.

### Where Are We Now?

The strong sectors over the past three months have been metals and mining, oil and gas drilling, steel, homebuilding and gold. The weak sectors have included information technology consulting and services, airlines, semiconductors and soft drinks. Many of these sectors have shown up in previous election cycles. If past is prologue - and who are we to say it is not? - do not buy the winners and do not sell the losers.