

Two Presidents, Two Markets

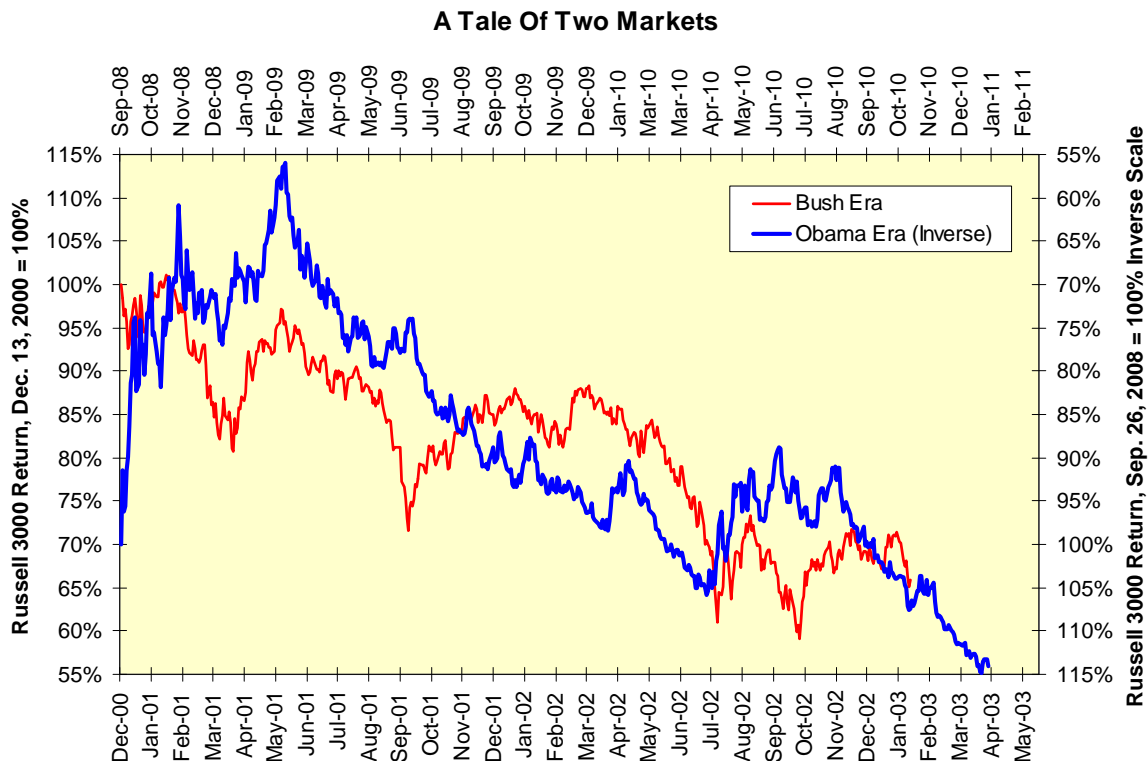
One of the more important aspects of market commentary is knowing what your audience is thinking; secondarily, it is important when you have the ear to the ground to keep your back to the wall to avoid getting the sort of audience feedback dreaded by most.

One tidbit I have been able to pick up over the past two years is a large number of self-described investment moguls and masters of the universe (universes, according to some physicists) have a somewhat tart opinion of the current occupant of the White House.

Work with me here.

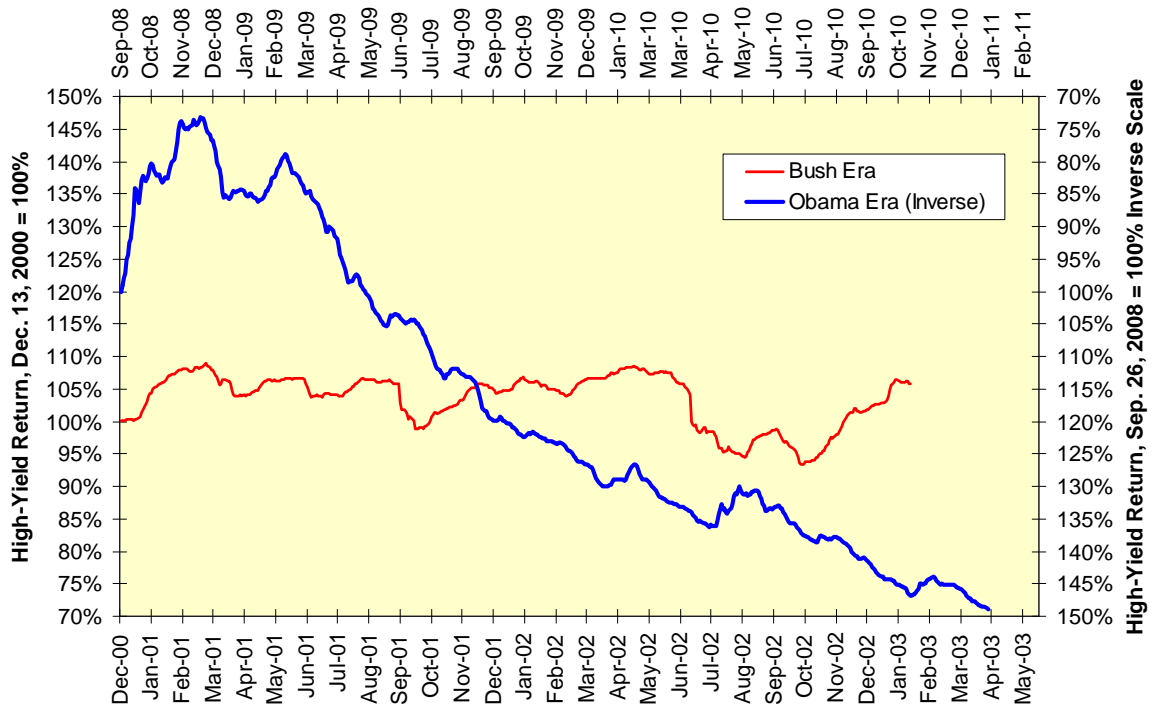
But then I got to thinking, as it was cold and dreary in Chicago in January and there was nothing better to do: How did financial markets fare under Presidents Bush and Obama between the time when their elections became inevitable and their State of The Union addresses immediately following the mid-term elections. I chose the December 2000 date of the *Bush v. Gore* Supreme Court case to mark the start of the Bush era and the September 2008 debate when John McCain convinced a majority of Americans to take their business elsewhere.

Let's take two markets, the total return on the Russell 3000 index and the total return on the Bank of America-Merrill Lynch High-Yield Master II index and compare them over the two eras. In the case of stocks, we need to plot the performance of the Russell 3000 during the Obama era on an inverse scale to maintain a good visual comparison with the Russell 3000 during the Bush era. The average daily return during the Bush era was -0.078% as opposed to 0.022% during the Obama era. As the two samples' standard deviations of returns are large, we can only be certain the two means are different at a 64.9% confidence level.



What about the high-yield bonds? Here, too, investors fared much better during the Obama era; the average daily return was 0.068% as opposed to 0.011% during the Bush era. Once again, the Obama era scale will be inverted for visual integrity. Here we can be 96.3% confident the two samples have different means.

A Tale Of Two Markets



We should note in passing both presidents knew how to spend other peoples' money and both were supported by highly accommodative Federal Reserves. We should note as well the Republicans fared well during the 2002 mid-term elections while Democrats got "shellacked" last November.

It was said in Ecclesiastes 9:11, "The race is not for the swift or the battle to the strong, nor does food come to the wise or wealth to the brilliant or favor to the learned..." Such is the case of presidents and markets. Apparently the best way to get the market to turn right is to elect someone whose left-turn signal is flashing.