

Commentary

U.S. Presidential Elections and the Stock Market

With just over a week to go until November 4th U.S. Election day, the presidential campaigns are in high gear and both candidates are looking to convince voters that they are the best choice to lead the United States through a likely recession. As volatile as the markets and economy have been, investors wonder what a victory for either candidate might mean to them financially. While that is nearly impossible to predict with any sense of certainty, history can tell us a great deal about how the equity markets have reacted post election. Given the recent unprecedented events- the U.S. Federal Government stepping in to take over formerly private entities as well as backstop hundreds of \$billions in loans - you might say "This time, it's different." Yet U.S. history is filled with events that, at the time, were unprecedented and the markets have survived through the most difficult of circumstances.

In what may be one of the most interesting American election cycles in the modern era (and perhaps the country's history) one thing is certain: this will be an election of firsts. By the time the votes are counted and electoral votes awarded, for the first time there will be either the first African American President, or first female Vice President.

As voters navigate the seemingly endless barrage of personal attacks, innuendos, posturing, and interpretation of what each candidate might do if elected, data on price performance of the Dow Jones Industrial Average (DJIA) from the past 18 elections dating back to 1936, have some interesting stories to tell.

For the purposes of this Commentary, we looked at the past 18 presidencies, as measured by the price performance of the DJIA during 4 periods:

- From Election Day until end of the year
- From Election Day until one year later
- From Election Day until four years later
- From Election Day until four years later on a total return basis, back until 1972

Seventy-two years ago (in 1936) then-President Franklin D. Roosevelt and his running mate, Vice President John Garner, soundly defeated Republican Kansas Governor Alf Landon and his running mate, Frank Knox. Still mired in the Great Depression (which arguably hit one of its "low" points in 1937), the markets were relatively flat from Election Day until year-end 1936, and the DJIA fell 0.4%. What followed, however, marked the biggest beating the markets have taken from Election Day until one year later in the last 18 Presidencies. During that one-year period, the DJIA fell 28.7%. Four years after the Election of 1936, the DJIA was down 26%; again, the worst four-year period in this study.

**Election Day to Year-End:
Bush (W.), Eisenhower Score Big After Election; Republicans Win Overall**

The tie for best Election Day to year-end numbers came courtesy of George W. Bush's second term in 2004 and Eisenhower's first term in 1952, when the DJIA was up about 7.5. The average Election Day to year-end performance for the DJIA was about 1.8% - not a bad return for a period of less than two months. In this category, the 9 Republican administrations since 1936 averaged 2.08%, while the 10 Democratic administrations averaged 1.46% (see Chart 1). The DJIA has been in negative territory in the period described just 1/3 of the time since 1936. Keep in mind also, that the returns measured are price appreciation only and do not include dividends.

Chart 1: DJIA Price Return by Year-end

Year	Date	Winner	Party	By Year End
1936	11/3/1936	Roosevelt	Democratic	-0.43%
1940	11/5/1940	Roosevelt	Democratic	-0.64%
1944	11/7/1944	Roosevelt	Democratic	3.25%
1948	11/2/1948	Truman	Democratic	-3.92%
1952	11/4/1952	Eisenhower	Republican	7.59%
1956	11/6/1956	Eisenhower	Republican	1.69%
1960	11/8/1960	Kennedy	Democratic	2.26%
1964	11/3/1964	Johnson	Democratic	0.04%
1968	11/5/1968	Nixon	Republican	-0.60%
1972	11/7/1972	Nixon	Republican	3.69%
1976	11/2/1976	Carter	Democratic	5.03%
1980	11/4/1980	Reagan	Republican	1.14%
1984	11/6/1984	Reagan	Republican	-2.62%
1988	11/8/1988	Bush	Republican	1.93%
1992	11/3/1992	Clinton	Democratic	1.50%
1996	11/5/1996	Clinton	Democratic	6.04%
2000	11/7/2000	Bush	Republican	-1.51%
2004	11/2/2004	Bush	Republican	7.45%
Overall Average				1.77%
Average Republican				2.08%
Average Democrat				1.46%

Source: SEI, Bloomberg (Note: the figures above are US\$ returns)

Democrats Win “One Year Following Election” Category

One year following election, the average return of the DJIA was 2.18%. Here, the advantage goes to the Democrats, who averaged 5.43%, with the best year credited to Franklin D. Roosevelt, at 29.96% in 1944. Roosevelt also had the most negative return here; -28.68 during the first year of his first term in 1936. The average during the 9 Republican administrations was -1.07%. Here, the DJIA return was positive 10 out 18 times (Chart 2.).

Chart 2: DJIA Price Return 1 Year after Election

Year	Date	Winner	Party	1 year
1936	11/3/1936	Roosevelt	Democratic	-28.68%
1940	11/5/1940	Roosevelt	Democratic	-9.96%
1944	11/7/1944	Roosevelt	Democratic	29.96%
1948	11/2/1948	Truman	Democratic	3.61%
1952	11/4/1952	Eisenhower	Republican	2.03%
1956	11/6/1956	Eisenhower	Republican	-11.63%
1960	11/8/1960	Kennedy	Democratic	20.17%
1964	11/3/1964	Johnson	Democratic	9.74%
1968	11/5/1968	Nixon	Republican	-10.05%
1972	11/7/1972	Nixon	Republican	-6.47%
1976	11/2/1976	Carter	Democratic	-16.09%
1980	11/4/1980	Reagan	Republican	-9.08%
1984	11/6/1984	Reagan	Republican	12.26%
1988	11/8/1988	Bush	Republican	22.07%
1992	11/3/1992	Clinton	Democratic	13.69%
1996	11/5/1996	Clinton	Democratic	26.44%
2000	11/7/2000	Bush	Republican	-12.43%
2004	11/2/2004	Bush	Republican	3.70%
		Overall Average		2.18%
		Average Republican		-1.07%
		Average Democrat		5.43%

Source: SEI, Bloomberg (Note: the figures above are US\$ returns)

Virtually Even Four Years Out

Interestingly enough, four years after election, there's very little difference in return between the Republicans and Democrats. Republicans have the slight upper hand at 30.05%, versus 29.14% for the Democrats (Chart 3); however, the book has not yet been closed on George W. Bush's second term. The average for all 18 administrations was 29.59% and the results were positive for 14 out of 18 administrations. The best results, 85.86%, occurred during Bill Clinton's first term, while the worst, -25.99%, occurred during Franklin D. Roosevelt's first term.

Chart 3: DJIA Price Return 4 Years after Election

Year	Date	Winner	Party	4 Years
1936	11/3/1936	Roosevelt	Democratic	-25.99%
1940	11/5/1940	Roosevelt	Democratic	7.70%
1944	11/7/1944	Roosevelt	Democratic	24.62%
1948	11/2/1948	Truman	Democratic	45.89%
1952	11/4/1952	Eisenhower	Republican	79.35%
1956	11/6/1956	Eisenhower	Republican	22.81%
1960	11/8/1960	Kennedy	Democratic	44.07%
1964	11/3/1964	Johnson	Democratic	8.16%
1968	11/5/1968	Nixon	Republican	2.62%
1972	11/7/1972	Nixon	Republican	-5.24%
1976	11/2/1976	Carter	Democratic	-1.97%
1980	11/4/1980	Reagan	Republican	30.48%
1984	11/6/1984	Reagan	Republican	76.04%
1988	11/8/1988	Bush	Republican	56.75%
1992	11/3/1992	Clinton	Democratic	85.86%
1996	11/5/1996	Clinton	Democratic	73.93%
2000	11/7/2000	Bush	Republican	-2.03%
2004	11/2/2004	Bush	Republican	9.64%*
Overall				
Average				30.18%
Average Republican				31.22%
Average Democrat				29.14%

*through 9/12/2008

Source: SEI, Bloomberg (Note: the figures above are US\$ returns)

Four-Year Total Returns Since 1972

We also calculated DJIA 4-year total returns after elections going back to 1972. Here, we assumed dividends were reinvested into the index. During this timeframe, there were 6 Republican Administrations and 3 Democratic. Returns were positive during all nine four-year periods, with an average return of 56.74% (Chart 4). The Democrats have the edge here, with an average of 72.09%, while the six Republican administrations averaged 49.06%. Clinton's first term scored the best return at 106.95%, while Ronald Reagan's second term was a very close second at 105.42%. George Bush's first term scored lowest at 6.3%.

Chart 4: DJIA Total Return Over 4 Years from Election

Year	Date	Winner	Party	4-Year Total Return
1972	11/7/1972	Nixon	Republican	19.00%
1976	11/2/1976	Carter	Democrat	23.20%
1980	11/4/1980	Reagan	Republican	62.48%
1984	11/6/1984	Reagan	Republican	105.42%
1988	11/8/1988	Bush	Republican	80.93%
1992	11/3/1992	Clinton	Democrat	106.95%
1996	11/5/1996	Clinton	Democrat	86.12%
2000	11/7/2000	Bush	Republican	6.30%
2004	11/2/2004	Bush	Republican	18.29%
	Overall Average			56.74%
	Average Republican			49.06%
	Average Democrat			72.09%

**through 9/12/2008*

Source: SEI, Bloomberg (Note: the figures above are US\$ returns)

More than Just a History Lesson

As Election Day approaches and investors continue to suffer anxiety over the unprecedented events that are occurring in the markets and economy, the most important takeaways from this Commentary are not about which political party has been in power during the best market conditions. What is important is the incredible resilience that the equity markets have shown over the years during many administrations, despite tough economic conditions, natural disasters, wars, and other events. The equity markets can, and will, be volatile; but over the long haul, they have the ability to adjust, wipe out excesses, and ultimately rise higher. The path has never been straight up, nor will it probably ever be.

Appendix

Who Wins and Loses This Time Around?

Naturally, given the diversity in philosophies and programs proposed by John McCain and Barack Obama, investors wonder which U.S. industries are likely to benefit, or be hurt, by the election of either candidate. While the answer to this question is speculative, it is not difficult to develop a list of potential winners/losers. This, however, does not mean that stock prices of companies in these industries will either rise or fall (*we'll explain why later*).

Potential Industry Winners if McCain Wins/Losers if Obama Wins:

Nuclear Power related
Oil related
Pharmaceutical
Health Insurance Providers
Defense
Natural Gas

Potential Industry Winners if Obama Wins/Losers if McCain Wins

Ethanol, Solar and other alternative energy

Potential Winners if Obama Wins

Infrastructure-related Construction
Materials (such as aggregate)

Potential Winners with Either

Healthcare-related Technology (infrastructure improvement)

Take it All with a Grain of Salt

Despite the fact that both candidates have made their positions clear (and it seems simple to infer which industries and companies might win or lose) there are other factors that render such analysis speculative at best. The markets never stop trading and may to a certain extent already be pricing in the victory of either candidate. This means that stock prices of companies likely to suffer or prosper depending on who wins may already be reflecting this information—or will be as the election approaches. The markets act as a voting booth, of sorts, every trading day. Even if an industry benefits as a result of Presidential policies, it does not necessarily mean that stock prices will rise, or fall, as a result.

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