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How the Election Will Affect the Markets and Economy

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McCain or Obama? Prosperity or recession? Do characterizations by party affiliation still hold water?

Not necessarily. We've seen Democratic presidents accumulate impressive budget surpluses, and Republican presidents undermine the country's balance sheet with a war-spending binge. Leonard Monte, president of CLD Investment Group, reminds us that, "Contrary to conventional wisdom, the stock market has historically performed better under Democratic presidents." Even when market results are lagged by six months so as to better match them up with the administration and/or party that produced them, the outcome is still the same. Yet, as politicians move further and further from their historical stereotypes — and McCain and Obama are as different from their party stereotypes as any two candidates we've seen in a long time — their actions and the repercussions therefrom become less and less predictable.

How about the "Presidential Cycle," then, which says the stock market should take off right about now and climb for the next 12 months? Is this still valid? It's hard to imagine, says Ted Feight of Creative Financial Design in Lansing, Mich., with "all-time-high crude oil prices giving off a sell signal for almost 60 days. I hope I'm wrong, but I think it will take two more years and the next Congressional election before we see any real good economic times."

And then there's just the plain uncertainty inherent in any reasonably close election. "My guess is that the markets might rally when the election is over, no matter the result," says Dan Danford, CEO of the Family Investment Center in St. Joseph, Mo. Just the fact that we've eliminated — or at least reduced — the uncertainty is good for investors." But, then, hasn't the market lived with uncertainty for a long time? The last decade has been fraught with economic bubbles, terrorist attacks, election upsets, and political and corporate scandals. And how predictable can markets be when floods and hurricanes wipe out our crops and natural resources, leaving citizens clamoring for public relief? High, continuous levels of uncertainty, in this author's opinion, are now the rule.

So let's dispense with the old rules of thumb and look at the specific candidates and what they're espousing. Ann Terranova, an owner at Union Financial Partners in San Francisco, ventures the opinion, "If McCain is elected I think we will see increasing instability in the world financial markets. Look at the work of Phil Gramm, one of McCain's chief economic advisors. By sponsoring the Commodity Futures Trading Modernization Act, which took

all credit derivatives off the books and out from under the regulatory authority of the CFTC, he allowed for the unregulated expansion of this speculative market and our current 'credit crunch' problems. This is not free enterprise; this is speculation run amok," says Terranova.

Of course, another way of looking at this is to pick individual securities likely to do well under one president or another. Raymond James chief investment strategist and director of research, Jeff Saut, who drives around with a bumper sticker proclaiming: "Let's try four years with no president," says beware of "common wisdom," such as the axiom that markets do better under Democrats. As the head of a fundamental research house, Saut quickly gets down to the process of determining whether individual stocks will be winners or losers — but he does so by searching for "macro themes" that may or may not put much weight on the general election.

"[One investment strategy would be to] follow baby boomers and invest in what they've been doing," says Saut, himself a boomer. In the '70s, we got out of college and bought our first car and home. In the '80s, we bought bigger houses and cars. In the '90s, we traveled extensively, set up trusts for our kids, and now we are retiring."

What does it all mean? "We think baby boomers will adhere to Ben Graham's message: 'An investment operation is one that promises safety of principal and an adequate (not spectacular) return. Operations not meeting these requirements are speculative.' That's what my generation is looking for — safety of principal and adequate return — so we want safer stocks with dividend yields to supplement retirement income, with the potential to grow that income over time while providing us with adequate capital gains."

An example, please. "I think we're at an energy production peak, and to me it's just a matter of when we're going to drill ANWR [Arctic National Wildlife Refuge). Now, there's a communications company up there — Alaska Communications — that has a 7 percent dividend yield with shares trading around \$12. When we drill ANWR, the wireless business for Alaska Communications is going to explode and shares will rise, plus you're getting 7 percent while you wait. That's a good bet."

Saut's example suggests that future markets will be less responsive to election results than to broad demographic changes. The environment is a perfect example. While governments around the world spin their wheels just trying to agree on whether global warming even exists, individuals usurp their power by enacting their own reforms at a very personal level by buying hybrid cars, recycling and so forth.

Just think, then, what meaningful political reform could do for the markets. Bobbie Munroe, owner of Fraser Financial in Atlanta, says, "Imagine an economic policy that abhors short-term fixes like the recent tax rebates or the proposed gas tax holiday in favor of a balanced budget and/or greater spending on education, health care, scientific research, or even infrastructure... things that will have a positive cost-benefit effect [over time]. It is my belief that, if public opinion supported such long-term policies, the markets would react favorably."

Maybe the markets and economy will be dancing to a new drum in the future. Cheryl Krueger, owner of Growing Fortunes Financial Partners in Schaumburg, Ill., thinks so. "In the end, I don't believe Washington has the 'key' to improved markets and economy. Rather, citizens need to wake up to their own responsibility. The economy will not be influenced much by the election, but rather by whether Americans decide to make smarter choices with their money."

And that's where you, dear reader, come in...