Stock Market Performance in Presidential Election Years

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Do presidential elections influence the stock market? While the stock market is cyclical and it's tempting for investors to look to history as they try to time their decisions, you can't count on future returns to match past ones.

Studies on Election Years and Market Returns

If you examine the return of the S&P 500 Index for each of the 23 election years since 1928, you'll see that in only four of them was it negative.

Pepperdine professor Marshall Nickles, in a 2010 paper called "Presidential Elections and Stock Market Cycles," presented data showing that a profitable strategy would be to invest on October 1 of the second year of a presidential term and sell on December 31 of year four.

Yale Hirsch, the creator of the Stock Trader's Almanac, also put forth the "Presidential Election Cycle Theory": The most profitable year of a presidential cycle is the third, followed in order by the fourth, second, and first.

These studies may useful...but only when the pattern continues!

Past Results Don't Guarantee Future Performance

During the presidencies of Barack Obama and Donald Trump, these stock market theories did not hold up. In each of Obama's terms, the first two years were most profitable, and for Trump, the first year was more profitable than the second. For investors trying to time the markets during these presidential terms, performance did not match past market data.

If you were to follow the theory that the fourth year of a term sees better returns than the first term, the market in 2008 should have had delivered better returns than it did in 2005, when George W. Bush was newly seated as president and the S&P 500 Index gained 4.90%. But 2008, an election year, saw returns drop by 37%. If you had followed the theory and invested in the stock market from October 1, 2006, until December 31, 2008, your investments would have been down by 6.8%.

The problem with investing based on such data patterns is that it's not a sound way to go about making investment decisions. It sounds exciting, and it fulfills a belief that many people have that there's a way to "beat the market." But it's no guarantee. There are too many other forces at work that affect market conditions.

Furthermore, the underlying assumptions informing these theories may not hold up, either—that the first year of a term sees a recently elected president working to fulfill campaign promises, and that the final two years are consumed by campaigning and efforts to strengthen the economy.

It might be better to invest in a boring but safer way, which involves understanding risk and return, diversifying, and buying low-cost index funds to own for the long term, no matter who wins the election. As noted economist and Nobel Prize winner Paul Samuelson put it, "Investing should be like watching paint dry or grass grow. If you want excitement … go to Las Vegas."

Election Year Stock Market Returns

Data below is from the Dimensional Funds Matrix Book.

S&P 500 Stock Market Returns During Election Years

Year	Return	Candidates
1928	43.6%	Hoover vs. Smith
1932	-8.2%	Roosevelt vs. Hoover
1936	33.9%	Roosevelt vs. Landon
1940	-9.8%	Roosevelt vs. Willkie
1944	19.7%	Roosevelt vs. Dewey
1948	5.5%	Truman vs. Dewey
1952	18.4%	Eisenhower vs. Stevenson

S&P 500 Stock Market Returns During Election Years

1956	6.6%	Eisenhower vs. Stevenson
1960	.50%	Kennedy vs. Nixon
1964	16.5%	Johnson vs. Goldwater
1968	11.1%	Nixon vs. Humphrey
1972	19.0%	Nixon vs. McGovern
1976	23.8%	Carter vs. Ford
1980	32.4%	Reagan vs. Carter
1984	6.3%	Reagan vs. Mondale
1988	16.8%	Bush vs. Dukakis
1992	7.6%	Clinton vs. Bush
1996	23%	Clinton vs. Dole
2000	-9.1%	Bush vs. Gore
2004	10.9%	Bush vs. Kerry
2008	-37%	Obama vs. McCain
2012	16%	Obama vs. Romney
2016	11.9%	Trump vs. Clinton