ADVISER INVESTMENTS

SPECIAL REPORT

Focus on Market Cycles, Not Election Cycles

ONE SECRET TO INVESTMENT SUCCESS

Set against global economic uncertainty and dire electioneering forecasts for the worst of times here, it's hard to stay focused on the evidence for continued slow growth (not no growth) in the U.S.

This year's primary-to-presidential election campaign, which will put a new commander-in-chief in the Oval Office for the first time in eight years, is provoking more concern about our country's future than any in recent memory. But we will not let the candidates' heated rhetoric replace our well-reasoned investment discipline.

In this *Special Report*, we'll discuss why, from an investing standpoint, you can mostly ignore all the melodrama leading up to and through 2016's election outcome.

Voters will have plenty of personal reasons for choosing one party's candidate over the other in November. However, in terms of investment performance, history clearly shows that both Democrats and Republicans could rightly argue that their candidates spur better market gains while they're in power (or in the years that follow) as a result of policies they've implemented during their terms in office.

What we know: Our analysis suggests that markets have tended to rise regardless of who resides in the White House. Either party can (and will) claim credit for producing these long-term investment gains, even if those gains do not appear to be significantly impacted by policy. Here are a few ways the data can be spun:

- Since 1901, the Dow Jones Industrial Average (DJIA) has risen at an 8.7% annual rate under Democratic presidents and has risen 5.7% on average under Republicans. It has risen an average of 13.0% the year before a Republican was elected and it has risen an average of just 2.1% preceding a Democrat's victory.
- Since 1929, the broader S&P 500 has risen an average of

How Stocks Performed

	S&P 500 1929–2015		DJIA 1901–2015	
	Democrats	**Republicans**	**Democrats**	**Republicans**
Years in Office	47 years (33 up, 14 down)	40 years (25 up, 15 down)	55 years (38 up, 17 down)	60 years (36 up, 24 down)
Avg. Annual Return	10.2%	3.1%	8.7%	5.7%
Avg. 4-Year Term Total Return	33.2%	17.3%	38.4%	26.7%
Avg. Annualized 4-Year Return	7.1%	2.5%	6.8%	4.1%
Avg. Year 1 Return	11.9%	-2.8%	7.0%	3.9%
Avg. Year 2 Return	5.6%	3.8%	2.0%	4.0%
Avg. Year 3 Return	14.7%	10.6%	21.4%	4.5%
Avg. Year 4 Return	9.4%	0.8%	3.9%	10.5%
Biggest Calendar-Year Gain	47% (1933)	45% (1954)	82% (1915)	49% (1928)
Biggest Calendar-Year Loss	-39% (1937)	-47% (1931)	-33% (1920)	-53% (1931)

Note: All data is based on price returns.
Sources: Morningstar Direct; Analysis: Adviser Investments.

10.2% annually under Democratic administrations and has gained an average of 11.9% the year after an election when a Democrat wins. Meantime, the S&P 500 has gained 3.1% a year on average when Republicans have held the White House and has fallen 10.2%, on average, in the first 12 months after a Republican replaces a Democrat.

- In the year after political parties in the White House change, the S&P 500 has risen an average of 5.3% versus an average gain of 6.6% when the incumbent party wins.
- Real GDP under Democratic presidents has risen an average of 3.9% per annum since 1948 while Republican presidents have overseen a 2.6% average gain.
- The Dow has risen in the latter half of an election year 13 of the 14 times that Republicans have won. The average six-month gain: 11.2%. The market rose in the second half of nine of the 14 years with a Democrat's triumph. The average gain in those half-years was 3.9%.

The "facts" bolster our investment view that staying focused on economic and market cycles—not to mention investing in top-notch managers who know how to defend and profit in them—is far more important than obsessing over any single presidential candidate or election year.

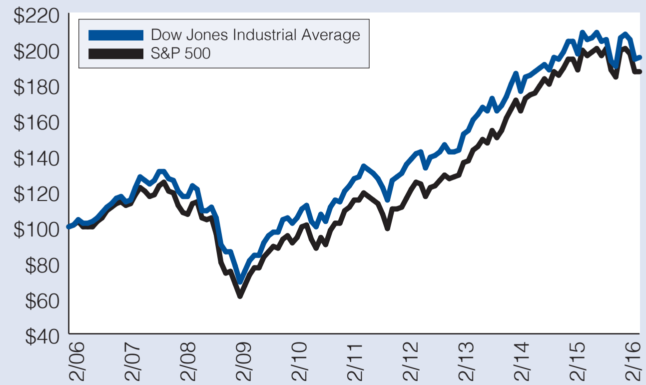
We Vote for Long-Term Investment Success

While we've sliced and diced the election-related data many ways, even a century-plus of U.S. presidential election cycles represents a small enough sample size to fall short of statistical significance; some of the scenarios we've mentioned have only played out a handful of times since 1901. The numbers may make for some lively conversation around the dinner table, but we view them as anecdotal at best.

Most important: Keep in mind that the election's biggest influence on Wall Street volatility will likely come in the months leading up to Election Day. While some level of uncertainty is endemic to investing—be it doubt about elections, earnings, foreign economic policy or any other crisis *du jour*—it unfailingly gives traders the jitters and newspapers their headlines.

At Adviser Investments, we are not day traders nor are our investment decisions based on headline vicissitudes.

Markets, Not Politicians, Create Wealth



Note: Chart shows the cumulative total return for the two indexes over the 10 years through February 2016.
Source: Morningstar Direct.

In fact, while it may feel like the last few months (let alone the last few years) have been difficult times to invest, we know that it's times like these that create long-term wealth.

Political rhetoric is poised to get even more volatile—and we think the potential for a spillover effect of increased market volatility is highly probable, but unlikely to be durable. Post-November, when the election results are in, Wall Street will swiftly return its focus to interest rates and earnings, two factors that have more to do with how stocks perform in the long-term than anything else.

Of course, there will be enduring attention to political issues and other concerns, but ultimately, the pace of economic expansion and earnings growth will drive the future direction of the stock markets.

Buy the Managers, Not the Pundits

Our manager-focused, diversified investment discipline is far more attuned to the market and economic facts we know rather than any political promises being made.

Adviser Investments has always taken a long-term investment view. Presidents will change and political parties will rotate through the halls of power, but we are united in our commitment to helping you preserve your savings and achieve your investment goals. Who wouldn't vote for that?