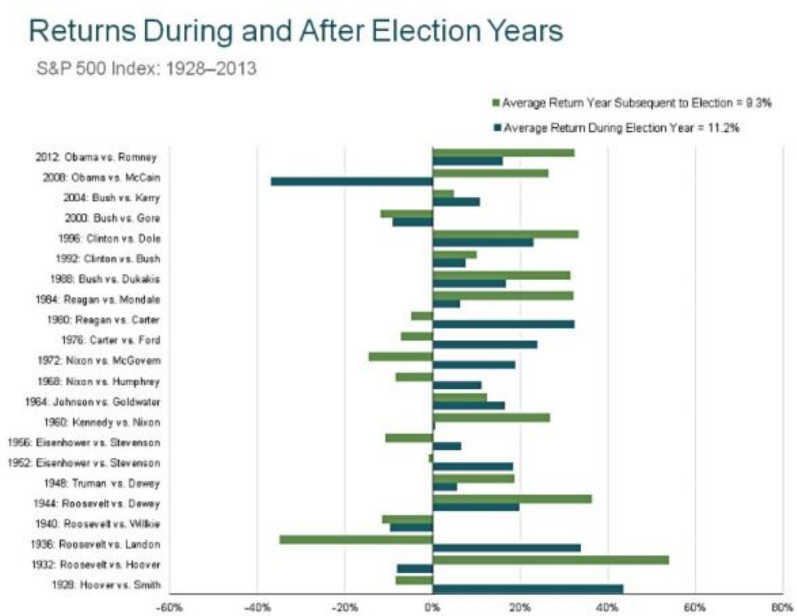
McCARTHY GRITTINGER
FINANCIAL GROUP LLC

The Stock Market and Presidential Elections

Dear Valued Clients and Friends: Every four years we field questions about the possible effect of a presidential election on stock returns. This is understandable as presidential elections tend to bring out uncertainties that fuel discussions and this year's election holds far more uncertainty than the norm. So, with the election a few short weeks away, we thought it would be interesting to look at the historical relationship between the stock market and presidential elections

But it is well worth noting at the start, while it may be interesting (even fun) to discuss whether one party or the other is better for the stock market, the reality is that stock market expectations of election outcomes are embedded in security prices. Other factors such as globalization and technology, the fed and the economy are far more important in the long run than election outcomes.

Here is the key takeaway: While what happened in the past isn't always a guide for the future, it's worth checking the historical record. Based on market research going back to 1928 1 in one study and to 1853 in another, the answer is that presidential elections typically have not had a long-term effect on market performance.



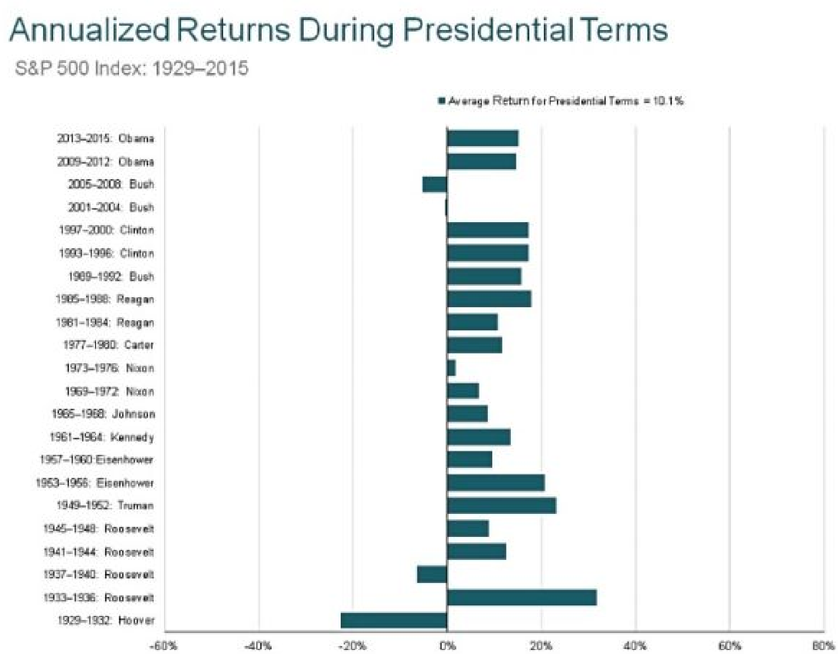
Stock market and presidential elections
While it is difficult to identify systematic return patterns in election years, on average, market returns have generally been positive in both presidential election years and the next year. As illustrated below, over the last 22 elections, the average return during presidential election years has been 11.2% (in blue), while the average return

the year following the election has been 9.3% (in green).

There are two major outliers on the downside worth noting: 1936 and 2008, both of which fell within the two largest economic crises seen during the entire period the data covers - the Great Depression of 1929-1939 and the Great Recession of 2007-2009.

1 For those who are wondering, the election of 1928 featured Herbert Hoover vs. Alfred Smith and was held on Tuesday, November 6, 1928. Hoover won by a landslide with 444 electoral votes and 58.2 percent of the popular vote. Smith finished with 87 electoral votes and 40.8 percent of the popular vote.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: The S&P data is provided by Standard & Poor's Index Services Group.



Does the market really care which party is in office? The answer is probably no. Markets, on average, do about the same whether it's a Democrat or a Republican. In fact, the stock market has performed generally well during the full terms of most of our presidents, with an average return of 10.1% per term since 1929.

There are periods that can be cherry-picked by either the GOP or the Democrats to claim they are ultimately better for the overall stock market, but for the most part, how the market performs under any president is mostly a matter of timing and where we are in the economic cycle, more so than any party affiliation.

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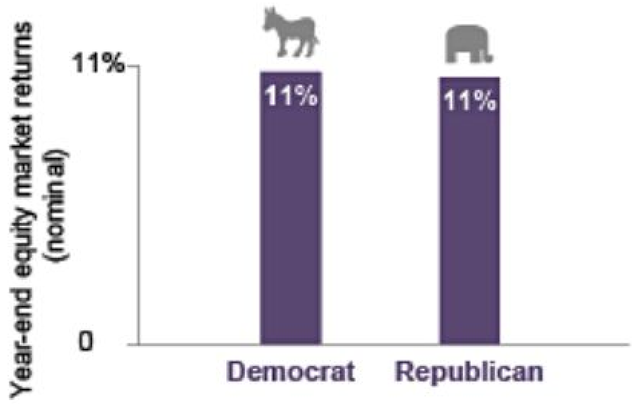
Average annual stock market returns based on party control of the White House (1853-2015)

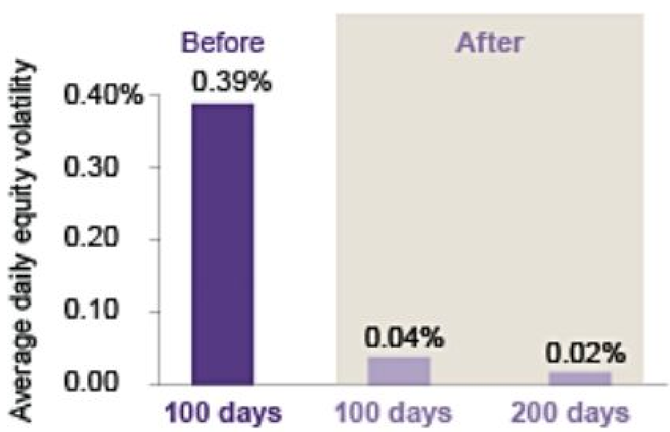


Source: Global financial data 1853–1926, Morningstar and Ibbotson thereafter through 2015.

The Vanguard Group recently found something similar when looking at stock market returns based on party control of the White House from 1853-2015. Average annual stock market returns based on party control of the White House (1853-2015)

Expect the unexpected Even though elections are a relative non-event in the long-term as shown above, they can have a short-term effect and stock market volatility tends to spike in the months leading up to the election. This is due to the idea that uncertainty doesn't sit well with markets and elections, by their nature, are uncertain events. As investors, we are best to learn to expect the unexpected.

Stock Market volatility tends to wane shortly after US presidential elections



Source: Vanguard calculations based on data from Thomson Reuters Datastream, 2016.

The good news is that any increase in volatility typically (and quickly) returns to more normal levels once the markets have taken time to digest the headline news. Stock Market volatility tends to wane shortly after US presidential elections

Conclusion
The bottom line is historical data suggests that presidential election year results do not give us anything that would recommend a change in asset allocation and we do not feel that investors should make investment decisions based on expected election outcomes.

Instead, we continue to recommend the best investment plan is the one you can follow: create clear, appropriate goals; match your tolerance for risk with your expectation for return; develop a suitable asset allocation using broadly diversified ETFs and funds; minimize cost; and maintain perspective and long-term discipline. Maybe most importantly, ignore the headlines, which seldom have anything to do with us as investors.

At McCarthy Grittinger Financial Group, we will continue to monitor the news, the markets and your portfolios and rebalance for you as needed and as appropriate.
As always, we appreciate your business and stand ready to discuss and review any changes or updates in your personal situation. If someone you know would benefit from this newsletter, please feel free to pass it along. We look forward to continuing to serve you in all of your investment and planning needs.

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