

CHART OF THE MONTH

OCTOBER 2012

With the four debates behind us, the focus now turns to the presidential election on Tuesday, November 6. In less than two weeks, voters will either grant President Barack Obama a second term or elect former Governor Mitt Romney as the 45th president of the United States.

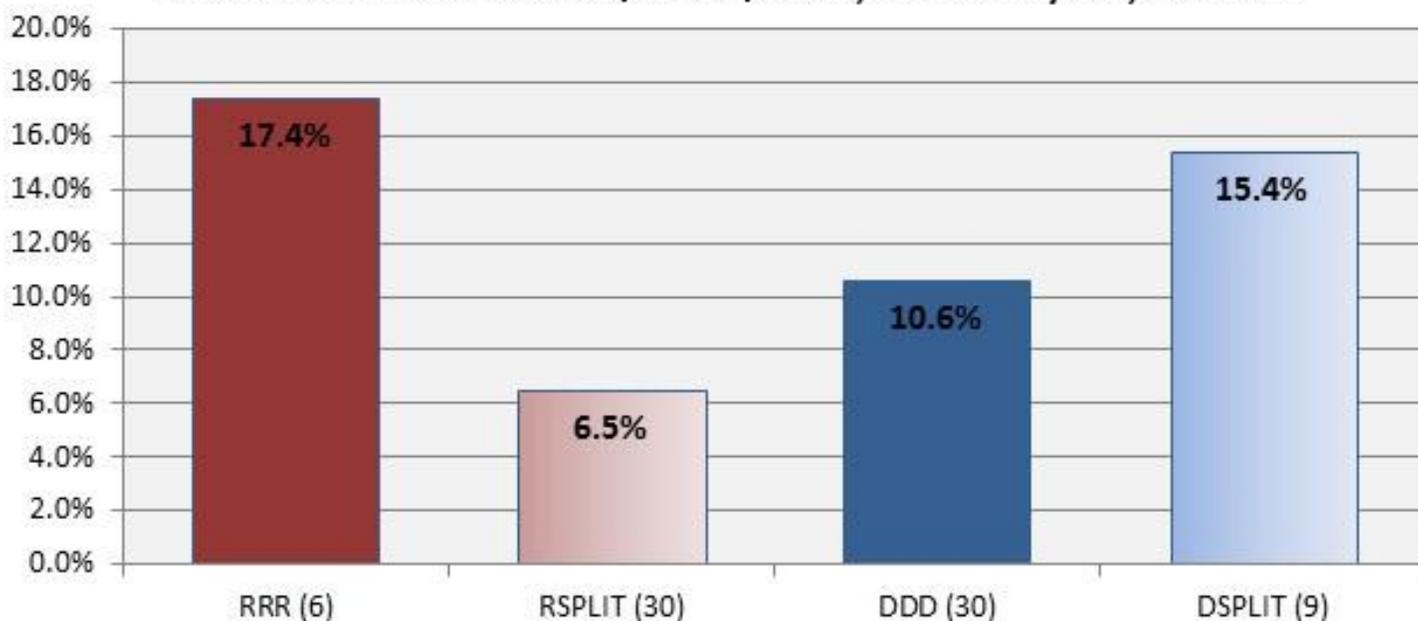
Which political party wins the White House and controls the Senate and House of Representatives is likely to have important ramifications for the stock market. As shown in the bar chart below, stocks have performed the best over the past 75 years when Republicans have had control of the President, Senate, and House. The next-best combination has been a Democrat president and a split Congress, followed by a Democrat sweep in the White House and Congress, and a Republican president and a split Congress.

The good news is that the average annual returns have been positive in all cases. However, in the six years when the Republicans controlled the White House, Senate, and House, the average yearly gain has been 17.4%. Readers may be surprised to learn that four of those six years occurred in 2003 to 2006 under George W. Bush when the S&P 500 increased 28.6%, 10.9%, 4.9%, and 15.7% in consecutive years during the middle of his two-term presidency. The other two took place in 1953 and 1954 under Dwight Eisenhower.

The stock market has also performed above-average during the nine years of a Democrat president and a split Congress, including the final six years of Bill Clinton's time in office. The other three happened in 1947 and 1948 under Harry Truman and 2011 under Obama.

If history is any guide, equity investors should root for a Republican sweep or a continuation of the current makeup of the White House and Congress.

ANNUAL MARKET RETURNS BY POLITICAL PARTY CONTROL
Parties identified as President/Senate/House, number of years, 1937-2011



Source: U.S. House of Representatives, U.S. Senate, Gallup Inc., FactSet, J.P. Morgan Asset Management



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