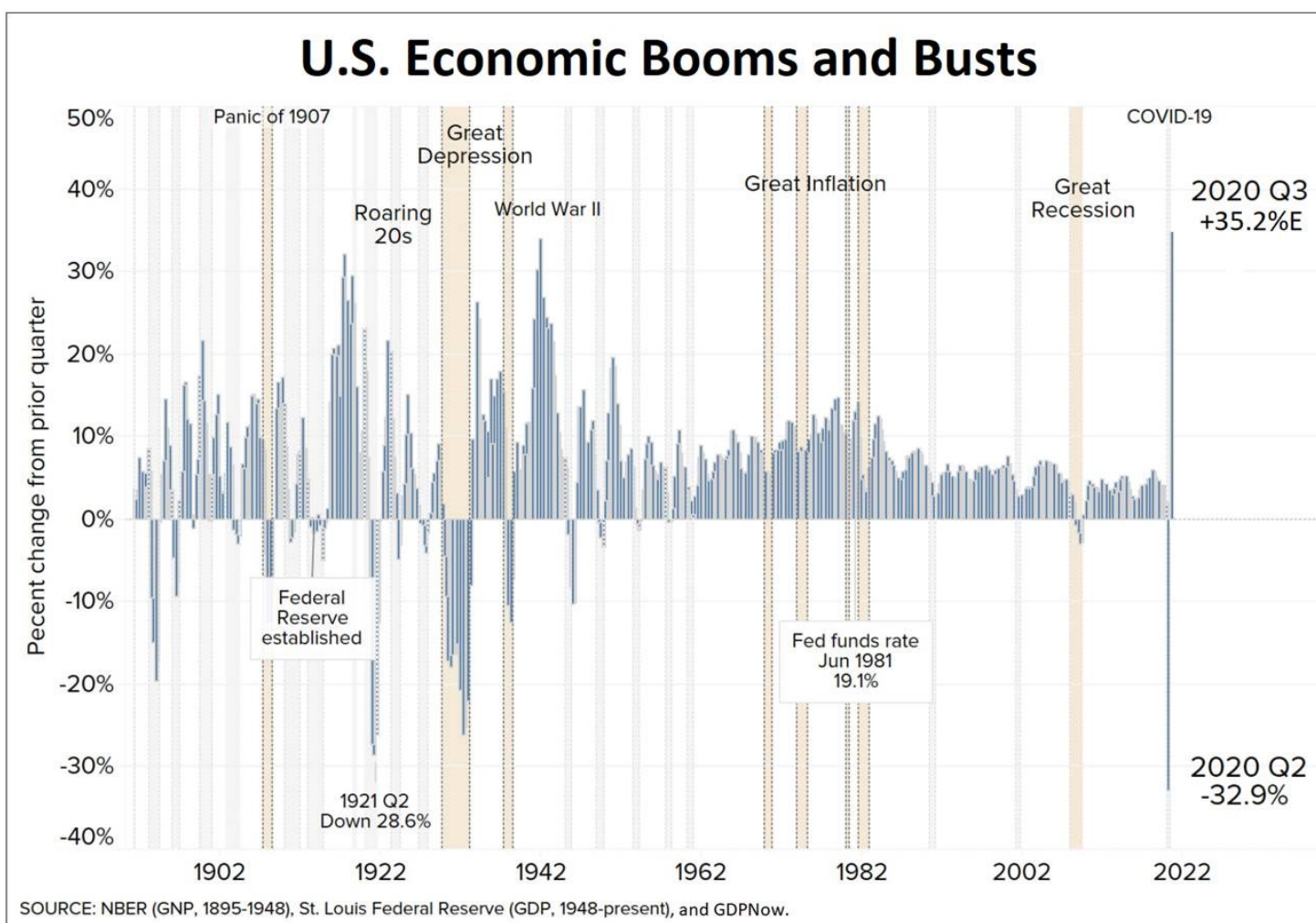


# CHART OF THE MONTH

OCTOBER 2020



Most of us can agree that 2020 has been a year unlike any that we have ever experienced. From the pandemic to the shutdowns to the civil unrest to the political division, almost everyone is ready to celebrate Christmas or Hanukkah and call it a year.

As it relates to the economy and stock market, we have witnessed (in order) the lowest unemployment rate in more than 50 years, the end of the longest economic expansion and bull market on record, the shortest bear market ever, the highest unemployment rate since the Great Depression, the largest quarterly contraction, the fastest bull market recovery, and the greatest quarterly expansion in modern history (see chart above).

While we can't predict the future, we can analyze the past. Since 1942, the market has advanced in 62 of the 78 years (inclusive of dividends). The average up year has been +19.3% while the average down year has been -12.3%. In other words, the market has increased four out of five years with average annual returns during the positive years much higher than the average annual returns during negative years. Put it all together and the compound average annual return has been +9.2%.

Based on the above, long-term investors should never fear down days, down weeks, down months, or even down years. First of all, they come with the territory. Secondly, there have only been two periods with back-to-back declines since 1942: in 1973 and 1974 and 2000, 2001, and 2002. In both cases, the S&P 500 bounced back with resounding results (+37.0% in 1975 and +28.4% in 2003).

Some investors are nervous about the pending election and its impact on future returns, especially if their party is not victorious. Although the polls favor Biden, the stock market results point to a Trump victory in two weeks. Going back to 1928, stocks have predicted the election results 20 out of 23 times with the incumbent party winning 12 out of 14 times when the market has produced positive returns during the three months prior to the election (see below). From August 3 to October 20, the S&P 500 has advanced 4.5%. If the market holds up over the next nine trading days, this indicator would suggest that Trump is much more likely to win than not.

No matter who wins, it is important to recognize that the market has performed well under Democratic and Republican administrations. It has also achieved strong returns under Democratic, Republican, and split Congresses. Politics alone do not make markets. Economic growth, corporate profits, inflation, interest rates, and tax rates play large roles in affecting the financial markets. Exogenous events can also be influential. Republicans who let their differences with Obama keep them out of the market and Democrats who did the same with Trump missed out on huge gains. We would advise not making the same mistake again.

## Stocks Can Predict Who Will Win In November

### S&P 500 Returns Three Months Before The Presidential Election

Election Day	President	S&P 500 Return	Incumbent Party	Stock Market Right?
11/6/1928	Herbert Hoover (Rep)	13.6%	Won	Yes
11/8/1932	Franklin Roosevelt (Dem)	-2.6%	Lost	Yes
11/3/1936	Franklin Roosevelt (Dem)	7.9%	Won	Yes
11/5/1940	Franklin Roosevelt (Dem)	9.7%	Won	Yes
11/7/1944	Franklin Roosevelt (Dem)	2.3%	Won	Yes
11/2/1948	Harry Truman (Dem)	5.4%	Won	Yes
11/4/1952	Dwight D. Eisenhower (Rep)	-3.3%	Lost	Yes
11/6/1956	Dwight D. Eisenhower (Rep)	-3.2%	Won	No
11/8/1960	John F. Kennedy (Dem)	-1.3%	Lost	Yes
11/3/1964	Lyndon Johnson (Dem)	3.9%	Won	Yes
11/5/1968	Richard Nixon (Rep)	6.0%	Lost	No
11/7/1972	Richard Nixon (Rep)	3.0%	Won	Yes
11/2/1976	Jimmy Carter (Dem)	-1.0%	Lost	Yes
11/4/1980	Ronald Reagan (Rep)	6.9%	Lost	No
11/6/1984	Ronald Reagan (Rep)	3.6%	Won	Yes
11/8/1988	George H.W. Bush (Rep)	2.8%	Won	Yes
11/3/1992	Bill Clinton (Dem)	-0.4%	Lost	Yes
11/5/1996	Bill Clinton (Dem)	6.7%	Won	Yes
11/7/2000	George W. Bush (Rep)	-3.4%	Lost	Yes
11/2/2004	George W. Bush (Rep)	2.8%	Won	Yes
11/4/2008	Barack Obama (Dem)	-24.8%	Lost	Yes
11/6/2012	Barack Obama (Dem)	1.9%	Won	Yes
11/8/2016	Donald Trump (Rep)	-2.3%	Lost	Yes
11/3/2020	Donald Trump (Rep)	?	?	?
Years Right				20
Total Years				23

Source: LPL Research, FactSet 08/02/2020 (1928 - Current)



3505 East 2nd Street, SUITE 201, LONG BEACH, CALIFORNIA 90803  
 TEL: (562) 434-5305 FAX: (562) 434-5306  
 www.lederer-associates.com