

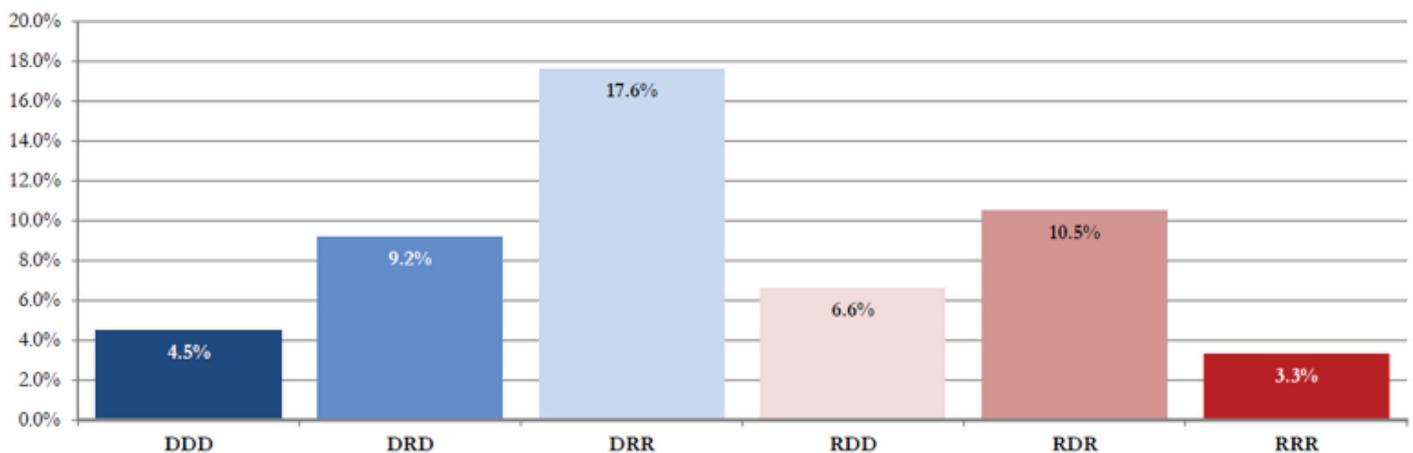
Politics and the Markets

Every two years, a very popular question comes up about how the markets behave under different political parties. With the 2014 mid-term election a day away, I thought it would be interesting to review the current polls and analyze the potential consequences.

Currently, the Democrats control the Senate, holding 54 of the 100 seats. There are 36 seats up for election. The most recent polls predict a shift in control, with the highest probable outcome being that the Republican Party will hold 52 seats after the election. The House of Representatives have a total of 435 seats. All 435 representatives are up for reelection. Currently, Republicans hold a majority, controlling 238 seats. The most recent polls forecast they will continue to hold their majority, but may lose a few seats.

S&P 500 Price Returns by Political Configuration

Annual Average Price Returns, 1949-2013 (President/House of Representatives/Senate)



Source: U.S. House of Representatives, U.S. Senate, J.P. Morgan Asset Management, Polaris Wealth Advisers.

The letters represent political party in control of the White House, House of Representatives, and the Senate, respectively. For example, DRR indicates a Democratic President, and Republican controlled House and SENate. The configurations of DDR and RRD have never occurred, and are thus omitted. Data are as of 9/10/14.

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We all know that investors don't like uncertainty, which negatively impacts the stock markets. They also don't like having one political party controlling all of the decisions that will affect our country. As you can see in the bar graph on the previous page, the worst scenario is a monopolization of power by one party, which has historically produced the lowest returns for investors. The worst historical combination is when the Republican Party controls the Oval Office, the House, and the Senate. The second worst is when the Democratic Party controls all three offices. Most politically passionate people have strong opinions that their party's beliefs are correct and would like to see their party win all elections. I think that it is easily argued, however, that a system of checks and balances serves our markets far better than having one political party in a position of total power.

Historically, the best returns in the stock market have come when there is a Democrat as President and the House and Senate are controlled by the Republican Party. If the polls prove correct, it appears that we will find ourselves in this situation. Obviously we can't invest purely based on historical averages, but it does pose interesting thoughts.

Go out and vote. Be heard!

As always, I look forward to your comments and questions.



Sincerely,

Jeff