

Financial Commentary

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The Election/Super Bowl Effect

How the Presidential Election and the Annual Championship Influence the Markets

As if the state of the world economy and America's tedious attempt to pull itself out of the recession slump weren't enough, now we add two potential – and historically noteworthy – market movers: the presidential election and the Super Bowl.

Open the newspaper or turn on the TV and you know the 2012 presidential election is in full swing. Traditionally, presidential election cycles have had a dominant influence on the direction of the economy and, in turn, the markets. Things like tax rates, budgetary decisions and investment policies all hang in the balance of the elected candidate's decisions and beliefs; just a few reasons why investors have kept a close eye on the markets and emerging trends every four years.

Historical analysis of past election years has shown that during the tail end of presidential election years, stocks can tend to be pretty bullish, no matter what candidate wins, according to the Stock Trader's Almanac.¹ In fact, the Standard & Poor's 500 has risen in the final seven months in 13 of the past 15 presidential election years since 1950, the Stock Trader's Almanac says. Our old friend history has also shown the S&P 500-stock index to be a reliable prognosticator of whether the incumbent president will be reelected or replaced. For example, when the S&P 500 index rises from July 31 through October 31, the incumbent president ends up being reelected. But when the S&P 500 posts a loss during that three-month period, the president loses his bid for reelection.^{2*}

The Stock Trader's Almanac also found that looking back to past election years when the political party in power has won the office, which has happened 16 out of the past 27 elections since 1901, the Dow has risen by 1.5% on average in the first five months of the year before the election. Compare that to when the party was ousted and the Dow lost 4.6% on average in the first five months of the year before the election.³

Good news ... election years do not normally constitute a big "L" for stocks. Actually, the Stock Trader's Almanac shows that during election years, stocks have only fallen by more than 5% on six occasions.⁴ The not-so-good news ... history does not predict the future. Let us not forget 2008 when investors suffered one of the worst bear markets on record, despite it being an election year.⁵

Wall Street and the pig skin

Meanwhile, on February 5, the New York Giants will square off against the New England Patriots – a repeat of the 2008 championship when the Giants upset the then undefeated Patriots. While the players duke it out on the field, so will the game's high-paying advertisers, each vying for viewers' undivided attention and money.

Companies that advertise during the Super Bowl on average outperform Standard & Poor's 500-stock index by more than one percentage point in the 10 trading days from the Monday before the big game to the Friday afterward, according to a study out of the University of Wisconsin-Eau Claire.⁶ It doesn't matter how well the advertising company has performed in the market – or in its industry for that matter – prior to the game, or how well the ad scored by media measurements. Research shows these factors do not inhibit the company's boost come the Monday after Super Bowl.

Purchasing shares of Super Bowl advertisers may be a rewarding strategy. The companies doling out millions for a piece of Super Bowl air time are often fairly confident about their futures ... and their confidence shows in dollars. Despite the turbulent economy, companies are paying NBC an average of \$3.5 million for a 30-second spot during the championship game. Meanwhile, the cost of producing each commercial can ring up another \$2 million or more – prompting ad gurus to do whatever it takes to make sure their ads stand out.⁷

Historically, the long-term effects of Super Bowl investments are intriguing. In 2009 and 2010, almost two-thirds of the Super Bowl stocks (41 out of 62) were still outperforming the S&P 500 at the midyear mark (June 30 for 2009 and 2010), with the gains more than double the size of the losses, according to the University of Wisconsin-Eau Claire research. Moreover, about 60% of the Super Bowl stocks (38 out of 62) were still outperforming the S&P 500 at year end, with the gains again more than double the losses.⁸

Whether you choose to invest in a Super Bowl advertiser or stay close to historic market trends during presidential elections, financial advisors say go with tried and true investment advice: stay invested for the long-term, maintain a diversified portfolio and consider dollar cost averaging if it fits your investment style and goals.

Please call our office today to make an appointment to discuss your financial future.

**Indices are unmanaged and return figures do not include any fee or charges. You cannot invest directly into an index. Past performance is not a predictor of future investment results. Investing involves risk including the loss of your principal. Prior to investing, you should consult with a financial advisor to discuss the risks, expenses and objectives of any investments.*

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¹ <http://www.usatoday.com/money/perfi/columnist/krantz/story/2011-12-11/stocks-during-presidential-election-years/51770758/1>

² <http://www.forbes.com/sites/genemarcial/2012/01/08/will-obama-be-reelected-the-stock-market-has-the-answer/>

³ <http://www.usatoday.com/money/perfi/columnist/krantz/story/2011-12-11/stocks-during-presidential-election-years/51770758/1>

⁴ <http://www.usatoday.com/money/perfi/columnist/krantz/story/2011-12-11/stocks-during-presidential-election-years/51770758/1>

⁵ <http://www.usatoday.com/money/perfi/columnist/krantz/story/2011-12-11/stocks-during-presidential-election-years/51770758/1>

⁶ <http://www.kiplinger.com/columns/picks/archive/does-the-super-bowl-help-boost-advertisers-stock-prices.html>

⁷ [http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-](http://investing.businessweek.com/research/markets/news/article.asp?docKey=600-201201210458KRTRIB__BUSNEWS_34484_64458-1¶ms=timestamp%7C%7C01/21/2012%204:58%20AM%20ET%7C%7Cheadline%7C%7CCompanies%20try%20to%20build%20buzz%20for%20Super%20Bowl%20ads%20%5BLos%20Angeles%20Times%5D%7C%7CdocSource%7C%7CKnight%20Ridder/Tribune%7C%7Cprovider%7C%7CACQUIREMEDIA)

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⁸ <http://www.kiplinger.com/columns/picks/archive/does-the-super-bowl-help-boost-advertisers-stock-prices.html#ixzz1DevCXEGL>