

MARKET SNAPSHOT

BY JOHN GOODE, MANAGING DIRECTOR,
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Stock Market Returns 200 Days After Mid-Term Elections: Is the Batting Average Relevant?

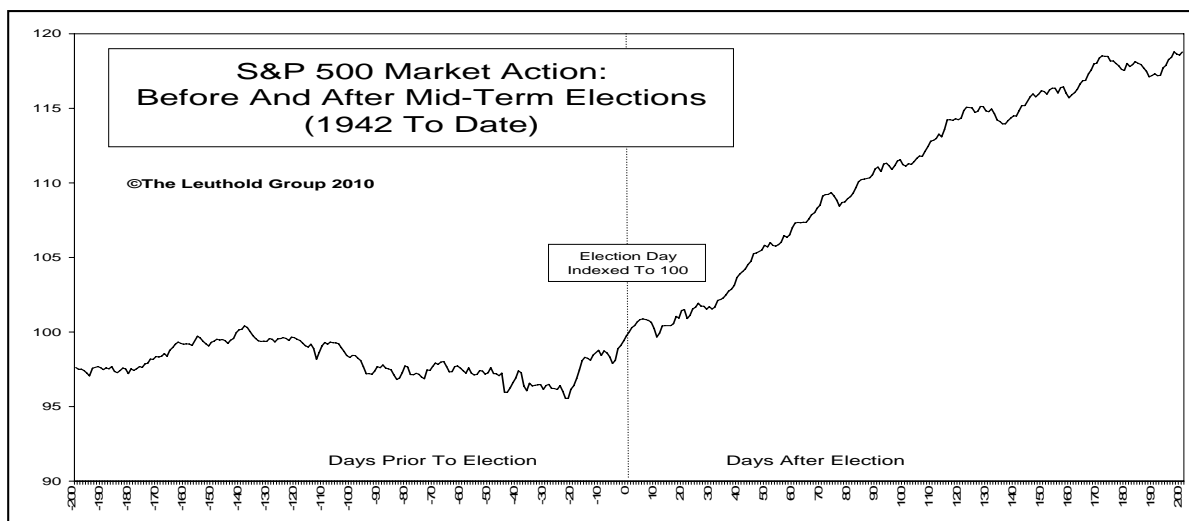
Since 1900, there have been only 13 instances when someone in the American or National League has compiled a batting average of 400 or better, topped by Napoleon Lajoie's 426 in 1901 and Rogers Hornsby's 424 in 1924. Ted Williams' 406 batting average in 1941 is the last time someone has been able to reach the magic 400 level.

About the same time Williams was achieving his historic feat, an economic series began to be assembled that has a batting average that would put the players mentioned above to shame. Subsequent to 17 mid-term elections since 1942, the S&P 500 appreciated 17 times (100% batting average) over the next 200 days, with the average return being 18.3%. The low percentage gain (+3.9%) was in 1946, just after World War II ended and deflation fears were in vogue, and more recently the 6.1% gain for the S&P 500 after the 2006 mid-term elections.

	S&P 500 Performance 200 Days Leading Up To Mid-Term Elections	S&P 500 Performance 200 Days Following Mid-Term Elections
1942	15.6%	30.5%
1946	-15.3%	-3.9%
1950	12.4%	13.0%
1954	23.7%	31.8%
1958	25.1%	14.7%
1962	-14.6%	22.6%
1966	-14.0%	15.3%
1970	-6.4%	16.6%
1974	-22.2%	10.6%
1978	5.2%	15.7%
1982	18.6%	20.2%
1986	19.6%	36.0%
1990	-6.0%	25.6%
1994	-1.3%	19.7%
1998	13.5%	20.3%
2002	-18.2%	8.5%
2006	9.2%	6.1%
Average	2.6%	18.3%
Std Deviation	15.4%	8.7%
# Positive	9	17
# Negative	8	0

Source: The Leuthold Group. Data as of 9/10.

The following chart shows that the stock market performance 200 days after a mid-term election, where political power changed hands, approximated that for the 17 mid-term elections as a whole. There have been six mid-term elections since 1942 when there was a change in political power in Congress.



Source: The Leuthold Group. Data as of 9/10.

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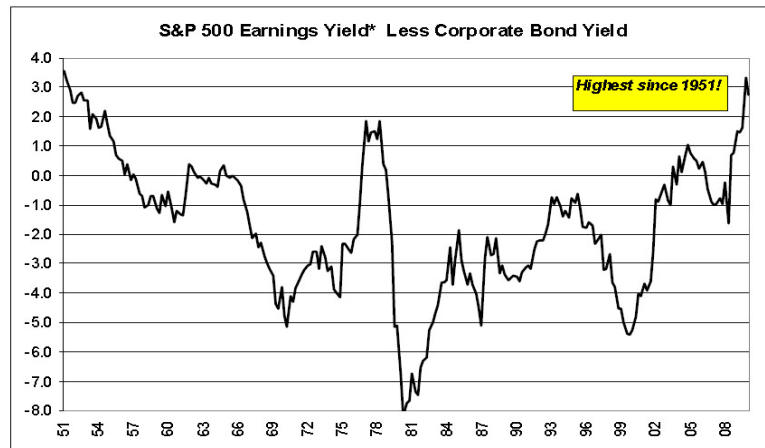
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What are the Chances that the Historical “Batting Average” will hold in 2010-2011?

Many investors reaction to this question will be to consider prospects for the Bush tax cuts being extended or the U.S. economy gathering strength. Although these may be important, we suggest the following may provide a better clue.

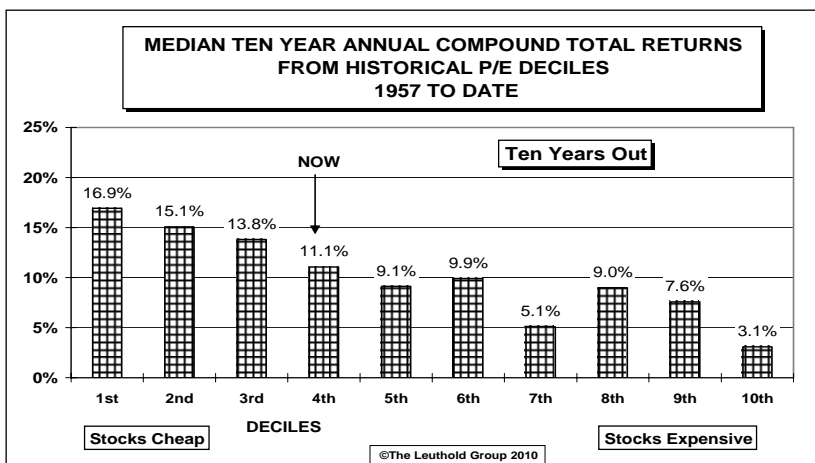
Michael Darda at MKM Partners has taken the S&P 500 earnings yield, which is generated by taking the reciprocal of its P/E ratio, and subtracted the corporate bond yield. The difference today of about 300 basis points (3%) is wider than at any time since 1951 when Harry Truman was President. Our interpretation is that stocks are attractive, relative to bonds, and could react positively to any economic or political surprises, even if minor.



Source: Bloomberg; MKM Partners
*Earnings yield based on NIPA-equivalent S&P operating earnings with 1988 as a base year

Any Longer Term Implications?

The Leuthold Group has compared P/E ratios at the time of mid-term elections since 1942 and concluded that prospects, in its judgment, suggest an annualized 10-year return of 11% for stocks.



As we have pointed out in our most recent Market Review, investors have been gobbling up bond funds and other fixed income investments in the last two years in amounts approaching about \$500 billion. Conversely, outflows from equity oriented funds have exceeded \$200 billion.

We continue to believe stock will outperform bonds, not just in the intermediate term, but also over the longer term as well.

Source: The Leuthold Group. Data as of 9/10.

John G. Goode
September 20, 2010

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S&P 500: A commonly used benchmark used to represent the overall US stock market. An investor cannot invest directly in an index.

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