



# Investment Insights

Kevin Kennedy

## Our Next President? Ask the Dow

With one month to go before the Presidential election, pollsters and pundits are furiously reading the tea leaves to forecast who will win. By most accounts, the race is neck in neck as we head down the stretch. The outcome may be important to investors as the two candidates have widely differing views on how our tax and business laws should be written. Typically, the investment markets like certainty, and having the race up for grabs this close to Election Day has caused some nervousness among traders. However, if you want to know before November 2<sup>nd</sup> who will win, you may need look only as far as the Dow Jones Industrial Average.

## A 92% Success Rate

According to research conducted by esteemed market pundit James Stack, and published in his recent issue of InvesTech Research, the Dow Industrial Average has had an uncanny ability to forecast the outcome of Presidential Elections. Stack looked at the 26 Presidential Elections going back to 1900 to see if there was a discernable pattern between market performance for the 60 days leading up to the election and the election winner. What he found was incredible. In the 16 periods where the Dow Industrials rose in the 60 days prior to the election, the incumbent party won 15 times, or almost 94% of the time. In the 10 periods where the Dow fell, the incumbent party lost nine times, or 90% of the time.

Now, there are often many strange correlations drawn between seemingly random things and market performance. Witness, for example, the “hemline” indicator, which theorizes that the shorter hemlines get on women’s dresses, the higher the markets go. However, the election indicator Stack uncovered can’t be dismissed as easily due to its 90%+ predictive ability.

On September 2, 2004, the Dow Industrial Average closed at 10,290.28. You can follow this widely quoted index by watching the evening news, or going online to any mainstream finance website and checking quotes on market indices.

As of the close of trading on October 4, 2004, the Dow stood at 10,216.54. Thus, we are now sitting less than 1% below where they began the 60-day period leading up to the election. Much like the race itself, this is still too close to call, but keep an eye on what

transpires over the next few weeks: based on Stack's research, we may not need to stay up late on November 2<sup>nd</sup> to know who won the Presidential race.

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