



BY SARAH Z. CORDELL
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Elephant or Donkey — Do Either Add Up to a Bull Market?

The economy is a very open and dynamic system.

The end of 2010 was a surprisingly busy time of year. November's mid-term elections saw Republicans resume control of the House of Representatives and narrow the gap in the Senate to a mere six seats. Many saw the resurgence of Republican power as a boon to a struggling economy. When that newly Republican-heavy Congress passed an extension to the Bush-era tax cuts, many saw that as support for their suppositions.

BUT A REPUBLICAN LEGISLATURE DOESN'T NECESSARILY MEAN BULL MARKETS

Traditionally, says Charles Flowers, Financial Analyst with Abacus Planning Group, Republicans are seen as very business friendly. But perception doesn't always mirror reality, and such is the case with market performance under particular parties.

Jonathan Mauffray, Financial Advisor with Edward Jones, cites research* that shows that

stocks typically perform better under Democratic presidents — but that Republicans have historically done a better job at controlling inflation.

Jim Teeter, President of Apex Investment Advisors, LLC, notes the same trend, but also noted that the market tends to drop leading up to elections where Republicans are exiting and Democrats are expected to resume power. Take, for example, President Barack Obama's election. "His [Obama's] election drove the market down 50 percent," Teeter says. The market is now up, but it's really just making up for lost ground. "The rebound gives an outsized return for the Democrats."

THE JOYS OF GRIDLOCK

While Republicans have regained a foothold in the halls of Washington, D.C., they aren't in a position of power. And that, says Teeter, is a good thing.

Mandates can often be expensive. When one party or the other has control, they typically feel as though they can do what they want.

"They spend money like drunken sailors," Teeter says. He offers the passage of the health care reform bill as an example: had the



Charles Flowers

Democrats not been in control of both the legislature and the White House, the legislation — which could be particularly burdensome for small businesses — would probably never have passed.

On the other hand, a balanced legislature — where one party controls the legislature and one party controls the administration — is ideal.

“I think gridlock is a good thing,” Teeter says “No really ridiculous laws will get passed.”

WHAT DOES IT MEAN FOR 2011?

Regardless of who is in power, the future is looking bright for the markets. “I’m excited about where the stock market is and where it’s going,” says Mauffray.

“We’ve had two pretty good years,” he says. The challenge is getting people over the fear factor.

Teeter also notes the effect that uncertainty can have on the market. “That instability creates volatility and fear,” he says. Businesses want stability. If you can plan for it — whether “it” is good or bad — you feel a sense of control.

The recent extension of the Bush-era tax cuts, for example, was good for the markets.

“That’s a direct stimulus,” says Flowers, more for the certainty than for the extension. “It’s nice and I’m sure people enjoy it, but that’s not what’s driving the stock market.”

STICK TO THE FUNDAMENTALS

Politics are well and good, but when it comes to the stock market, your best bet is to stick to the basics.

“The economy is a very open and dynamic system,” Flowers said. Government, while a large player in economic output, is only one of the players. Business investments, productivity and population changes are all equally significant factors.

Businesses are looking good, Flower says, with cash on the balance sheets. And while challenges ahead — deficits, Medicaid cuts and Social Security — make predicting market performance difficult, the things that have worked in the past will continue to work in the future.

For Flowers, that means keeping expenses low, diversifying and understanding your tolerance for risk.

“There’s a lot of stuff we can control,” he says, “It’s the distance running, not the sprint running that makes a successful investor.”

Mauffray expresses a similar sentiment, reminding investors to stick with a long-term strategy.

BUT WHAT ARE THE NUMBERS?

According to Mauffray, 2011 is forecasted to do very well. Teeter says both the DOW — which typically defines the stock market — and the S&P 500 will probably see an increase for the year.

“[The Dow]’s probably slightly undervalued here based on earnings,” he says. “International blue chips are going to do great.” And while the DOW could do extremely well, Teeter reminds investors that as much as 40 percent of that — or more — is invested internationally. ■

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