Joao-D
Ordem dos Especialistas
Mensagens: 326

Ciclo presidencial (EUA) - Tópico principal

« **em:** 2010-04-24 01:48:15 »

Citar

The Very Important Four-Year Presidential Cycle. 2010.
Sy Harding

While most investors have at least heard of the Four-Year Presidential Cycle, few are aware of its particulars, or of its unusually consistent impact on the economy, the stock market, and the country's general well-being.
The cycle begins every four years at the end of each election year. Basically it is this:
History shows a very strong tendency for the economy and stock market to experience difficulties in the first two years of each new Presidential Administration, and then to experience recovery and strong growth in the last two years of each term.
The driving force is the desire for each new Administration to be re-elected when the next election rolls around in four years, and both political parties learned long ago that the most important factor for voters at election time is the condition of the economy. Regardless of how positive other factors may be at the time, almost no incumbent party has ever been re-elected if the economy is struggling when voters go to the polls.
Therefore, it has been common since at least 1918 for the incumbent administration to do whatever it takes in the last two years of each Presidential term to make sure a prosperous economy and stock market are in place when the next election arrives. Such pump-priming traditionally includes increased government-spending, cuts in interest rates and taxes, even tax rebates. The intent is to encourage consumers to spend more (consumer spending accounts for approximately 65% of the economy), which will result in businesses having to buy more equipment and hire more workers.
It doesn't always work to get the incumbent party re-elected, but works just about every time to create a strong economy and stock market by the time the next election time rolls around.
However, the extra stimulus efforts in the last two years of each term also almost always results in the economy and stock market being pumped up too much. Excesses are created that need to be corrected after the election. Those excess usually include some form of an overheated economy that is threatening to produce inflation, excess government, consumer, or corporate debt, and an overbought and overvalued stock market, sometimes even a 'bubble' in one or two investment areas.
So after each presidential election the newly elected (or re-elected) administration tends to allow the correction of those excesses to take place in the first two years of the next four-year cycle. In fact, if market forces are not producing the corrections, Washington often forces the issue by raising interest rates to cool off the economy, while backing off on government spending and job creation.
It makes sense that they would want the economy and stock market to undergo any needed correction of excesses in the first two years of the new term. If they tried to keep the economy and stock market pumped up for another four years, all the way to the next election, they would run the risk of even greater excesses developing, which in turn might result in a large correction, or even a market crash late in the term just as the time of the next election arrives.
We have seen several examples of the latter, when administrations did not allow corrections in the first two years of a term, and instead tried to keep the economy and stock market booming

through their entire four-year term.

For instance, the Reagan Administration in its second term in the 1980s, the Clinton Administration in its second term in the 1990s, and the George Bush Jr. Administration in its second term in the 2000s.

All three followed the historical norm in their first terms in office, allowing and even engineering an economic slowdown and market correction in the first two years of the terms, and then pulling out all the stops to re-stimulate the economy and stock market in the last two years of their first term, in time for the next election.

But after being re-elected, they did not allow a slowdown in the first two years of their second terms, all three keeping the economy and stock market pumped up through the first two years of their second terms, taking a chance that they could keep them strong all the way through their second terms.

The result for the Reagan Administration was the 1987 crash, in the 3rd year of its second term. The result for the Clinton Administration was that the stock market wound up in a bubble in 1999, the third year of its second term, and that bubble burst into the severe 2000-2002 bear market that began in the fourth year of Clinton's second term. And for the George Bush Jr. Administration the result was that the recent severe 'Great Recession' and 2007-2009 bear market began in 2007 and lasted through 2008, encompassing the third and fourth year of Bush's second term.

Those exceptions stand out starkly from the normal pattern of the Four-Year Presidential Cycle, and support the reasoning behind the consistent pattern. When an Administration is in its first term it has great incentive to follow the pattern, allowing a slowdown in the first two years of the term and then stimulating a recovery in the third and fourth year in time for their re-election. But apparently when an administration is in its second term, and cannot be re-elected, it does not have the same incentive to continue the pattern, and is tempted to try to keep the boom times going all the way through their second term.

Jeremy Grantham, founder and chairman of Boston-based Gratham, Mayo, Van Otterloo & Co., highly respected international managers of $140 billion in client assets, says of the Four-Year Presidential Cycle:

"All markets tend to drop in the first two years of a presidential cycle. The key for people to remember is that whoever is president has astonishingly little effect, whereas the cycle itself, the desire for the incumbent party to get re-elected is clear in the data. . . . . . The precipitating factor is economic house-keeping by officials in Washington. Presidential Administrations want to correct imbalances in the economy and smarten-up balance sheets in the first two years of their term, so they will have breathing room in year-three to stimulate the economy and set things up for the next election. . . . . . . An unintended consequence is that the stock market usually falls in the first two years of the cycle."

The first term of the Bush Jr. Administration is the most recent example.

The severe bear market that began in 2000, the 4th year of Clinton's second term, continued in 2001 and 2002, the first two years of the new president's term. The Bush Administration, following the normal pattern of the cycle, did little about it beyond the typical 'jaw-boning' and rhetoric, assuring the country that "The U.S. economy is vibrant and will recover." Washington occupied itself with mending political fences after the embattled Bush/Gore election, and planned for its goal of spreading democracy around the world. The terrorist attacks of September 11, 2001 came along, and further occupied the Administration with the launching of the war on terror, the invasion of Afghanistan, and development of Homeland Security.

However, in the following year, the second year of the first Bush term, just as the Four-Year Presidential Cycle would have us expect, and even as the Administration could have been even more distracted by preparation for the invasion of Iraq, Washington moved the economy to center stage. It launched the most aggressive economic stimulus effort the nation had ever seen (although it was to be dwarfed by the stimulus efforts six years later in 2008 and 2009).

The Bush Administration increased government spending exponentially, to expand the military and fund growing homeland security efforts, at the same time providing tax cuts and even tax rebates, and with a series of dramatic interest rate cuts that soon had mortgage and other loan rates at their lowest levels in 45 years.
Sure enough the economy responded, and from its bear market low in October, 2002, the second year of President Bush's first term, the stock market launched into its next bull market, that of 2003-2007. Once again the stock market's Four-Year Presidential Cycle, extremely consistent in a president's first term, of weakness in the first two years and strength in the second two years, had taken place.
In my most recent book, Beating the Market the Easy Way, published in 2007, I noted that as had been the case with Reagan's and Clinton's second terms, there had been no slowdown in the economy and no bear market in stocks in the first two years of President Bush's second term.
And at the time of writing the book, the real estate bubble had burst, suggesting that would bring the troubles in the third or fourth year of the Bush second term, as had happened with the Reagan and Clinton second terms.
And that is what happened, with the recent Great Recession and most severe bear market since the 1930's taking place from late 2007, through 2008 (and into the March low in 2009, two months after the next Administration took office).

Two tables of importance in understanding the consistency of the cycle.

TABLE 1: All the bear markets since 1917.

Note that 15 of the 20 bear markets ended in either the 1st or 2nd year of a president's term, (those in green), regardless of which party was in office. Four of the five exceptions (in black) were when it was a president's 2nd term.
So the only term since 1917 in which a bear market was underway when a president was in office in his first term, and the bear market did not end in either his first or second year in office was Hoover's. However, the 1929 crash took place in his first year in office, continued through his second year, and then third year, not ending until 1932. So the first half of the Four-Year Presidential Cycle pattern, weakness in the 1st or 2nd year of the cycle, certainly took place.
The next table illustrates the other important very consistent pattern of the Four-Year Presidential Cycle.
It is that since at least 1918 the market has experienced a big rally from the low in the 2nd year of every Administration to the high the following year. The average market gain in that rally has been 50.1%.
The table goes back to 1934, from which the rallies averaged 49.3%. (Results even more pronounced going back to 1918).

TABLE 2: Rally from the low 2nd year of every Administration to the high the next year:

It's important to realize that those rallies took place in every Four-Year Cycle, no matter which party was in power, in times of war or peace, booming economic times or bad times, rising interest rates or falling interest rates, rising inflation of declining inflation. The pump-priming beginning in the second year of each presidential term, aimed at making sure the economy is strong by the next election, always produced a strong stock market rally from the low in the 2nd year of the four-year cycle to the high the following year.

The dramatic variations in surrounding conditions during the last 75 years included eight terms when Republicans were in power, and ten terms when the Democrats were in power.

They included times of relative trust and admiration for the President, and periods of terrible scandals, one resulting in resignation (Nixon), another in impeachment proceedings (Clinton).

They included the assassination of President Kennedy, and the assassination attempt on President Reagan.

Militarily they included long periods of relative peace, but also major wars, some popularly supported some not, including World War II, the Korean War, Vietnam War, the Desert Storm War, terrorist attacks on the U.S., and invasions of Afghanistan and Iraq.

They included periods of cheap energy costs with oil at $2 a barrel, and high energy costs with oil at $70 a barrel.

There was the rise of Japan as a world power in the 1980s, and China in the 2000s.

There were periods of huge federal budget deficits and times of huge budget surpluses.

There were periods of relative trust in corporations and financial institutions, and times of scandals and total distrust.

Yet through all those different conditions two situations remained constant. If there were any serious problems for the economy or stock market, especially when a new president was serving his first term, the problems almost always took place in the first two years of the term.

AND since at least 1917, from the low in the 2nd year of every president's term the market experienced a rally to the high the following year, in which the market gained an average of 50%.

Lastly, the Four-Year Presidential Cycle is the market's main long-term driving force.

Just as annually the market makes most of its gains in the months between November and April, and suffers most of its losses between May and October, so over the long-term it also suffers most of its major declines in the first two years of the Four-Year Presidential Cycle, and makes most of its gains in the last two years.

Obviously, the time to be extremely cautious, and consider downside positions is in the first two years of every Presidential term, and the time to buy aggressively is from the low in the 2nd year of each term to the next election.

TABLE 1: All the bear markets since 1917.

President	Market Top	Market Low	Decline
Wilson 1917-20	Sept 1916	July 1917	- 24.1%
Harding 1921-24	Nov 1919	Aug 1921	- 46.6%
Hoover 1929-32	Oct 1929	July 1932	- 89.0%
Roosevelt 1933-36	Sept 1932	Feb 1933	-37.2%
Roosevelt 1933-36	Feb 1934	July 1934	- 22.8%
Roosevelt 1937-40	Mar 1937	Mar 1938	-49.1%
Roosevelt 1937-40	Nov 1938	Apr 1939	- 23.3%
Roosevelt 1941-44	Sept. 1939	May 1942	- 40.4%
Roosevelt 1945-48	May 1946	May 1947	- 23.2%
Eisenhower 1957-60	Apr 1956	Oct 1957	- 20.2%
Kennedy/Johnson 61-64	Dec 1961	June 1962	- 27.1%
Johnson 1965-68	Feb 1966	Oct 1966	- 25.2%
Nixon 1969-72	Dec 1968	May 1970	- 35.9%
Nixon/Ford 1973-76	Jan 1973	Dec 1974	- 45.1%
Carter 1977-80	Sept 1976	Mar 1978	- 26.9%
Reagan 1981-84	Apr 1981	Aug 1982	- 24.1%
Reagan 1985-88	Aug 1987	Oct 1987	- 36.1%
Bush Sr. 1989-92	July 1990	Oct. 1990	- 21.2%
Bush Jr. 2001-04	Jan 2000	Oct. 2002	-50.1%
Bush Jr. 2005-08	Oct. 2007	Mar. 2009	- 53.8%
Obama 2009-2012	Oct 2007	Mar. 2009	

Table 1 All The bear markets since 1917.PNG (141.61 Kb, 336x1016 - visto 55 vezes.)

TABLE 2: Rally from the low 2nd year of *every* Administration to the high the next year:

Low Date	High Date	Gain (S&P 500)
7-26-1934	11-19-1935	+ 61.0%
3-31-1938	1-4-1939	+55.6%
4-28-1942	7-14-1943	+69.2%
10-9-1946	2-8-1947	+14.7%
1-3-1950	10-15-1951	+43.2%
1-11-1954	11-14-1955	+87.1%
1-2-1958	8-3-1959	+50.5%
6-26-1962	12-31-1963	+43.4%
10-7-1966	9-25-1967	+ 33.3%
5-26-1970	4-28-1971	+ 51.2%
10-3-1974	7-15-1975	+ 53.5%
3-6-1978	10-5-1979	+ 28.0%
8-12-1982	10-10-1983	+ 68.6%
1-22-1986	8-25-1987	+ 65.5%
10-11-1980	12-31-1991	+ 41.2%
4-4-1994	12-13-1995	+ 41.6%
1-9-1998	12-31-1999	+ 58.4%
10-9-2002	12-31-2003	+ 43.1%
6-13-2006	10-9-07	+ 28.0%
	Average	+ 49.3%

Table 2 Rally from the low 2nd year of every administration to the high the next

year.PNG (217.03 Kb, 603x1123 - visto 44 vezes.)

« *Última modificação: 2010-05-29 14:31:38 por Incognitus* » Registado

"It's the guessing that develops a man's brain power. Just consider what you have to do to guess right."- Jesse Livermore
"Markets can remain irrational longer than you can remain solvent."- John Maynard Keynes
Temos como indivíduos, a responsabilidade de dizer "ok vocês dizem que é x, mas eu vou fazer a minha análise e ver se é mesmo x."

Incognitus
Administrator
Mensagens: 77750

Re:The Very Important Four-Year Presidential Cycle. 2010.
« **Responder #1 em:** 2010-04-24 02:12:59 »

Eu posso unir ao tópico do Obama, mas separado também é um bom tópico.

Registado

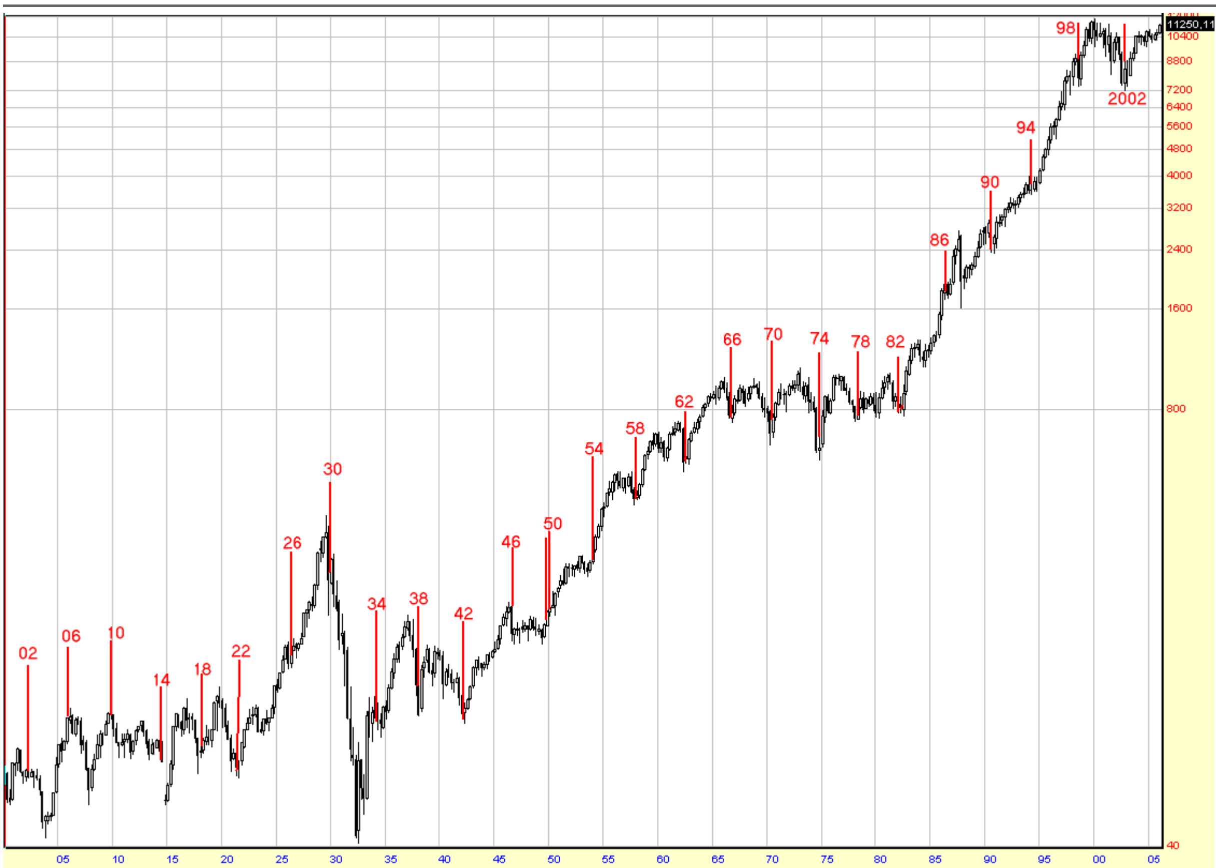
"Nem tudo o que pode ser contado conta, e nem tudo o que conta pode ser contado.", Albert Einstein

Incognitus, www.thinkfn.com

Castelbranco
Think Finance
Mensagens: 1988

Re:The Very Important Four-Year Presidential Cycle. 2010.
« **Responder #2 em:** 2010-04-24 07:55:31 »

cá está o ciclo de 4 anos, mas será que é por causa do presidente?



DOWSECUL.png (16.82 Kb, 1130x801 - visto 47 vezes.)

Registado

aquilo que o valentim disse, não foi ele que disse.

Joao-D
Ordem dos Especialistas
Mensagens: 326

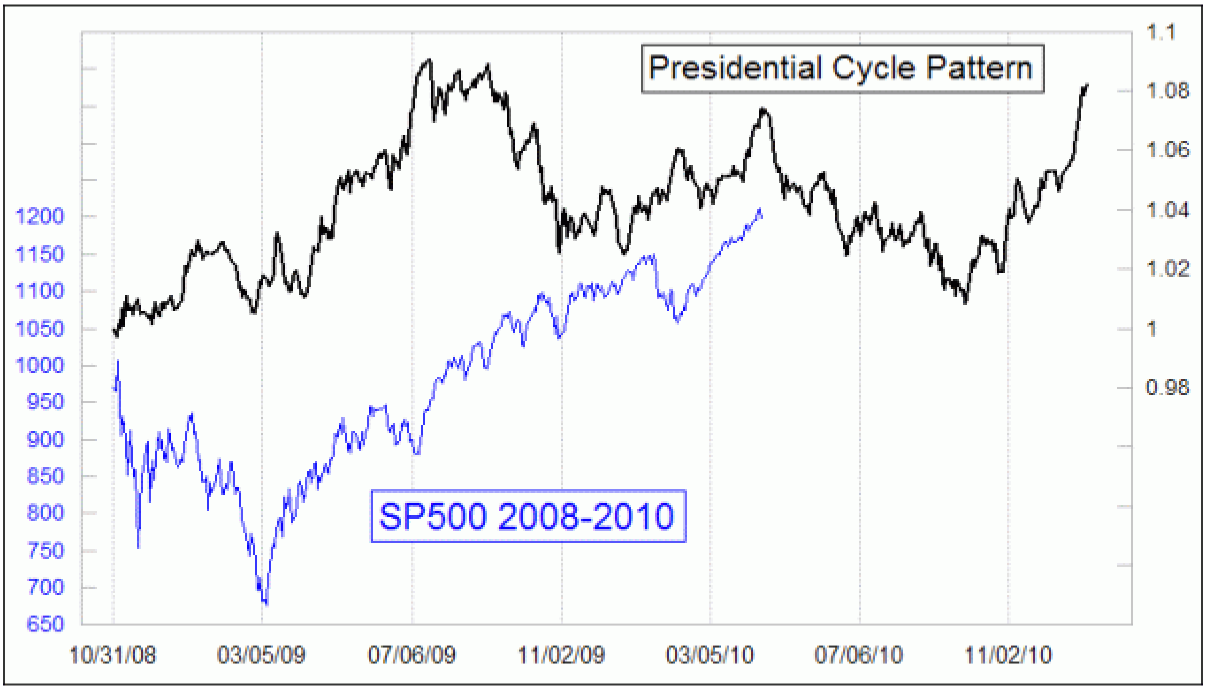
Re:The Very Important Four-Year Presidential Cycle. 2010.
« **Responder #3 em:** 2010-05-29 13:02:21 »

Citar

The stock market's big one-day drop on April 16, 2010 comes at an interesting time on the calendar. The news which sparked the selloff was that the SEC is alleging wrongdoing by the investment banking firm Goldman Sachs in the construction of a collateralized debt obligation (CDO) product that it marketed. Without going into the specifics of that charge, it is fair to say that political factors may be involved in the timing of that announcement, since major financial regulation legislation is currently being considered by Congress.

It is no surprise that the political calendar in Washington, DC has some influence on stock prices. In order to try and measure that effect over time, one of the tools I like to use is our Presidential Cycle Pattern. I first created this indicator back in 1994, as a way of depicting the effects of the political calendar that had previously been described by Yale Hirsch and others.

They had noticed that the first two years of a presidential term had a tendency to be flat on average. The third year is nearly always an up year (1931 and 1939 were notable exceptions), and the election year is usually up although not as strongly as the third year.



Presidential Cycle.PNG (35.92 Kb, 613x359 - visto 147 vezes.)

Registado

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Incognitus
Administrator
Mensagens: 77750

Re:Ciclo presidencial (EUA) - Tópico principal

« **Responder #4 em:** 2010-05-29 14:32:49 »

João, mudei o nome do tópico para ser mais fácil de encontrar no futuro, ok? Como é um fenómeno interessante e por vezes com algum impacto, vale a pena estar entre os tópicos fáceis de encontrar. Eventualmente também criarei um artigo na wiki para "ciclo presidencial", ligando para este tópico.

Registado

"Nem tudo o que pode ser contado conta, e nem tudo o que conta pode ser contado.", Albert Einstein

Incognitus, www.thinkfn.com

Joao-D
Ordem dos Especialistas
Mensagens: 326

Re:Ciclo presidencial (EUA) - Tópico principal

« **Responder #5 em:** 2010-05-29 18:50:26 »

Tudo bem Incognitus.

O gráfico de cima não está actualizado, falta a correcção deste mês.

« *Última modificação: 2010-05-29 19:00:49 por Joao-D* »

Registado

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