

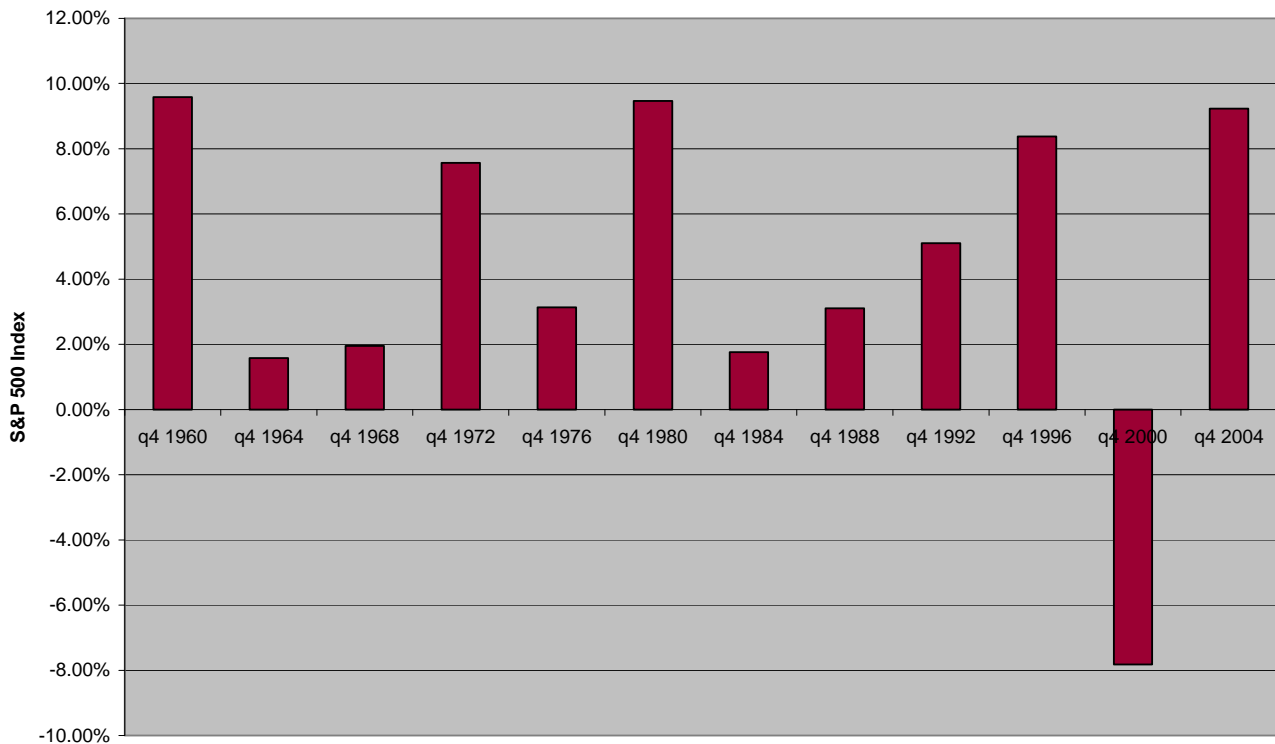
How Does a Presidential Election Affect the Market?

Following the Republican and Democratic National Conventions, it appears to be a very close race for the Presidency. We are frequently asked “How will the election affect the market?” Our answer is regardless of which party takes over the White House, stocks have historically rallied during the last quarter of the election year.

There is no correlation between stock returns and either a Republican and Democratic President in election quarters. There is, however, a high correlation between a presidential election and positive stock returns. Investors do not like uncertainty and the outcome of the election, regardless of which party wins, typically coincides with positive stock returns during the election quarter.

Does this mean we will have positive stocks returns in the fourth quarter of 2008? No, but it does indicate that historically, the market has outperformed during election quarters. The graph below reveals that from 1960 thru 2004 in the 4th quarter of a presidential election year returns have always been positive except for the year 2000. You will recall the 2000 presidential election between Al Gore and George W. Bush had not been decided until the Supreme Court ruled in Bush’s favor in early 2001. Consequently, the S&P 500 increased 3.6% in January of 2001 after the election was finalized.

**Fourth Quarter Returns During Presidential Election Year
(Average of 4.42%)**



Source: Morningstar Principia