

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Midterm Elections and Weak Stock Markets

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The stock market is having a tough year and the reasons seem to be obvious. The lingering effects of the Covid-19 pandemic have damaged the global supply chain and caused a dramatic demand versus supply imbalance that has driven up prices. The efforts of two presidents, two sessions of Congress, and the Federal Reserve to keep the US economy from falling into the abyss overshoot and, in retrospect, pumped so much money into the economy that the US is seeing its worst inflation in four decades. The Fed will be raising interest rates and that has spooked the market. Then there is the war in Ukraine with disruptions of the commodity markets and the prospect of global recession starting in Russia and Europe. So, these factors should explain why the market is down in Biden's midterm year. But none of this explains why midterm elections and weak stock markets have been the pattern since 1900!

### Midterm Election Years and the Stock Market

As noted by *The New York Times* the average gains for the Dow Jones Industrial Average for [presidential terms from 1900 to 2021](#) are these:

Year One: 12.7%

Midterm Year: 3.1%

Year Three: 14.8%

Presidential Election Year: 7.4%

Likewise, the S&P 500 shows similar results from 1948 through 2021.

Year One: 12.9%

Midterm Year: 6.2%

Year Three: 16.7%

Presidential Election Year: 7.3%

Election years are almost always worse for the stock market and midterm years are worse than presidential election years. Why is this?

### Politics of the Presidency and Markets

Presidents and Congress have two issues to deal with. They need to govern the country and they need to get re-elected so that they can pursue their own agenda. Both the second and fourth year of a presidential term are commonly more focused on politics and the coming election than on governing while the first and third tend to be focused on governance. One of the political factors that arises every election year is cutting back on spending in order to balance the budget. Less government spending generally means less money in the

economy and a weaker stock market. No matter what else is going on in the nation and the world, these factors tend to affect the stock market every single presidential term.

### **Bad Choices for Presidents**

The first Bush presidency featured the fall of Communism, prevention of a nuclear war between India and Pakistan, the removal of the dictator Noriega from Panama, and the defeat of Iraq in the First Gulf War. President Bush should have been viewed as a hero, a victorious war time president. Rather, as noted by Bill Clinton, it was all about the economy. Bush opted for governance over shoring up his political base and became a one term president.

Bill Clinton looked at how badly the Democrats did in the 1994 midterms and moved his governing to the middle of the road. Paying attention to the politics of staying in office made him a two term president and was associated with a strong stock market.

Biden is confronted with a whole series of impossible dilemmas. He can stand back and let Putin take over Ukraine followed by large swaths of Eastern Europe or keep the coalition of Western nations together and risk a recession as the Fed ratchets up interest rates to fight inflation that is caused more by supply side issues than too much money floating around.

### **Sound Governance or Re-election**

This midterm election year Biden and the Democrats are confronted with a series of impossible choices. People are tired of Covid restrictions but the virus is still a threat. Oil prices are high but the only way to drive Putin to negotiate is to quit buying his gas and oil. The US and EU need to bankroll the Ukrainians and drive Russia into economic collapse as both are facing likely recession. Our take is that Biden will stay the course in the war in Ukraine, the Fed will raise rates and drive the stock market down, and the Democrats will lose control of both houses of Congress. The good part for the stock market is the over the last century or more the best years for the stock market have been when the president is a Democrat and Republicans control Congress. But is the party controlled by Trump really Republican any longer?

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