

WHAT MOVES THE MARKET

News

Visit any trading floor and the second thing you notice, after all the screaming and yelling, is the overwhelming number of monitors bringing in up to the minute news in every imaginable form. Similarly, read any financial report or article and you will see extensive discussion of news events that commentators are holding responsible for stock market moves. There is also considerable discussion of how future news events are supposed to effect the markets. These prognosis's are often wrong.

Given the above, it is not surprising that many people conclude that news is what matters, that news is what moves the markets. News may count in the minute by minute changes taking place on the trading floor but it is not very relevant to the long term investor concerned about a market crash making a serious dent (or creating a significant opportunity) in his investment plans.

According to Jeremy Siegel, Wharton professor and author of "Stocks for the Long Run", there have been 120 days since 1885 when the Dow Jones Industrial Average has changed by 5.0% or more. 28 of those, less than 1 in 4 can be identified with any world political or economic event. Of the 10 largest, only 2 can be attributed to news. The crash of '87 (The Dow was down 22.63% on October 19) is not identified with any particular news event. Neither is the crash of 1929 that preceded the Great Depression. In fact since 1940, there have been only two big moves associated with news events: 1. A 6.62% drop on September 26, 1955 when President Eisenhower suffered a heart attack and 2. The 6.12% drop on October 13, 1989 attributed by some to the collapse of the leveraged buyout of United Air Lines. In both cases the market soon recovered. No war in this century has caused a 5% or greater drop.

The obsession of financial writers to attribute market moves to news events seems to be motivated by a need to have something to write about.

Democrats and Republicans

The conventional wisdom is that Wall Street prospers under Republican rule and suffers when the Presidency is occupied by a Democrat. When Bill Clinton was elected president in 1992, most prominent strategists predicted disaster for the markets. The assumption was that the market prosperity enjoyed under Reagen and Bush would come to a quick end and that the smart thing to do was cash out. A quick review of history might have saved these gurus from missing out on a more than 140% rise in the S&P 500 since during Clinton's Presidency. While the markets tend to fall slightly the day after Democratic victories and rise the day after Republican victories, there is no discernible trend of how they will perform during the administrations. Since 1888, the market has performed equally well under Democratic and Republican presidents. Since 1948, Democratic presidents have presided over stronger stock markets even after factoring in inflation.

What does this all mean

Stocks markets are largely unpredictable and that forming investment strategy based on news developments is probably a loosing strategy. Those who sold when Clinton won election missed out on above average growth. The same can be said for selling at the outbreak of World War 1 and Operation Desert Storm.