

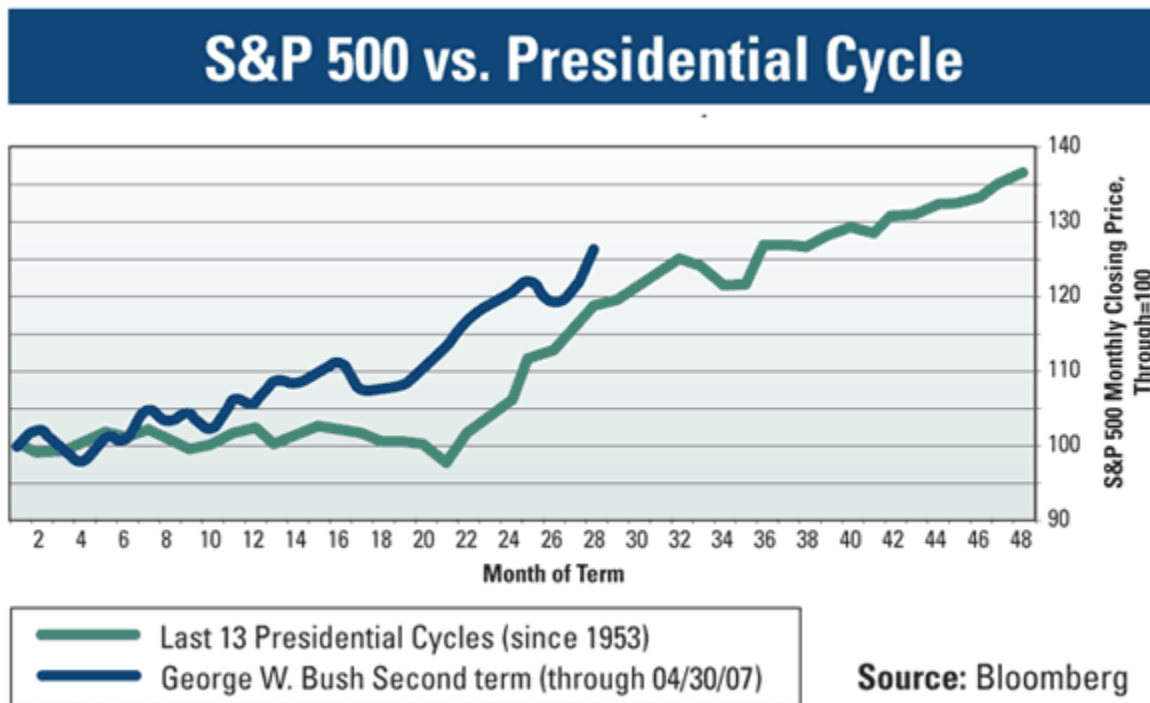


Wars, recessions and bear markets are more common in the first half of presidents' terms, according to the almanac. As the next election approaches, presidents do what they can to make sure voters are feeling prosperous when they cast their ballots — a good recipe for keeping a particular political party in power.

It's during those last two years that the country is most likely to see bull markets.

During the years tracked by the almanac, the stock market has, on average, posted gains during the first and second years of a president's term. But the gains were rather small: 1.6 percent during the first year of the term, and 3.7 percent in the second year.

So far, the markets have followed the same trend in President Bush's second term, mirroring the ups and downs of other presidents. But the highs have been higher. During the first half of his second term, the S&P 500 gained about 17 percent, compared with an average of just over 5 percent for past presidents.



President Bush is now in the third year of his current term, and according to the almanac, the average third-year gain is 10.6 percent. In 2003 — the third year of his first term — the S&P 500 finished with a 26.4 percent gain, beating his first two years by a considerable margin.

Strong third-year markets were also enjoyed by his most recent predecessors. The S&P climbed 34.1 percent in 1995, the third year of President Bill Clinton's first term and the beginning of the dot-com boom. In 1999, the third year of President Clinton's second term, there was a 19.5 percent gain. And President George H.W. Bush saw a 26.3 percent increase in 1991, the third year of his presidency.

Looking ahead to 2008, presidential election years have historically been a good time for the markets as well, with average gains of 6.7 percent.

There are, however, other political factors that can influence the markets and that may have an impact in the next couple of years.

The markets perform differently depending on which political party holds the White House and which controls Congress. By the numbers, the best combination has been a Democratic president and a Republican Congress.

Since 1949, the Dow Jones Industrial Average has gained an average of 19.5 percent annually when that combination has been in place. When the reverse is true — a Republican president combined with a Democratic Congress — the Dow sees more middle-of-the-road gains of 6.8 percent.

The Democrats won a majority in both houses of Congress in November, and when it comes to economic policies, they and President Bush, a Republican, often do not see eye to eye.

The House of Representatives, now overseen by California Democrat Nancy Pelosi, has passed a measure rescinding \$14 billion in tax breaks and subsidies for the oil and gas industry. President Bush opposes the bill.

Congress also is eyeing curbs for corporate executive pay. The president has called on companies to make sure executive pay packages are transparent and tied to performance, but he has said government should not decide executive compensation.

Jeffrey Hirsch, editor-in-chief of the *Stock Traders Almanac*, speculates that the political affiliation of Congress has more of an impact than that of a president. Republican Congresses seem to translate to bigger market gains than Democratic ones, regardless of which political party holds the White House.

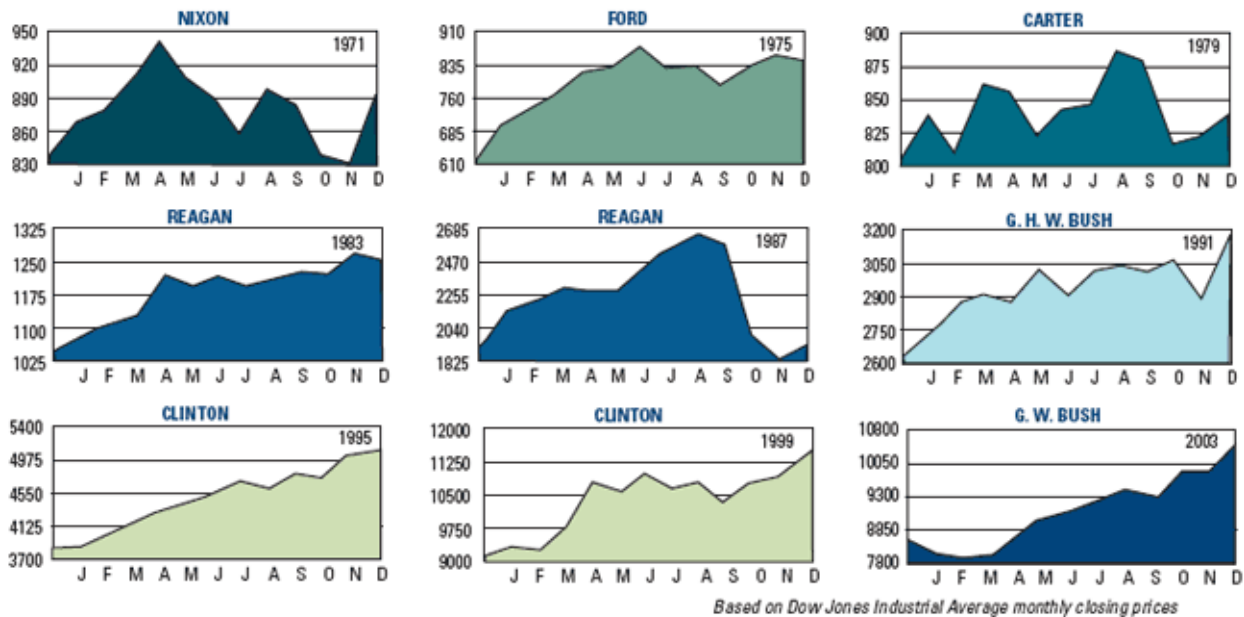
Second only to a Democratic president and Republican Congress, the combination of a Republican president and Republican Congress — which President Bush enjoyed for his first six years in office — has coincided with an average annual gain of 13.6 percent for the Dow. Other combinations have seen more moderate gains, between 6 and 7 percent.

Another well-known predictor is the "January Barometer," which views the performance of the S&P 500 during the first month of each year as a bellwether for the 11 months to follow. In other words, as the S&P 500 goes in January, so goes the year. In January 2007, the S&P 500 gained 19.94 points, or 1.4 percent.

Yale Hirsch, who first published the *Stock Traders Almanac* in 1967, devised the January Barometer in 1972. This measure has registered only five major errors since 1950, for a 91 percent accuracy rate.

The first five days of January offer a fairly accurate snapshot of the coming year. Since 1950, the S&P has posted a gain during the first five days of January 36 times. Full-year gains followed in 31 of those years, for an accuracy rate of nearly 86 percent. The S&P declined slightly during the first five trading days of 2007.

Part of the explanation for the January Barometer again may lie in politics. According to Jeffrey Hirsch, the 20th Amendment of the Constitution, which shortened the "lame duck" period between elections and a new president's inauguration, plays a role. Before the amendment was ratified in 1933, a new president took office in the March after his election, and Congress typically did not convene until the following December.



Under the 20th Amendment, Congress meets in early January and a president's term begins later that month. As a result, political agendas are set in January, and the president delivers the State of the Union address. In the midst of all of that, Wall Street places its own bet on how markets will behave in the year ahead.

These are among the cycles with strong historical correlations, but there are others.

Economist Simon Kuznets, the 1971 Nobel Prize winner, did research on emerging markets that led him to define the "Kuznets Cycle." That 20-year cycle arises in countries with policies to expand infrastructure — roads, highways, railways, airports and the like — and the tremendous demand for resources that results.

As an example of the cycle, Kuznets pointed to the creation of the U.S. interstate highway system in the 1950s. During those years, the United States was by far the world's leading consumer of steel, cement and other commodities.

A Kuznets cycle can currently be seen in China, India and other large, fast-growing countries. China's government has invested heavily in highways, and it also is expanding railways, upgrading seaports and improving airports, according to the World Bank.

Demand for transport infrastructure in India rises by about 10 percent annually, the World Bank said, and that country has not been able to keep pace. Major improvements will be needed to support the country's economic growth.

Commodities often have their own cycles based on seasonal supply and demand.

Retail prices for gasoline tend to rise during the summer, when people drive more, according to the U.S. Department of Energy. U.S. demand for gasoline climbs an average of 5 percent in the summer, due to better weather and summer vacations, and prices increase along with demand. Both drop off after September.

Gold has a noticeable seasonal demand pattern as well. Gift-giving holidays, both in the United States and abroad, tend to drive up demand for gold jewelry in the fourth quarter, according to the World Gold Council. High demand tends to continue into the first quarter of the following year.

The World Gold Council says the pattern is well-known in gold markets and does not affect price, but the historical record shows that gold prices do seem to increase between November and February.

All of these patterns give investors something to think about as they make decisions about their money. But they should remember that no matter how reliable particular cycles might be, none of them are assured and some of them in fact contradict each other. Investors should weigh historical patterns carefully and use them in tandem with other research as a way to manage their market expectations.