Kirr, Marbach & Company, LLC

Registered Investment Adviser

Mark D. Foster, CFA
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Mickey Kim, CFA
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"Sitting on a sofa on a Sunday afternoon. Going to the candidates' debate. Laugh about it; shout about it when you've got to choose. Every way you look at this you lose."
-"Mrs. Robinson"--Simon & Garfunkel (1968)

October 5, 2016

Dear Clients:

We are pleased to report KM client equity portfolios performed well in the third quarter (ending September 30, 2016), posting both strong absolute and relative performance. Fortunately, the "Brexit" shock at the end of the second quarter proved to be short-lived. As we stated in our most recent quarterly letter, stocks we own have less trading "liquidity" than the mega-capitalization stocks. When bouts of panic selling set in, over the ***short-term*** the ***prices*** of our stocks (but ***not*** the long-term value of the underlying businesses) tend to be negatively impacted more on a relative basis. With the return of relative calm, prices recovered.

We stated four reasons we thought the stage was being set for a possible recovery. ***First***, we were able to find more good companies with cheap stocks than had been the case for a long while. ***Second***, with all of the uncertainty surrounding the economic impact of Brexit, we expected central banks around the globe to keep interest rates low for many months to come, a positive for stocks and favoring stocks vs. bonds. ***Third***, investor sentiment (even before Brexit) had fallen to pessimistic levels that have historically preceded good periods for stocks. ***Finally***, while the U.S. certainly had plenty of warts, given the troubles popping up around the globe, we thought the U.S. stock market was clearly the "best house on the world's block" and believed more funds would seek shelter here.

In short, we believed brighter days were ahead, but obviously couldn't guarantee if or when. ***One good quarter clearly doesn't make a trend.*** We understand we have a long way to go to make-up our performance shortfall over the past two and a half years and think we're up to the task.

The U.S. economy continues to "muddle through" with weak capital spending and mediocre growth, but we don't think there is a recession on the horizon. With the labor market still healthy and energy prices and inflation ticking higher, the Federal Reserve has signaled it intends to resume raising short-term interest rates, probably towards the end of 2016. Finally, the upcoming election will continue to be at the forefront of investors' minds. As you can see from the lyrics at the top, extreme cynicism about presidential elections is nothing new!

Periods ending September 30, 2016
(Total Returns-Annualized*)

	Russell 3000 Index	**S&P 500 Index**
Third Quarter	4.40%	3.85%
Year-to-Date	8.18%	7.84%
One-year*	14.96%	15.43%
Two-years*	6.96%	7.11%
Three-years*	10.44%	11.16%
Five-years*	16.36%	16.37%
Ten-Years*	7.37%	7.24%

We thought this would be a good opportunity to depart from our usual format and give you a look "under the hood" at how we evaluate a stock for potential purchase.

extended STAY AMERICA

Love high quality hotels at bargain prices?
Nothing beats a great STAY!

1) Understanding our investment process as it relates to your portfolio and decision making process

We recently purchased Extended Stay America (STAY), a well-run U.S. hotel chain owning and operating 629 hotels with close to 70,000 rooms. We invite you to put your feet up, explore our investment process and STAY awhile!

Whenever you book a hotel room online, the decision making process is not very different from our investment process. You want to pay the most attractive price for a hotel that meets your criteria based on distance and quality. First, you define your universe of hotels based on the geography you are visiting. Second, you narrow down the population based on price and star rating. Finally, you double check your loyalty/rewards programs for their offers. Once you narrow it down to the best candidate(s), you perform due diligence, reading reviews by previous guests and/or talking to friends who might have stayed at the same place. When you are completely satisfied, you put in your credit card information and complete the booking. Fingers crossed, you made a great choice of lodging!

Our investment process will sound remarkably similar to how you decided on your accommodations. First, we define our universe of U.S. stocks we can invest in. Second, we narrow the population based on how attractively-valued they are relative to the quality of the investment. Lastly, we identify why stocks are undervalued based on our investment framework. Specifically, we have had great past success with spinoffs, post-bankruptcy reorganizations and management changes. Once we identify a potential good candidate, we perform our due diligence, reading financial statements and research reports and talking with the company's management team. When we are completely satisfied, we buy stock. Fingers crossed, we made a great investment!

The most recent addition to our portfolio is an interesting intersection between the two processes. Extended Stay America ("STAY") is an undervalued chain of hotels with high quality assets. We believe the stock is significantly undervalued because it is misunderstood by the investment community. STAY reorganized out of bankruptcy in the summer of 2010. We are impressed by the new CEO. From our due diligence, we determined STAY operates in a strong niche of the hotel industry and is far more profitable than its peers. STAY is on the cusp of two major initiatives we believe will be transformative for the company and stock; a massive property renovation project and business transformation to a franchise model. We are confident STAY will create tremendous value for our portfolios.

II) A deep dive into the investment case for Extended Stay America

Step 1: Determine if the stock price is attractive

STAY is attractively valued at 15.7x earnings, a discount to the S&P 500 at 18.4x earnings. STAY also has a strong dividend yield of 5.4%, with dividends expected to increase in 2017 after remodels are complete. That certainly beats putting money in the bank at 0% interest! We believe STAY should trade with a 4% dividend yield, potentially offering 35% upside.

Step 2: Understand the current business model

Understanding how STAY makes money is straight forward. STAY operates 70,000 rooms and has an average room rate of $50 per night, generating $1.3 billion in annual revenues. Costs are low because STAY typically cleans rooms only once per week or whenever guests leave. STAY's profits are just under half of revenues and we expect STAY to have earnings before interest, taxes, depreciation and amortization (EBITDA) of $600 million this year.

Step 3: Is the industry attractive?

As the name suggests, STAY targets guests looking for accommodations for more than one week. Indeed, 2/3 of STAY's guests stay 7 nights or more. This is a very profitable niche within the hotel industry. STAY's typical guests are working on consulting engagements, doing job trainings or performing engineering/ construction projects. Extended stay hotels have higher average occupancy rates than daily stay hotels and are also more profitable because rooms are cleaned less often. Extended stay hotels are a hybrid of apartments and hotels, as guests have access to the usual hotel amenities such as free Wi-Fi and continental breakfast, but also get a full kitchen.

Within the extended stay niche, STAY is the clear market leader with over the twice the number of rooms compared to the next biggest competitor, Candlewood Suites (32,000 rooms). Marriott is the third largest player with 28,000 rooms.

Step 4: What drives growth?

Companies can generate "organic" growth two ways; by raising prices or selling more units. Since emerging from bankruptcy in 2010, STAY has focused exclusively on raising prices. Indeed, room rates have risen by 8% each year since 2010.

To achieve price increases, STAY shifted its focus to cater to corporate travelers. Corporate travel now accounts for 45% of revenues. STAY initiated a huge renovation program to appeal to corporate travelers and also hired a sales team to pursue corporate travel partners. The renovation program cost $640 million, spending about $1 million on each hotel ($10,000/room). The program is 80-90% complete and will be 100% complete by March of 2017.

STAY also recently began using a sophisticated revenue management system to maximize room rates. Periods of peak demand now charge peak prices. Previously, 60% of room rates were decided at the front desk. This is why we can't find a bargain in Indy during a convention or Colts game!

With renovations complete and technology systems updated, the company will commence building new hotels. Management believes STAY can grow to 799 hotels (from 629) over the next few years. Management plans to build locations on the coastlines and partner with franchisees to build in other areas. By 2021, management expects to have 27% of locations franchised, up from 0% today. As a bonus, shareholders will receive special dividends during the franchising process, as the company sells hotels to franchisees. In 2015, 58 hotels were sold, resulting in a special dividend of $0.25/share.

Step 5: Who is at the helm?

STAY has a great captain at the helm. Gerry Lopez assumed leadership of STAY in August 2015. Prior to 2015, Lopez was the CEO of AMC Entertainment (AMC) since 2009. Under his leadership, AMC generated tremendous value for both stakeholders and movie theater goers alike. Lopez profitably grew AMC revenues from $2.27 billion in 2009 to $2.95 billion in 2015. He took AMC public in 2013 at an IPO price of $18. AMC now trades at $32 and has a 2.5% dividend yield. Lopez also served in senior management roles at Starbucks and Pepsi.

Step 6: What are the risks?

We believe the risk/reward proposition is favorable. We can identify four primary risks: 1) over half the stock is owned by three investors, 2) STAY has significant debt, 3) Airbnb continues to take market share from hotels and 4) minimum wages keep rising.

John Paulson, Blackstone and Centerbridge collectively own more than half the stock. These investors can materially impact the stock price by quickly selling their shares. About 13 million shares (6.5% of outstanding shares) were listed for sale by these investors on September 30, 2016.

The company currently has $2.8 billion of debt. We don't' view this as a large risk because $1.5 billion of the debt consists of real estate-backed mortgage loans. In addition, none of the debt matures until 2023.

Airbnb is a clear threat to the broad global hotel industry. However, we are not concerned in STAY's case because we expect Airbnb will have a greater impact on shorter duration visits than on extended stay hotels, impacting the weekend and tourist markets.

Lastly, minimum wage pressure is prevalent across the country. This will impact costs, but we believe the impact on STAY will be positive overall. Higher wages will force other hotels to raise average room rates. Since STAY's rooms are cleaned less frequently, STAY requires relatively fewer hours of labor vs. competitors, which should benefit STAY's bottom line.

Step 7: Conclusion

We believe Extended Stay America is a good investment. The stock is underpriced with a 5.4% dividend yield and trading at 15.7x earnings. STAY operates in an attractive niche of the hotel industry. Armed with modernized hotel rooms and revenue management system, we have faith in Lopez's ability to create value for investors and guests alike. Longer term, we are very excited for the company's growth prospects as they begin building and franchising new hotels.

Interest Rates and the Bond Market

The U.S. bond market experienced a "will they/won't they" raise short-term interest rates period leading up to the Fed's September meeting, as rates rose modestly in the quarter. Credit spreads narrowed, making it tougher to find compelling credits. We think it is likely the Fed will decide to raise short-term rates towards the end of the year. While investors remain jittery about the timing, we don't think this normalization of monetary policy is overly concerning.

KM Privacy Policy Notice

Under Securities and Exchange Commission Regulation S-P, KM is required to deliver its Privacy Policy Notice to each client prior to the establishment of an account and updates annually. We are delivering our 2016 annual update to each client account with this letter. In addition, given the increasing importance of protecting clients' personal information, we have implemented a policy whereby KM personnel will not release any information about a client's account without specific authorization from the client. If you would like KM to release information about your account to your CPA or other service provider, please contact Kip Wright, CFA (kip@kirrmar.com) or Matt Kirr (matt@kirrmar.com) by e-mail or at 812-376-9444 or 800-808-9444.

Regards,

Kirr, Marbach & Company, LLC

KIM: Remembering a friend who died Sept. 11, 2001

Mickey Kim
September 10, 2016

INVESTING
Mickey Kim

It's hard to believe, but Sept. 11, 2016, marks the 15th anniversary of the terrorist attacks. While the memories are painful, we must never forget.

"It was a clear morning in the middle of September. If there was one geographical spot in the United States that could justly be called the financial center of the country, it was the junction of Broad and Wall Streets in New York. There was a sudden blinding flash of bluish-white light and a terrific crashing roar, followed by the clatter of falling glass from innumerable windows and by the screams of men and women.

"A huge bomb had gone off in the street—with such appalling violence that it killed thirty people outright and injured hundreds, wrecked the interior of offices, smashed windows for blocks around, and drove an iron slug through the window of the Bankers' Club on the thirty-fourth floor of the Equitable Building."

Was this a news account of the horror of the terrorist attacks on Sept. 11, 2001? No, it's an excerpt from Frederick Allen Lewis' book "Only Yesterday: An Informal History of the 1920s," describing the terrorist attack on Wall Street on Sept. 16, 1920.

The September attacks were 81 years apart, but the aim of the terrorists was the same: Strike a crippling blow to the heart of the world financial system. The terrorists failed in their quest to topple the financial markets in 1920, just as they failed again in 2001.

The 2001 attacks occurred on the East Coast, but they were very close and personal for me and my firm.

Will Raub was a broker for Cantor Fitzgerald and started executing trades for Kirr Marbach in 1985. Will was 22, right out of Sienna College. We could not imagine how he could possibly add value. What he lacked in experience, he more than made up for in persistence and effort. Over the next 16 years, he would prove time and again our initial impression was wrong.

Will quickly became a senior executive and could easily have passed us off to a junior broker. I know he was mightily tempted on occasion, but never did. He and I formed a bond over the years because we both tried to conduct our respective businesses the same way—treating people with whom you do business with dignity and respect and always putting your customer's best interests above your own or your firm's interests.

In the "good old days," brokers were known as "customer's men" or "customer's women" because they worked for their customers' best interests. Period. Will was the epitome of the customer's man and a true friend. He did a great job for us and for our clients.

Will was killed in the attack on the World Trade Center. He was 38 and left behind his wife, Maureen, 6-year-old Chase and 3-month-old Liam. We miss Will's laughter, humanity and expertise, but we will never forget.

Politicians love to demonize "Wall Street" as if it is a greedy, monolithic being. The financial services industry has its scoundrels, but the truth is, the vast majority of folks working in it are ordinary, honest and hard-working, trying to help companies raise capital and people invest for their futures. We lost an extraordinary one 15 years ago.•

Kim is the chief operating officer and chief compliance officer for Kirr Marbach & Co. LLC in Columbus, Indiana. He can be reached at (812) 376-9444 or mickey@kirrmar.com.

KIM: Don't let presidential race derail investing strategy

Mickey Kim
August 13, 2016


INVESTING
Mickey Kim

Hartford Funds' recent report "Don't Mix Your Portfolio With Politics" suggests, "as the 2016 presidential election continues to unfold like a circus sideshow, now might be the perfect opportunity for us to stop for a second for a quick sanity check. Making an anxiety-based change today because of your political beliefs is more likely to be harmful than letting this partisan storm pass us by."

This is sage advice. All investors have biases, many unsupported by facts. We need to recognize them and not act on our "gut," which is often damaging to our long-term investing success. Past performance is no guarantee of future results, but with political passions running white hot, stock market history provides objective information.

Sam Stovall, U.S. Equity Strategist for S&P Global Market Intelligence, examined the performance of the S&P 500 Index going back to 1900. He determined the price change of the S&P 500 from July 31-Oct. 31 has been a reliable predictor of whether the incumbent president or his party is re-elected or replaced in November. There have been 29 presidential elections since 1900. Republicans won 15 times and Democrats 14 times. The party occupying the White House changed 11 times.

When the S&P 500 was up for the three months before the election, the incumbent or his party was re-elected 81 percent of the time. This indicator failed in 1968 (Humphrey lost to Nixon) and 1980 (Carter lost to Reagan).

The S&P 500 was an even better predictor of the replacement of the incumbent or his party. When the S&P 500 was down for the three-month period, the incumbent or his party lost 88 percent of the time. The only failure was in 1956 (Eisenhower defeated Stevenson).

Republican administrations are generally viewed as pro-business. Democratic administrations are usually cast as the opposite. Thus, conventional wisdom is, stocks typically fare better when Republicans are in the White House.

Conventional wisdom is often wrong, especially when it comes to investments. Since 1945, there have been six Democratic and six Republican presidents. Stovall examined compound annual growth rates for the S&P 500 during each presidency. The top three were Ford (Republican/+18.6 percent), Clinton (Democrat/+14.9 percent) and Obama (Democrat/+12.4 percent through December 2015). The bottom three were Nixon (Republican/-5.1 percent), George W. Bush (Republican/-4.6 percent) and Carter (Democrat/+6.0%).

Interestingly, for the entire period from 1945-2015, the compound annual growth rate for the S&P 500 was +9.7% during Democratic administrations, a significant premium to the +6.7 percent with Republicans in the White House.

Hartford reminds us the last time our nation elected a new president, Barack Obama, many investors were skeptical of his proposed policies and pulled out of stocks. The DJIA closed at 7,949 on Jan. 20, 2009 (Obama's first inauguration), vs. 18,432 at the end of July 2016.

A $10,000 investment in the S&P 500 at the end of January 2009 would have grown to $30,885 by the end of July 2016. I'll leave it to the pundits to argue why, but the indisputable fact is, investors who fled missed one of the greatest bull markets of all time.

Warren Buffett favors Clinton, but said the U.S. is headed in the right direction, and "no presidential candidate or president is going to end it." Vote your conscience, and don't let politics skew your investing decisions.•

Kim is the chief operating officer and chief compliance officer for Kirr Marbach & Co. LLC. He can be reached at (812) 376-9444 or mickey@kirrmar.com.

Don't Mix Your Portfolio With Politics

As the 2016 U.S. presidential election continues to unfold like a circus sideshow, now might be the perfect opportunity for us to stop for a second for a quick sanity check.

Whether you're a registered Republican, a life-long Democrat, or a voter who falls somewhere else along the political spectrum, there's one lesson all investors can take away from this election cycle: The president has historically had limited impact on long-term investment performance.

That's right, whoever wins on the first Tuesday in November, even if you believe they're the least qualified candidate—will most likely not adversely affect the financial markets. Taking any unplanned action with your investment portfolio because of this fear may ultimately be harmful. In fact, the average equity investor[1] returned 3.66% over the past 30 years, while the market—as measured by the S&P 500 Index[2]—saw an 10.3% increase.

Making an anxiety-based change today because of your political beliefs is more likely to be harmful than letting this partisan storm pass us by.

Key Points

- The president has historically had limited impact on long-term investment performance.
- Fleeing from stocks when the last new president came to office cost investors as the market has nearly tripled its value over the next seven years.
- Your financial advisor can help guide you through the last days of this election and enable you to look beyond.

[1] **Past performance is no guarantee of future results. The performance shown is index performance and is not representative of any fund's performance. Indices are unmanaged and not available for direct investment. For illustrative purposes only.** Source: DALBAR's Annual Quantitative Analysis of Investor Behavior (QAIB), 2016. Performance data for indices represents a lump sum investment in January 1986 to December 2015 with no withdrawals. Dalbar's Quantitative Analysis of Investor Behavior Methodology: Dalbar's Quantitative Analysis of Investor Behavior uses data from the Investment Company Institute (ICI), Standard & Poor's and Barclays Index Products to compare mutual fund investor returns to an appropriate set of benchmarks. Covering the period from January 1, 1986, to December 31, 2015, the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "average investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

[2] S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

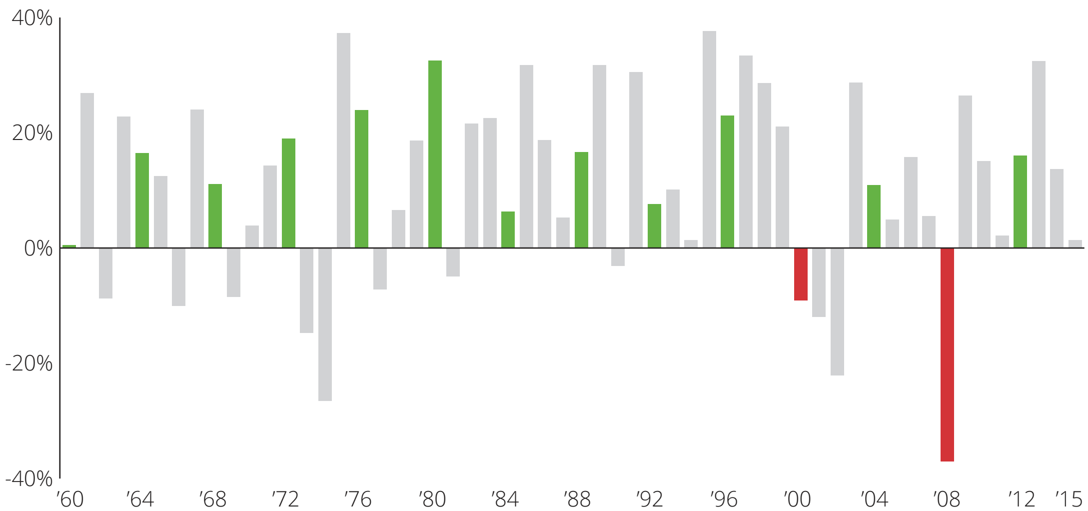
Does the Stock Market Have a Commander in Chief?

The S&P 500 Index has done just fine during election years. In fact, in the last 14 election years since John F. Kennedy beat Richard Nixon in 1960, the market has seen only two down years ('00 and '08) no matter whether a Republican or a Democrat was chosen (**FIGURE 1**).

FIGURE 1:

Election year returns have been mostly positive

S&P 500 Index Returns



Election Year Stats

Number of positive election years:	12
Number of negative election years:	2

Source: Morningstar Direct, 1/16

Past performance is no guarantee of future results. The performance shown is index performance and is not representative of any fund's performance. Indices are unmanaged and not available for direct investment. For illustrative purposes only.

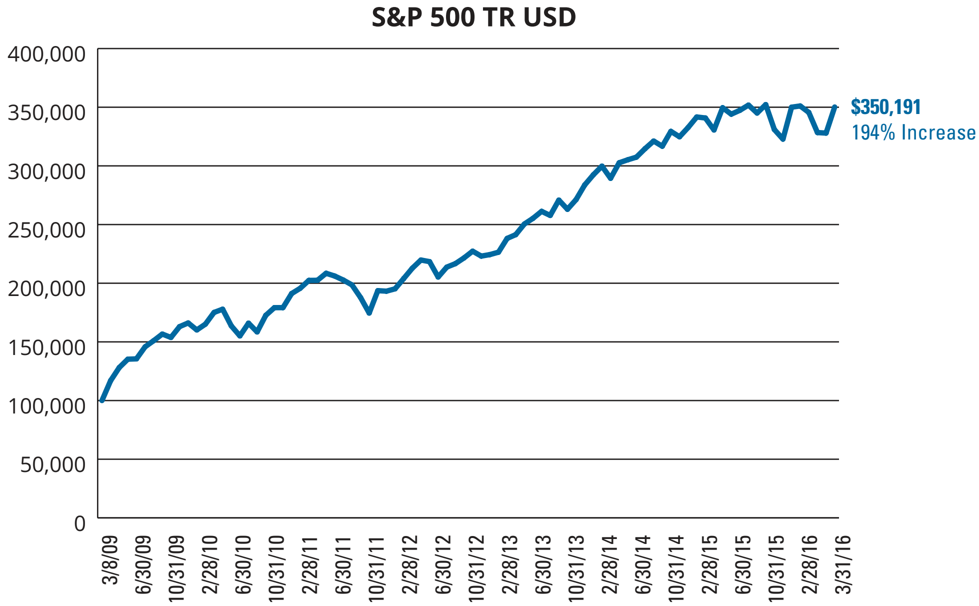
Last time the nation welcomed a new president, many investors decided to pull out of equities in favor of cash. After President Barack Obama was inaugurated in 2009, the market saw 12-year lows, Republicans believed the fallout from the 2008 downturn would continue with his proposed policies.[3] Those who sold their stocks avoided the great economic implosion that followed, right? Wrong. Instead they missed out on a portion of one of the longest-running bull markets we've ever seen. (**FIGURE 2**). Fleeing from stocks cost these investors as the market has nearly tripled its value from its March 2009 low over the next seven years.[4]

[3] "Obama Says Buy Stocks Now: Good Deals There for Long-Term Investors," U.S. News and World Report, 3/4/09

[4] "America's 7-year Bull Market: Can It Last?" CNN Money, 3/9/16

FIGURE 2:

The Growth of $100,000 During Obama Presidency



Source: Yahoo! Finance

Past performance is no guarantee of future results. The performance shown is index performance and is not representative of any fund's performance. Indices are unmanaged and not available for direct investment. For illustrative purposes only.

Perhaps Warren Buffet said it best when asked earlier this year about his views of the upcoming election. The prominent investor said he believed the country and the economy as a whole will continue to head in the right direction no matter who wins the White House.[5]

Trust the Advice of Your Own Cabinet

No matter your political affiliation, there's one thing all investors should agree upon. Whether the person giving his or her acceptance speech is the one you voted for or the candidate you hoped would lose, we can look to the past and see that—at least for our investments—the next administration may not be something to fear.

Don't let your nerves get the best of you as political jabs continue to fly. Your financial advisor can help guide you through the last days of this election and enable you to look beyond. Together, you can create a plan that helps keep you on track so the short-term anxiety caused by the never-ending news coverage doesn't get the best of you.

[5] "Warren Buffett on Donald Trump Presidency: We'll Be Fine," Fortune, 4/30/16

HARTFORDFUNDS

Our benchmark is the investor.℠

At Hartford Funds, your investment satisfaction is our measure of success. That's why we use an approach we call human-centric investing that considers not only how the economy and stock market impact your investments, but also how societal influences, generational differences, and your stage of life shape you as an investor.

Instead of cookie-cutter recommendations and generic goals, we think you deserve personalized advice from a financial advisor who understands your financial situation and can build a financial plan tailored to your needs.

Delivering strong performance is always our top priority. But the numbers on the page are only half the story. The true test is whether or not an investment is performing to your expectations.

MF7368_0616 119852

May 9, 2016

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ELECTION UNCERTAINTY: Performances

Weak Stock Returns Typically Accompanied Elections without an Incumbent

Now that the two presidential candidates have gone through all but their coronations, the upcoming summertime conventions and November election are adding to investor nervousness about not only the increase in protectionist rhetoric, but also each one's ability to address the apparent slowdown in global economic growth. And if "Sell in May" wasn't enough to cause investors to approach the coming six months with a bit of trepidation, the eventual election of a non-incumbent will likely add to investor skepticism.

At first glance it appears as if presidential election years traditionally delivered solid price performances for the S&P 500. Since 1945, the S&P 500 gained an average of 5.9% in price and rose in 71% of all years. And while the average election-year price change was below the average of 8.6% for all calendar years, the frequency of a price increase was better during presidential election years at 71% than was the 66% average for all years.

S&P 500 Price Changes During the Presidential Cycle

Year	Term	S&P 500 1944-Present % Change	S&P 500 1944-Present Up?
Year 1	**All Years**	**7.6%**	**59%**
	>First Term	6.2%	61%
	>Second Term	9.8%	60%
Year 2	**All Years**	**5.3%**	**61%**
	>First Term	0.5%	44%
	>Second Term	13.8%	90%
Year 3	**All Years**	**16.1%**	**75%**
	>First Term	17.5%	72%
	>Second Term	11.5%	70%
Year 4	**All Years**	**5.9%**	**71%**
	>First Term	10.2%	83%
	>Second Term	-3.3%	50%
Averages	**All Years**	**8.6%**	**66%**
	>First Term	8.6%	65%
	>Second Term	8.5%	67%

Source: S&P Global Market Intelligence. Past performance is no guarantee of future results. Data through 12/31/15. Year 4 second Terms: 1952, 1960, 1968, 1988, 2000, and 2008.

Separating election-year returns into the end of the first and second terms, however, one quickly sees that the favorable performance during these years was due to the results at the end of the first term, as the S&P 500 rose an average of 10.2% and gained in price 83% of the time. However, election years following second terms saw the S&P 500 fall an average of 3.3% and rise in price only 50% of the time. Why the startling difference? In general, Wall Street hates uncertainty. Since WWII, incumbents running for reelection were approved 80% of the time (Truman, Eisenhower, Johnson, Nixon, Reagan, Clinton, Bush 43 and Obama), and denied only twice: 1980 (Carter) and 1988 (Bush 41). Yet second-term presidential elections generate leadership uncertainty, since both candidates are unknown quantities. Even so, the S&P 500 did quite well in some second-term election years, rising 11.8% in 1952, 7.7% in 1968, and 12.4% in 1988. Yet in 2000 (-10.1%) and 2008 (-38.5%) the S&P 500's returns probably had more to do with the bear markets that were already in place than concern over who was running for president.

Breaking the presidential cycle into the cyclically strong November through April period, as well as the seasonally weak "Sell in May" months, we see that the uncertainty became even more pronounced in the six months leading up to the election itself. During these six-month periods, the S&P 500 fell in price an average of 2.6% and rose just 50% of the time, versus its more normal 1.4% gain and 63% frequency of posting a price advance.

S&P 500 Price Performances During Six-Month Periods Within the Presidential Cycle

Pres.	Nov.-April		May-Oct.	
Cycle	Avg. %	FoA	Avg. %	FoA
Year 1	3.4	72%	3.0	67%
Year 2	4.3	61%	(1.1)	50%
Year 3	14.6	94%	1.9	61%
Year 4	**5.0**	**83%**	**1.7**	**76%**
1st Term	8.3	100%	4.1	91%
2nd Term	(0.1)	57%	(2.6)	50%
All Years	**6.8**	**78%**	**1.4**	**63%**

Source: S&P Global Markets Intelligence. Past performance is no guarantee of future results. FoA: Frequency of Advance. Data: 10/31/44 -4/15/16. 2nd Terms: 1952, '60, '68, '88, '00, '08, '16.

Second-term election year weakness is not just a calendar year, or six-month phenomenon. It seems to be pervasive among months as well. Indeed, two out of every three months of second-term election years saw lower average S&P 500 price returns than during all years since 1945. In addition, the S&P 500 rose in price only 52% of the time versus 66% for all years.

Election Year (2nd Term) Average Price Performances by Month: 12/31/44-5/6/16

% Chgs.	All Mos.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average	**(0.3)**	(3.2)	(1.1)	2.4	0.7	0.9	0.9	(1.0)	1.0	(2.4)	(2.4)	(0.7)	1.1
Ranking	**NA**	12	9	1	6	5	4	8	3	11	10	7	2
Best	**4.8**	4.0	4.2	9.7	8.2	2.7	4.6	1.8	6.1	4.0	2.6	4.8	4.6
Worst	**(6.1)**	(7.1)	(3.6)	(3.3)	(4.3)	(2.2)	(8.6)	(2.5)	(3.9)	(9.1)	(16.9)	(8.0)	(4.2)
Up Month?	**52%**	29%	29%	57%	57%	83%	83%	17%	67%	33%	33%	50%	83%

Source: S&P DJ Indices. Past performance is no guarantee of future results. Years analyzed: 1952, 1960, 1988, 2000, 2008, 2016.

Presidential Predictor

We all know that prices lead fundamentals. And more times than not, S&P 500 price returns identified whether the incumbent president, or his party, was reelected or replaced. During presidential election years since 1944, when the S&P 500 rose in price from July 31 through October 31, the incumbent person or party was reelected 82% of the time. It failed in 1968 and 1980, possibly because of influential third-party candidates (George Wallace in 1968 and John Anderson in 1980). Whenever the S&P 500 fell in price during these three months, however, it signaled the replacement of the incumbent 86% of the time. It failed only once: 1956, not because Americans were uncertain of Ike's reelection possibility, but more likely because of geo-political events. In late 1956, a military response by England and France to Egypt's seizing of the Suez Canal, combined with the Soviet crushing of the Hungarian uprising, likely influenced the market's pre-election swoon. Finally, the indicator did not fail in 1992, despite a very influential third party candidate (Ross Perot).

PRESIDENTIAL PREDICTOR: The S&P 500's Price Return July 31 thru Oct. 31 Has Typically Been a Reliable Indicator of Reelection or Replacement

Election	Candidates		S&P 500	Correct Prediction?	
Year	Democrat	Republican	Aug.-Oct.	Reelection	Replacement
1944	FDR	Dewey	0.6	1	
1948	Truman	Dewey	4.4	1	
1952	Stevenson	Eisenhower	(3.5)		1
1956	Stevenson	Eisenhower	(7.7)		0
1960	Kennedy	Nixon	(3.8)		1
1964	Johnson	Goldwater	2.0	1	
1968	Humphrey	Nixon	5.8	0	
1972	McGovern	Nixon	3.9	1	
1976	Carter	Ford	(0.5)		1
1980	Carter	Reagan	4.8	0	
1984	Mondale	Reagan	10.2	1	
1988	Dukakis	Bush	2.6	1	
1992	Clinton	Bush	(1.3)		1
1996	Clinton	Dole	10.2	1	
2000	Gore	Bush	(0.1)		1
2004	Kerry	Bush	2.6	1	
2008	Obama	McCain	(23.6)		1
2012	Obama	Romney	2.4	1	
			Success Rate	**82%**	**86%**

Source: S&P Global Market Intelligence. Past performance is no guarantee of future results.

Party Performances

Has the S&P 500 really performed better under one political party than another? Yes. Since 1945, the average compound annual growth rate for the S&P 500 was 300 basis points higher during Democratic administrations at 9.7% than the 6.7% for Republicans. (Since presidential terms varied from four years or fewer for Presidents Kennedy, Carter, Ford, and Bush (41) to five years or more for Presidents Truman, Eisenhower, Johnson, Nixon, Reagan, Clinton, Bush (43), and Obama, a per-year performance measure was used.)

S&P 500 Compound Annual Growth Rates (CAGR) by President of the U.S. Since 1945

Democrat President	CAGR	Republican President	CAGR
Truman	9.1%	Eisenhower	10.3%
Kennedy	8.9%	Nixon	-5.1%
Johnson	6.7%	Ford	18.6%
Carter	6.0%	Reagan	9.4%
Clinton	14.9%	Bush (41)	11.9%
Obama	12.4%	Bush (43)	-4.6%
Average	**9.7%**	**Average**	**6.7%**

Source: S&P Global Market Intelligence. Past Performance is no guarantee of future results. Data 12/31/44 - 12/31/15. Dividends excluded. CAGR: Compound annual growth rate

The reason for the Democratic outperformance is a little tougher to explain. Democrats have been dubbed "the party of tax and spend, and spend, and spend" juicing economic, earnings and price performances. Republicans have been called the party of fiscal responsibility and, as a result, were required to clean up after each Democratic excess, resulting in every Republican president since William Howard Taft to endure a recession within the first two years of taking office. However, this cynical statement is misleading, since many Republican presidents succeeded other Republicans, such as Taft, Coolidge, Hoover, and Bush (41). In addition, there have been three presidents since WWII to have their presidencies bookended by recessions, and all three were Republican (Eisenhower, Nixon/Ford, and Bush 43). As a result, it may be wise to leave the "why" to the political pundits.

Congressional Influence

Of course, one can always blame market missteps on Congress. Even though many stock market prognosticators like to say that "gridlock is good" for stocks, the ideal political composition for equity investors has been a totally unified government, in which both the White House and Congress were controlled by a single party. That happened 28 times since WWII, resulting in an average annual price increase for the S&P 500 of 10.9%, versus 8.6% for all years. The second-best political scenario was when the president of one party had to deal with a unified Congress controlled by the other party. That happened 32 times, resulting in an average annual stock market gain of 7.2%. The worst option was during a split Congress. Prior to 2008, this only happened under Republican presidents (six years under Reagan and two under Bush-43), which resulted in an average advance of only 3.5%. Since 2008, President Obama had to deal with a split Congress for four years. Many are not willing to give him the credit for racking up an average increase of 13.6%, however, as the S&P 500 was emerging from its worst bear market since the 1930s.

S&P 500 Calendar Year Price Returns During Periods of U.S. Political Unity and Gridlock

Political Scenarios	% Change	# Years
Unified Government	10.9%	28
>Democratic President	9.8%	22
>Republican President	15.1%	6
Unified Congress	7.2%	32
>Democratic President	12.1%	10
>Republican President	4.9%	22
Split Congress	6.9%	12
>Democratic President	13.6%	4
>Republican President	3.5%	8
All Years	**8.6%**	**72**

Source: S&P Global Market Intelligence. Data: 12/31/44-12/31/1
Past performance is no guarantee of future results.

So there you have it. The presumptive presidential nominees have been identified. However, this increased clarity of candidates may only end up leading to heightened market uncertainty. Even though the S&P 500 posted an average election year price increase of nearly 6% since 1944, the 500 recorded a decline of more than 3% whenever neither candidate was an incumbent. Also, both monthly and six-month results were weakest during this post second-term political year. Encouragingly, the market's return offered guidance as to the eventual victor, since the directional price change from August through October traditionally indicated whether the incumbent would be reelected or replaced. Finally, one can't ignore the influence of Congress. Contrary to the adage that "gridlock is good," the S&P 500 recorded its highest average annual return whenever the Executive and Legislative branches were controlled by a single political party.

Required Disclosures

Glossary

STARS Raking system and definition:

★★★★★ 5-STARS (Strong Buy):
Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARS (Buy):
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARS (Hold):
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARS (Sell):
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):
Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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Overweight rankings are assigned to approximately the top quartile of the asset class.

Marketweight rankings are assigned to approximately the second and third quartiles of the asset class.

Underweight rankings are assigned to approximately the bottom quartile of the asset class.

S&P Capital IQ Quality Ranking
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A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization

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