Trading the Stock Market During the 2024 Presidential Cycle

The Presidential Cycle Report

TTR
TOM'S TRADING ROOM

Tom Gentile

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CONTENTS

MY INTENT WITH THIS PRESIDENTIAL CYCLE REPORT

I am writing this report from a purely educational standpoint. I want to educate you on the Presidential Cycle Pattern.

This report is produced once every four years. I release it around the start of Presidential election campaigns, and it is meant for options traders and investors alike to learn what happens in the financial markets when this event comes around.

If the education provided helps one gain insight that you wish to act on with either an investment or options trade, let it be known that is NOT why I am writing this. Any investment or trading decisions should be made between you and your broker, whether any of this education is considered or not.

This report is NOT being written to share my political viewpoint with you all. Neither is it to sway anyone to consider one political party over another. Neither my team nor I are providing which side of the aisle we favor for any reason.

A major part of who I am as an options trader is using repeatable, and what I consider reliable, price patterns to aid in my investment and options trading ideas.

This Presidential Cycle Report is written to educate you on a pattern I consider when it comes around every four years.

It is a report that educates on a pattern that identifies how the markets behave around a Presidential election and the first year following the election. Then I look at how the markets perform in the subsequent years of a President's term in office.

I write this for subscribers to my software, students of my education, and anyone else who is looking into my online options analytics software and online education.

I am going to educate you on what I have studied about this pattern. Some of this knowledge is what I have picked up from my friend Jeffrey Hirsch, author of the Stock Trader's Almanac, which his father Yale Hirsch, started in 1967. It was Yale who first developed this theory.

The last time I wrote my Presidential Cycle Report we were in the throes of a global pandemic.

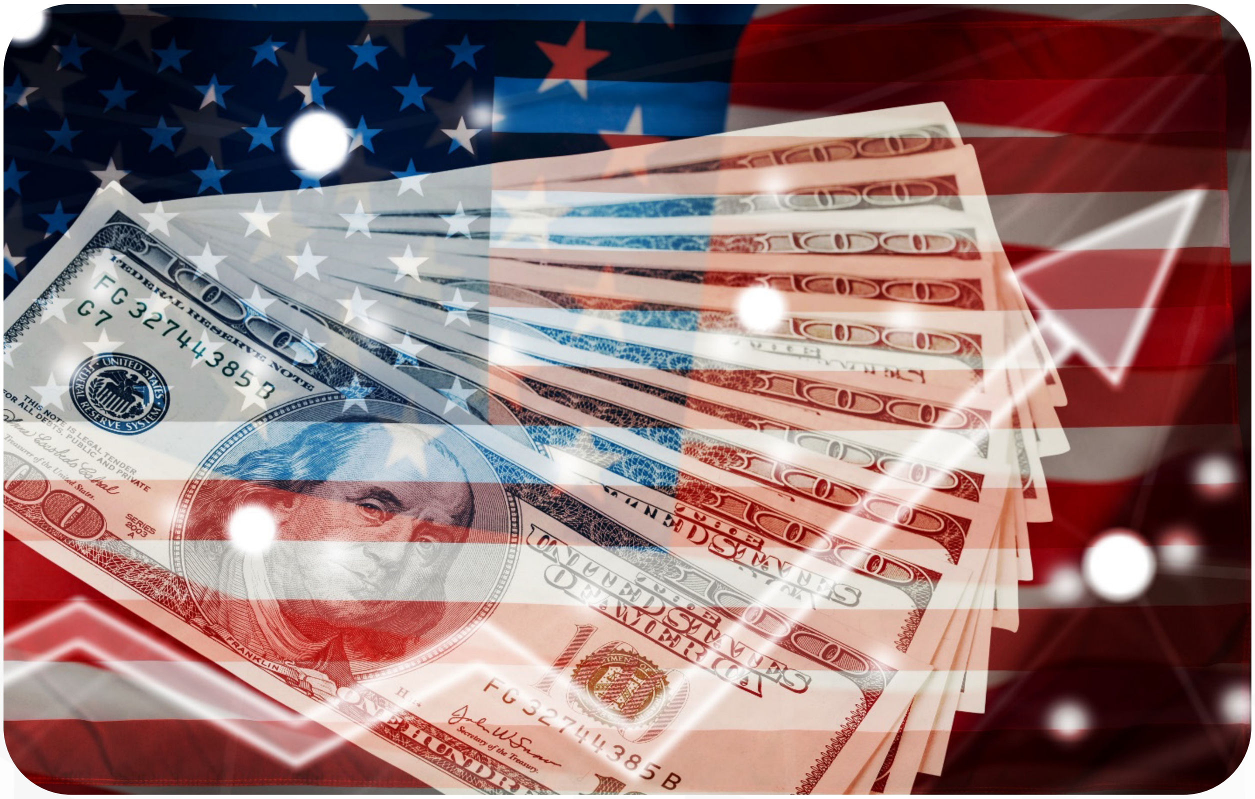
Though there are still new drugs being developed to battle new variants of the COVID virus, that topic isn't as front and center as it once was. In fact, you have to search for content about the virus to see if it is still around and what is being done to combat it as it rarely makes the news headlines it once dominated. There are other current concerns the markets face that I will discuss later in this report.

Obtaining and having information on the Presidential Cycle pattern under your belt will provide you with the info you can use in your discussion with your broker or financial professional as to what to do, if anything at all, with it.

This is one pattern of many that I study and consider using in my investing and/or options trading. I consider myself a Rules-Based Trader (RBT) and part of my process as an RBT is finding reliable, repeatable patterns to base investment or options trading ideas on. It will be helpful to understand what being a Rules-Based Trader is.

Before I educate you on this pattern, I feel it best I teach you what I feel it means to be an RBT or a Rules-Based Trader.

WHY I AM A RULES-BASED TRADER



Rules-based trading is an approach to options trading. When one adopts a rules-based approach they are then considered a Rules-Based Trader or an RBT.

RBTs use a set of rules or require the securities they trade to meet a set of rules for either technical trading pattern setups, technical indicators, oscillators, and /or price pattern movements that happen consistently over a period of time.

Before I discuss being a RBT, let me first highlight the other trader types there are...see if you can identify your type. If you recognize yourself as a certain trader type that doesn't mean it is a good or bad thing – it is just you realizing what type you are. Some traders prefer to be a hybrid, meaning you incorporate parts of one or more in your investing and or trading decisions.

Once I define what a Rules-Based Trader is and does, you can then decide if that is the type you want to be or not, OR you can incorporate that into your hybrid approach.

Why You Need to Start Here

Before I offer you my perspective on what it's like to be a Rules-Based Trader, and what it's like to learn, back-test, and follow a blueprint, I will help you identify other types of traders.

My Start: Everyone starts from the bottom in nearly every business. It takes time to go from a stock boy to a manager, so why wouldn't it take time to go from a novice trader to a seasoned veteran?

I know this now but did not see it as clearly as I needed to when I first embarked on my new career.

Five thousand dollars and an individual account later, I was up and running. Interestingly enough, I actually started making money in the beginning; that was probably my first mistake… making money and not knowing what I was doing. Then the ultimate trading catastrophe happened to me. I decided to listen to a stock market analyst on TV (my pattern M.O. at the time) and put my entire trading account into one trade (my version of money management).

On a typical Monday afternoon in 1987 (Black Monday), I lost it all and then some (margin call). Don't think it can't happen to you? It can and it probably did when you fast forward 20 years to 2007 when it happened again. This time it just took longer, thanks to the circuit breakers in the markets. Throughout the highs and lows of my career as a trader, I managed to graduate from what I believe are the three trader types.

Below are the three trader types:

TRADER TYPES

There are many classifications of traders in the world, but they all boil down to one of these three types:

1. Institutional Traders

2. Large Speculators

3. The Retail Public

Institutional Traders

Work for large firms or banks, brokerages, mutual funds, and hedge funds, and have $100 million or more to work with.

They make their money through long-term speculation, arbitrage, and hedging. They also make money by taking the other side of large trades, which allows them to lock in small profits from these trades. The last thing institutional traders do is look at low-risk global opportunities and trade them. They mostly focus on currency or interest rate trades and also include equity positions as well.

These traders make up about 2-3% of the players but wield a powerful amount of volume with their deep pockets.

Large Speculators

Are traders who have larger than average pockets, usually a million or more to trade with. They know enough about trading to make a living and a good living at that. These traders usually work for themselves or a small firm and focus primarily on trading the way the institutions do but with smaller pockets. They represent 7-8% of the entire investors out there.

The Retail Public

Makes up the rest of the pot. This is everyone from your average retiree with a 401k plan or an IRA, to the executive who trades (and loses) on the side, to novice traders trying to make it to the level of a large speculator.

Let's talk about the last group, the retail public. When we look at evolution, each life form on this planet has its place in line. By that I mean we have a basic understanding of what our predators are and who our prey is; I don't necessarily mean in terms of kill or be killed, but in social structure as well. The same is true when it comes to a barbaric business such as trading. I want to first review the social structure of the classification we intend to make our money from, Retail Traders.

TYPES OF RETAIL TRADERS

- Discretionary Traders
- Indicator Junkies
- Rules-Based Traders

THE PROBLEM

70% of all traders lose all their money trading, (those who trade inside of one year). Now in the group above, who do you think will gobble things up? The Institutional Traders, the Large Speculators, or the Retail Public? You guessed it! Institutional traders and large specs have two things going for them; money and experience, and they usually go hand in hand. These traders may have spent years perfecting their craft, and it's not going to easily go away. The retail public, however, are sitting ducks when it comes to trading. Why? Because Retail Traders approach trading the wrong way.

They don't trade with a plan; they trade with emotion. They are looking for an emotional high, and short-term, high-stakes trading provides it for them.

THE OPPORTUNITY

If 30% make money, then who makes what? Well, we know the institutions make most of that money, followed by the large speculators. If this is the case, then perhaps less than 5% of retail traders can make money over time. You're probably wondering where the opportunity is? It's in following a set of rules. You see, most retail traders make mistakes because they don't follow any set of rules. They buy and sell without rhyme or reason, have terrible risk controls, and basically hold losers too long and sell winners too soon. If we could pattern ourselves opposite the retail trader, we would win over time. Of that small percentage of retail traders, the 1-percenters are the ones making the majority of the money.

THE CHALLENGE

The challenge is a clear one. We need to develop and trade a set of rules to help us get through the critical phase of trading, or what I call the survival phase. There is a learning curve to get through and being able to develop and trade an unemotional trading pattern is a big step in completing that challenge. Imagine taking a few karate lessons and then having to face a 5th-degree black belt in the ring for 3 rounds of total contact karate. Or how about taking a few golf lessons, and then having to face Tiger Woods in front of a large crowd at a PGA tournament? I could go on and on, but my point is that trading is like any sport or business; it takes time and training to become elite. Once you understand the rules of engagement, rules-based trading is where you want to ultimately end up.

Take a look at our 3 types of traders and see if you can spot where you fit in. Let's see what it's going to take to get you to the third category, the Rules-Based Trader.

Discretionary Trader

A discretionary trader is one who trades based on someone else's work, regardless of the person. A discretionary trader could be one who takes a trade based on a "hot tip" from a friend or family member. A discretionary trader could also be one who takes a position based on hearing the news on the radio on their way to work that morning. Emotion drives this trader, as "Greed" kicks in and makes this trader do things that he/she shouldn't.

Indicator Junkie – Ok, here's a group that finds a set of indicators and feels that he or she has just discovered the holy grail of trading. I did this once early on. The year was 1989 and I was using a Compaq 386 computer and MetaStock. I found this "magic indicator" and thought that was the end of my search. It was time to make millions! The problem is that it didn't work as well going forward as it did looking back.

There are 1000+ different indicators out there when you mix the common ones with the Guru indicators. My conclusion on this is that most of them are lagging, due to the nature of the math behind the indicator.

Rules-Based Trader

To me, a Rules-Based Trader researches a pattern or set of patterns in the market that take place repeatedly and is able to trade them for profit.

These patterns can be trending or channeling. They can be volatile breakout patterns or contrarian patterns such as Elliott or Gann.

They can be used on 5-minute bars or monthly bars. Whatever your pattern is, it needs to be rules-based; something that cannot be second-guessed and contains rules for both entry and exit.

THE PRESIDENTIAL CYCLE AND THE STOCK MARKET

I believe learning Rules-Based Trading and deciding if you want to be one or not, you need to gain experience with a Rules-Based system to see if you like trading this way and can decide if you have conviction for this approach or not.

Rather than put pressure on you and the system to perform in a short-term time frame, I feel it is best to start with this longer-term pattern.

The Presidential Cycle Pattern, in my opinion, is a GREAT WAY for you to get started. It's long-term in nature and allows you to see the strategy not only presented here in this report, but it will also give you plenty of time to see it play out in reality through 2028.

Presidential Pattern to Presidential Strategy

Let's take a look at how we turn a pattern into a trading strategy. This will be the long-term strategy that we discuss, and it's important to understand the steps taken to get to a full-blown trading strategy.

The idea – This is a pattern that you may have spotted, which MIGHT actually allow you to profit from its future repetition on a particular stock or market. The first question I ask myself before the research begins is this: Is there a repeatable pattern here, be it technical or fundamental, and is there a possibility that I can profit from it?

Our preliminary research behind the Presidential Cycle Pattern is that every 4 years we elect (or re-elect) a US president. Per the theory, the stock market generally performs worse in the first half of the President of the USA's term than in the last half of the President's term.

Why is this? Well as traders, we really don't have to understand why, but for those of you who have the need for knowledge, here are some opinions behind the pattern, (some also shared by Hirsch).

During the first two years of a 4-year Presidential term…

- A new President and Vice President, as well as a new Cabinet are in office
- New Senate and House of Representatives are seated as well
- A new agenda, as the first 100 days in office are documented by the press

During the last two years of a 4-year Presidential term…

- Campaigning starts to try and get re-elected
- More public programs get pushed to Americans
- This helps stimulate the economy… and people remember this

Statistically, the market should be weaker for the first two years of a new government term and stronger for the last two years. S&P 500 market performance from 1950 to 2015 was analyzed by The Schwab Center for Financial Research. They wanted to determine how closely market performance correlated with the Presidential cycles. 16 election cycles were analyzed.

The first year of the cycle coincides with the first year of the US President's term. The analysis found that in nine of the 16 cycles, the index finished lower than the rest of the years in a President's term.

The third year of the cycle was determined to be the best year for equities. The third year showed an increase in equity prices, rising in all but two of the 16 cycles analyzed.

The average return was 16.4%. The last year of the cycle, (which is also the next election year), was also good for equities. Overall, stocks rose in 81% of the cycles analyzed and realized an average return of 6.6%.

While looking up information on the Presidential Cycle Pattern from the Investopedia website, here are some additional numbers of note. It shows that Schwab determined and wrote in 2016 about the S&P 500 and the average returns in each year of the presidential cycle:

- Year after the election: +6.5%
- Second year: +7.0%
- Third year: +16.4%
- Fourth year: +6.6%

You can see the first two years aren't that dramatic of a drop, but they do show a noticeable gain in year three.

Here is a link that shows the average annual rate of return for the S&P 500 from 1950 to 2020.

https://www.officialdata.org/us/stocks/s-p-500/1950

From 1950 to 2019, the stock market experienced gains in 73% of calendar years. Year three though saw the S&P 500 garner an annual increase 88% of the time.

Compare that to the first two years over that same amount of time where it saw a gain of 56% and 64%.

During former President Trump's run, there was an exception to this first year not being the best year theory. Mr. Trump's first two years went like this; in his first year the S&P500 went up 19.4% and in his second year he saw a drop of 6.2%.

The gains of that first year are largely attributed to the individual and business income tax break that was passed in late 2017. Then we hit year three and again the S&P500 saw a hefty increase of 28.9%.

The fourth and final year of President Trump's run is a true outlier.

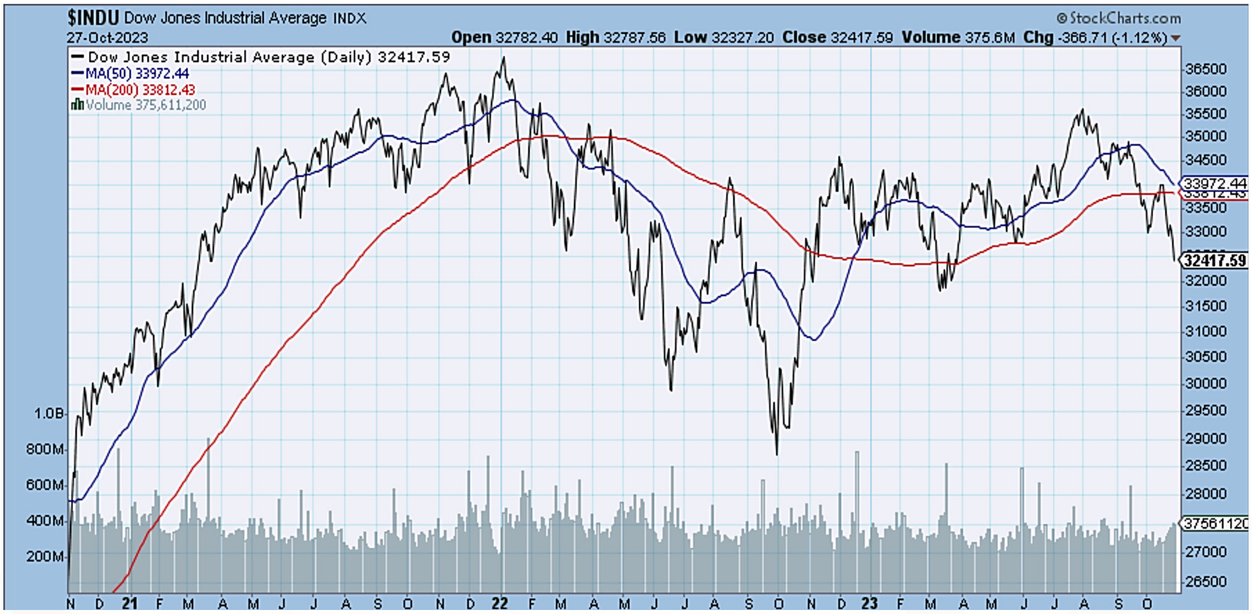
The first two months started with a carrying over of the upward momentum exhibited throughout 2019. The markets were trading at an all-time high on February 19, 2020. Based on the Presidential Cycle Pattern one could have expected the markets to have a gain for the year. It might not have had as much of a gain as the third year of Trump's run since the pattern shows the last year isn't as robust as the third, but a gain for 2020 saw the markets higher.

4 years ago, I provided charts emphasizing each of the 4 years of then-President Trump's tenure and what the markets did in each of those years.

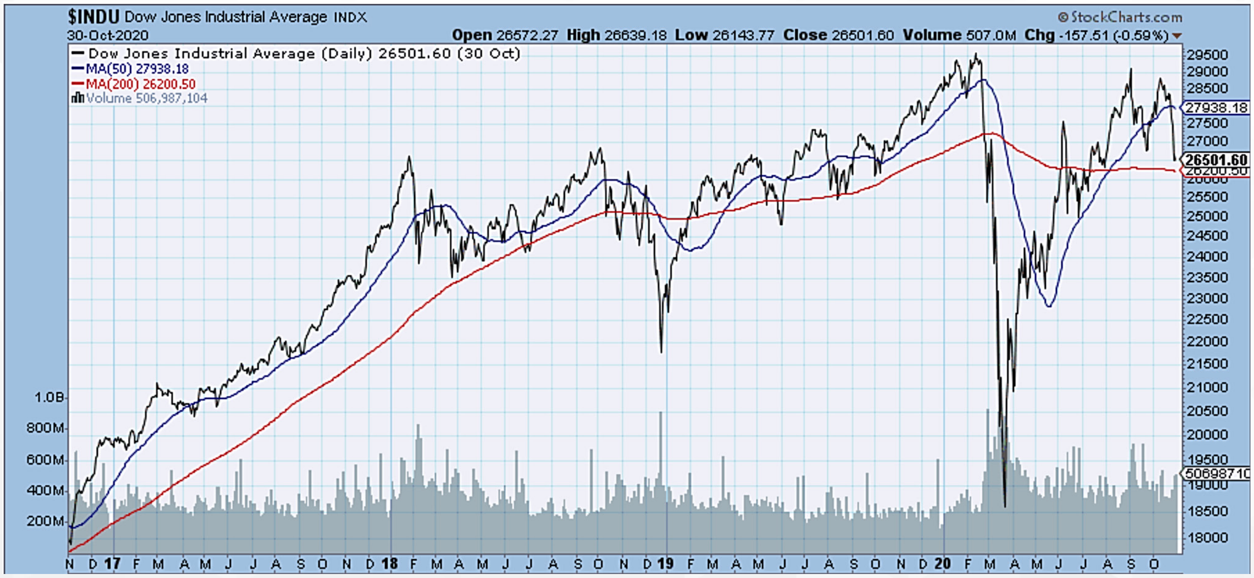
This year I am going to offer up charts highlighted on the website www.stockcharts.com that show President Biden's 4 years, and then present Trump's followed by Obama's second term.

President Biden, 2020-Present

(at the time of the article from www.stockcharts.com)

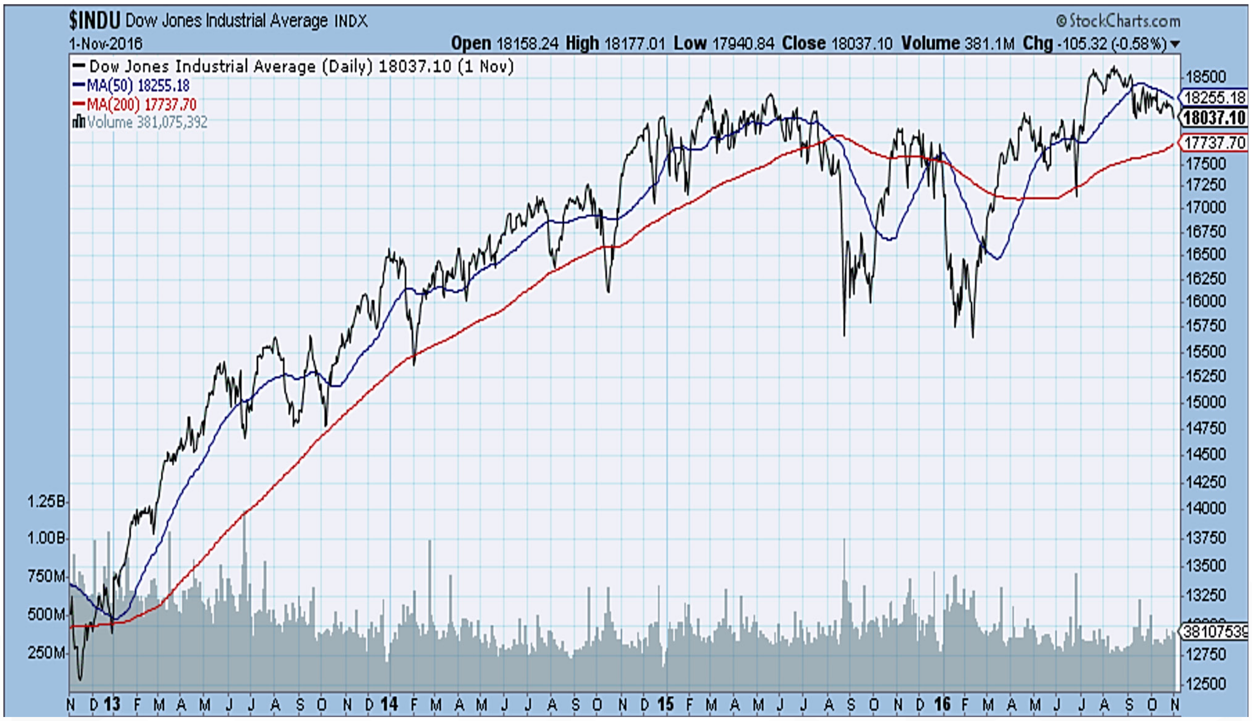


President Trump, 2016-2020



TOM'S TRADING ROOM

President Obama: second -term, 2012-2016



CONCERNS THAT COULD AFFECT THE MARKET IN 2024

Many will tell you the pandemic-type concerns are no longer with us, but that does not mean we are without concerns. We currently have two wars going on along with ongoing fears of a pending recession.

Bond yields are at their highest levels not seen since 2007, which therefore puts pricing pressure on equities. The US Dollar is at highs and that also puts pricing pressure on US equities. A strong US Dollar puts buying pressure on foreign currencies in that their currency buying power is lessened. This pressure in turn could mean foreign investors can't buy as much of our securities as they could when the US dollar was lower.

If we come to have a Fed that quits saying and operating under the mindset that interest rates will 'remain higher for longer' and it looks like they will be able to navigate a 'soft landing' regarding a recession, that may spur on higher prices in the US Markets. These two items, plus many others, are sure to be what every candidate for President is going to be addressing while campaigning.

During the first half of the term, a Presidential Cycle, oftentimes gets spurred on by the optimism of investors to what a new US President and his or her cabinet brings or will be bringing to the table in terms of new policies to cure what ails the country.

WHAT TO CONSIDER?

What options trading strategy can we use? First, ask yourself, are things improving? If you do or don't believe things will improve, do you feel the majority of investors believe or not? The anticipation is the pattern plays out in a bullish fashion in the first half of the new term, but the second half is potentially going to be better.

Does one sit on cash the first two years of this Presidential Cycle and then put their cash into the second half? Does one put their toe in the water, meaning place a little bit of their money to work in the markets the first half and ramp things up the second?

Unless you plan on sitting cash, an opportunity one may wish to consider is a LEAPs option. A LEAP is a long-term option whose expiration goes out at least 1-year. That would make for one to evaluate a January 16, 2026, Call option.

The end of the full term would be 2028, but the farthest out the LEAPs options show is 2026.

If you buy a LEAPs option, the exit is a Time Stop. You can have a percentage stop loss, say 50%, if you like, but that means you are making an adjustment to the process of 'Buying to Open' the LEAPs option on the first trading day of one year and 'Selling to Close' on the last trading day of the year of expiration you 'Buy to Open',

If you still want to make sure more of the factors I mentioned that were a concern for 2024 are actually resolved and are better than they are now, then consider resorting to the past historical pattern of this Presidential Cycle Pattern. Since the third year typically outperforms the other years, wait until the start of the third year of this new Presidential term and consider a LEAP option at that time.

By looking at both the first two years and the last two years of this pattern, one can assume that buying and holding the last two years is the safer play. Now it's just adding a set of ground rules to the pattern such as this:

On the first trading day of January in Year 3 of the 4-year cycle, I would buy and hold XXX until the last trading day in December of Year 4. Basically, you are buying and holding the last two years of the 4-year cycle OR the last year. Another option would be a 1-year LEAPs expiration for year 3 and then on year 4 if you like.

This is NOT a recommendation, but rather a visual representation of what a January 17, 2025 option is priced at as of the close of the writing of this report. It is a bit earlier than Jan. 01 of 2024, since this was written in November 2023.

Stock:	**SPY** Stock News
Name:	SPDR SP 500
Sector:	Investment Offices
Dividend:	1.58 % (2023-09-15)
100 Day SV:	11.76%
Trade:	SPY 25Jan17 430 Call

Quote Type	Entry Debit	Profit	Rate of Return	Max Profit	Max Risk	Delta (Shares)	Gamma	Vega	Theta
Natural	$4236.00	$-113.00	-2.7%	$Unlimited	$-4236.00	61.17	0.448	$175.80	$-5.55
Mid Quote	$4236.00	$0.00	0.0%	$Unlimited	$-4236.00	61.02	0.433	$176.03	$-5.66
Optimistic	$4236.00	$112.00	2.6%	$Unlimited	$-4236.00	60.88	0.419	$176.22	$-5.77

Downside Breakeven	Upside Breakeven	Max Profit/Max Risk	Max Profit/Cost
472.36	472.36	0%	Unlimited%

Leg Date	Position	Num	Option Symbol	Expire	Type	Entry	Bid/ Ask	Leg Profit	IV %	Vol	OI	Days	Delta %	Gamma %	Vega %IV	Theta $/day
2023-11-02	Bought	1	SPY250117C430	2025 Jan 17	430 Call	42.36	41.23 43.48	$0.00	18.24	2	1266	442	61.02	0.43	176.0	-5.7

The example shows it would cost an options trader $4,236 for one Jan. 17, 2025, $430 Call.

So long as the markets, specifically SPY, go higher the option has a good chance of increasing in value.

It is up to you and your broker if this is suitable for your portfolio and then you and your broker should discuss what profit goal and profit loss percentage or value is appropriate for your portfolio.

FINAL THOUGHTS FROM A RULES-BASED TRADER

Whatever patterns or rules you decide to use for your investment or options trades is your choice.

You need to have a strategy that fits your lifestyle. In the past I've said, "It does no good for a full-time executive to learn how to day trade. He will lose both his trading account and his job."

The Rules-Based Trader finds a strategy that not only works but works within his or her lifestyle and personality.

I see traders who lose money regularly and the top 3 reasons why they lose money are as follows:

1. Guessed the market direction based on emotion
2. Bought a bunch of OTM call options
3. Bought ATM or OTM options with short-term expirations

If you do not want this to be you or not be you anymore this strategy is a consideration. Here are some other ideas.

Consider buying quality options. Give yourself enough time to be right. It takes time to build a good strategy, let alone find one that fits your trading style.

If you are going to build your own strategy, ask yourself these questions before continuing:

- What type of trader am I? Am I directional, non-directional, or both?
- What time frame do I like as a trader? Do I trade once a year, once a day, or somewhere in between?
- What type of options strategy am I going to use to reduce my risk, yet still keep the integrity of the strategy in check?
- Do I have a broker who can execute the trade for me, so the reality of the strategy comes as close as possible to the past hypothetical results?

Before I trade any of my own money, I want to find a pattern and back-test it for reliability. Not only for the entire duration of the pattern (total results) but the year-by-year performance as well. Don't get all excited when your buddy shows you a pattern he created that takes $10,000 to 1 million dollars in 5 years. Examine his strategy and look at the year-by-year performance. If in one of those years he made 2 million and lost 1 million over the following 4 years, stay away. This pattern is not realistic. Look at the pattern's drawdown. Drawdown should not be more than you can tolerate.

IN CONCLUSION

I want to thank you for downloading and reviewing my latest report, The Presidential Cycle Pattern 2024.

The majority of the patterns I follow personally are shorter term in nature, involving days and weeks, not months, not years. The shorter term you are as a trader, the more important entry and exit plans become.

This particular pattern offered up new questions to my team:

- What if we could find patterns in the most popular stocks and ETFs that happen in days, not years?
- How much work would it take to back-test these individual stocks?
- What kind of computer and application would be needed to crunch 10 years of quantifiable data to find these nuggets that elude everyone else?

These questions gave birth to a patent-pending technology we proudly call the Money Calendar.

The Money Calendar sniffs out trades through a process of nearly 400 million bits of market data each day, filtering through patterns that have at least a 90% historical probability of success. It also ranks these patterns by average trade profit. This application is the result of a lot of blood, sweat, and financial tears, but it was worth it.

My team and I invite you to subscribe to our unique suite of tools at www.tomsoptiontools.com which also includes the Money Calendar.

Why am I telling you this? Because I want to encourage you all to go to my YouTube channel and subscribe for free:

https://www.youtube.com/user/TomsTradingRoom

One of my fellow trading colleagues and friend Chris Johnson and I do an ongoing podcast called the Profit Strategies Podcast on my YouTube channel and by subscribing you get notified when our latest podcast becomes available.

We use the Money Calendar tool to help provide an education on how to analyze that tool's data. We also discuss other scanning tools we use in my software Toms Tools, www.tomsoptiontools.com.

We review our Market outlook and provide education on strategies at times that we find useful.

Thanks again. May all your trades be Rules Based!

Regards,

Tom Gentile

C1-P, Chief 1-Percenter and

CEO Optionetics, Inc. and Tom's Trading Room, LLC

Feel free to reach out to my live support, which is open when the US markets are open at support@tomgentile.com

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