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October surprise.

Often, politicos seek breaking news just before elections hoping to sway votes in their favor. Thus, surprising news in October has become expected in the US.

This year's October surprise has little to do with the American south, but everything to do with South America. The Brazilian election of Dilma Rousseff for President could be among the most relevant stories of the decade.

Booming domestic commerce has moved beyond just expanded commodity markets and energy reserves. Impressive capital returns have attracted increasing capital flows into Brazil. The nation is poised to capitalize on its rising affluence to exert influence at the G20 meetings in Seoul.

The incoming leader will assume control of this vibrant country at a time when its rising prominence can serve as a beacon for capital freedom. Ms Rousseff must resist the charms of power, a too-frequent perversion of Latin America. She must also preserve structures that promote capital flow and formation if she wishes to take Brazil to the level of economic elites. Brazil's time is now.

Brazil can learn risks in anti-capitalist policies from neighboring Argentina. Mr. Kirchner's sudden death freshly reminds of past hardships and expropriations.

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Do elections lead markets?

As the 2010 elections for federal, state, and municipal offices occur, political pundits of every color dominate broadcast and written media. Whether you watch Fox or MSNBC or read the Journal or Times, recent elections have likely impressed upon you a sense of urgency. As a curious wealth adviser, Hawk100 researched whether US stock and treasury bond markets mirror that urgency.

Surprisingly, election results appeared to have little impact on markets. Instead, markets responded favorably to choice afforded by the presence of elections.

	Party Control After Election			One-Year Stock Return		Bond Yield	
Election Year	President	Senate	House	Preceding Election	After Election	At Election	One Year Later
2010		Democrat	Republican	16.51	TBD	2.61	TBD
2008	Democrat	Democrat	Democrat	(36.13)	9.79	3.97	3.39
2006		Democrat	Democrat	16.34	14.56	4.61	4.47
2004	Republican	Republican	Republican	9.42	8.72	4.03	4.56
2002		Republican	Republican	(15.10)	20.80	3.91	4.30
2000	Republican	Democrat	Republican	6.09	(24.90)	5.76	4.26
1998		Republican	Republican	21.99	25.67	4.60	6.00
1996	Democrat	Republican	Republican	24.09	32.11	6.35	5.82
1994		Republican	Republican	3.87	26.44	7.79	6.00
1992	Democrat	Democrat	Democrat	9.95	14.94	6.80	5.39
1990		Democrat	Democrat	(7.48)	33.50	8.65	7.47
1988	Republican	Democrat	Democrat	14.80	26.40	8.65	7.92
1986		Democrat	Democrat	33.19	6.40	7.34	8.88
1984	Republican	Republican	Democrat	6.37	19.33	11.79	10.01
1982		Republican	Democrat	16.29	27.95	10.71	11.74
1980	Republican	Republican	Democrat	32.11	0.57	12.46	14.63
1978		Democrat	Democrat	6.35	15.46	8.96	10.72
1976	Democrat	Democrat	Democrat	20.16	(6.04)	7.42	7.62
1974		Democrat	Democrat	(31.76)	24.83	7.79	7.91
1972	Republican	Democrat	Democrat	18.41	(2.95)	6.41	6.71
1970		Democrat	Democrat	(14.28)	13.19	7.33	5.87
1968	Republican	Democrat	Democrat	10.84	(6.08)	5.61	6.94
1966		Democrat	Democrat	(13.22)	16.33	4.97	5.64
1964	Democrat	Democrat	Democrat	14.66	8.91	4.16	4.41
1962		Democrat	Democrat	(17.63)	30.94	3.92	4.15
1960	Democrat	Democrat	Democrat	(7.18)	28.53	3.22	3.47

Source: New York Times.
Stock return based on Standard and Poor's 500 Index measured for 12 months as of October 31.
Bond yield based on 10-year US Treasury constant maturity index measured as of October 31.

Indifference party. Since 1960, the US has held twenty-six national elections for either President, Senators or Congressional Representatives. Hawk100 measured party advances during each election to determine whether voting tended toward Democrat or Republican favor. Thirteen elections favored Democrats. Twelve elections, including the presumed 2010 Republican runaway, favored Republicans. Hawk100 judged that neither party gained favor in 1962 since Democrat Senatorial gains offset additional Republican Representatives in the House and neither body changed party control.

US stocks have averaged annual returns of 8.5% since October 1959. Average gains were13.5% in the years following Democrat gains and 13.3% in the years following Republican gains. Regardless of election results, stock returns in the years immediately preceding elections have on balance significantly lagged average returns.

The bond market has reflected similar indifference to the identity of the winning party. The 10-year treasury yield—a bond market bellwether—has averaged 6.6% at the end of each October. At the time of their election, Democrats and Republicans witnessed an average yield of 6.7% and 6.5%, respectively. In the year following their elections, Democrats saw yields fall 0.2% to 6.5% and Republicans saw yields rise 0.1% to 6.6%. Reversion to mean may have had at least as much causality as any political change.

Vote early and vote often. The foregoing data support the importance of participating in the electoral process, regardless of party preference or affiliation. Vibrant and free elections have led to increased wealth in the US since its founding and that democratic ideal has proven to be lucrative for global populations as well.

Theoretically, financial markets dislike uncertainty. Investors discount asset prices with higher assumed risks. Electoral uncertainty is most prevalent in advance of voting day; thereby, returns rise materially following the clarity of elections. Furthermore, effective elections restore the preferred habitat of the electorate, generally representative of investors. In conclusion, elections that align with and support investor interests lead markets higher.

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