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STRATEGIES

The Share-Price-to-Campaign-Contribution RatioBy **MARK HULBERT**

IT pays for corporations to contribute to Congressional political campaigns. And what's more, it pays for investors to buy the stocks of companies that make a habit of doing so. Those are the implications of a new study, "Corporate Political Contributions and Stock Returns," which began circulating last month as an academic working paper. The study's authors are Michael J. Cooper, an associate professor of finance at the [University of Utah](#), and Huseyin Gulen and Alexei V. Ovtchinnikov, assistant professors of finance at [Virginia Tech](#). Mr. Gulen is also a visiting professor of finance at the [University of Michigan](#). A version is available at <http://papers.ssrn.com/sol3/papers.cfm?abstract-id=940790>.

The professors found that the stocks of companies that contributed to the largest number of Congressional candidates performed much better than those of other companies. This performance advantage was large — as much as 6 percent a year, on average.

In an interview, Professor Cooper said that he and his co-authors had no direct evidence that Congressional action was responsible for the improved stock performance. Instead, he characterized the study's statistical findings as providing a "strong circumstantial case" that corporate political contributions were affecting the behavior of Congress, for the clear benefit of the companies.

The researchers examined all contributions to Congressional candidates from 1979 to 2004 from corporate political action committees, as listed in the database maintained by the [Federal Election Commission](#), at http://www.fec.gov/finance/disclosure/ftp_download.shtml. The database records so-called hard money contributions — those that were directed to specific candidates. Such contributions are subject to statutory limits of \$10,000 per candidate in each election.

Ten thousand dollars is not a lot of money for a large corporation. But the professors found that the shares of companies that gave less than this maximum amount rose just as much as the shares of companies that gave the legal limit. They found that the number of Congressional candidates to whom a company contributed was much more important than the total dollar amount the companies gave.

For each year from 1984 to 2004, the professors ranked companies according to the total number of Congressional candidates to whom they had contributed over the trailing five-year period. They then calculated how the stocks in each yearly ranking performed over the subsequent 12 months. The correlation between the number of candidates to which a company has contributed and the subsequent performance of its stock was "so systematic over time for so many firms," Professor Cooper said, that he and his co-authors are "confident that the pattern is not just a random fluke of the data."

Based on the last data included in the study, which reflected contributions made through October 2004, the companies that donated to the greatest number of Congressional candidates were [United Parcel Service](#), [AT&T](#) and [Verizon](#).

David A. Bolger, a spokesman for [U.P.S.](#), said the company was politically active because of "the breadth and diversity of the issues we as a company face." Mr. Bolger added, "We are present in every Congressional district, for example, and as well we are a global company, so trade issues also are critically important to us."

Spokesmen for AT&T and Verizon declined to comment.

The professors focused on Congressional races, for several reasons. The only other electoral contests that appear in the Federal Election Commission database are those for president, and according to Professor Cooper, "a lot fewer corporate political action committees make contributions to presidential elections than to Congressional races, making it difficult to conduct meaningful

statistical tests.” As for corporate contributions to candidates in local and state races, Professor Cooper said that he would “love to get the data, but I am not aware of any comprehensive national database that contains such data.”

Professor Cooper indicated that he and his co-authors initially were skeptical of their findings, since the average benefit realized by the shareholders of the contributing companies was so out of proportion to the dollar amount of the contributions. On average, the extra return earned by their stocks works out to a total benefit to each firm’s shareholders of around \$150 million a year, according to the professors.

After subjecting their findings to other statistical tests, however, they concluded that the correlation between political contributions and subsequent stock performance was caused by their contributions and not by other characteristics of those companies. The market capitalization of the companies, for example, did not affect the correlation, the professors found. This certainly needed to be checked, because companies that have contributed to the most candidates have tended to be among the largest, and large-cap stocks outperformed small-caps during many of the years that the professors studied. But they found that, even when comparing two companies with similarly large market caps, the stock of companies that contributed to the most Congressional candidates tended to outperform the other companies.

In another test, the professors found that, on average, companies that contributed to many Congressional candidates experienced faster subsequent growth in their profitability than companies that contributed to just a few. This is significant, because if the benefit that the companies realized through their contributions had shown up only in higher prices for their stocks, but not in improved balance sheets, Professor Cooper argued, “this would have suggested that the effect of those contributions was due to investor perceptions and not from legislative changes affecting companies’ fundamentals.”

How did the politicians receiving contributions help the donor corporations? The professors don’t know, because they didn’t study it. They have their own suspicions, however. They imagine that the list includes “favorable tax treatment and or credits, the awarding of government contracts, the imposing of tariffs or other penalties on competitors, and implementing favorable regulatory requirements.” In short, the professors conclude that the political system in the United States falls far short of the goal of providing “equal and fair political access” for all citizens.

Regardless of the political conclusions you draw from the study, its investment implication is clear. Before putting your money down, a prudent investor should research many aspects of a company’s stock. Certainly, the scope of a company’s Congressional campaign contributions ought to be included in the list.

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