Executive Summary of "Political Capital: The (Mostly) Mediocre Performance of Congressional Stock Portfolios, 2004-2008"

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The aim of this study is to assess the performance of the stock portfolios of members of Congress in the period from January, 2004, to December, 2008. Anecdotal evidence suggests that some members of Congress personally profit by trading stocks based on non-public political information, and a previous widely-discussed academic study claims that members of Congress showed uncannily good timing in executing stock trades during the 1990s. We revisit the question with a newer, more comprehensive dataset in order to assess how widespread such "political insider trading" might be, and more generally to examine whether members of Congress beat the market by taking advantage of their political positions.

Overall, we find that members of Congress are fairly poor investors. The stock portfolio of the average member of Congress fell short of the market by 2-3% per year, meaning that they would have been substantially better off exchanging their stock holdings for passive index funds. Put another way, in a five-year period during which the market lost around 20% of its value, the average Congressional portfolio lost over 30%. (See figure, below.)

Members of Congress do seem to excel, however, when they invest in local companies. A portfolio of investments that members make in companies headquartered in their own districts beats the market by over 4% per year - a return that would make any mutual fund manager proud. We provide evidence that members' local advantage is built not on good timing of trades but on choosing which companies to hold; we speculate that members' extensive personal connections to local business elites help them to know which local companies are promising.

Our findings may be reassuring to citizens concerned about corrupt behavior in Congress. Members of Congress may turn their political positions into capital gains in isolated instances, but the overall poor performance of their stock portfolios suggests that such self-serving behavior is not widespread. They do well in investing in local companies (and invest heavily in these companies), but perhaps citizens should be happy that their representatives both understand and have a personal stake in local businesses.

The evidence is a little less encouraging when it comes to the financial competence of members of Congress. The most basic investing advice for individuals is to diversify through low-cost index funds and not try to outsmart the market (an approach that seems all the more appropriate for legislators whose votes commonly affect publicly-traded companies). The fact that Congress's stock picks actually underperformed the market in the period we examine confirms that following this advice would have been not only ethically simpler but also financially superior.