



My Views from Washington to Center St.

“Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies.” ~ Groucho Marx

- The Pitfalls of Investing and Politics: Buy, Sell, or Hold
- Who is Better for Investors? A Democratic or Republican President?
- The Takeaway?

I usually try to stay away from writing or discussing politics in my business. You know, politics, religion, and finances are all pretty sensitive topics and can create a lot of emotional reaction. I try to stick to the financial conversation and how government policies can impact the economy, the markets, and most importantly your specific financial goals.

But over the last several weeks, every conversation I have had, the Presidential election (less than 2 months away), has been front and center on clients' minds. How is it going to affect the economy, the markets and most importantly how is it going to affect “my” portfolio?

So, I'm going to address my thoughts and provide some historical perspective on Presidential elections. First and most obviously, 2020 has been a year like nothing we have ever seen before. The “pandemic” has become a political topic like nothing I have ever witnessed. Shutdowns, reopenings, back to school, treatment drugs...it's almost hard for me to believe that the drug hydroxychloroquine could become a “right” or “left” issue versus whether or not it actually works, but it has. Although, we appear to be close to a virus vaccination, the opinions of the public vary wildly and the logistics of vaccinating our country, much less the world, are immensely complex.

So, while this has been a year like no other we have witnessed before, “unprecedented” seems to be the word used most to describe 2020 and that certainly is the case. I also believe we must keep our wits about us and not let fear, headline noise, and politics drive our decisions on investing. Please, make no mistake, I do believe this is a very important election, but I do not believe that whichever candidate wins, our way of life, capitalism, freedoms or markets will collapse. The republic is way too big and strong for that to happen. Elections can and do shape and change policy, which can slowly change the direction and/or trajectory in which the country is heading, but by design the legislative process is slow and this is by the design of our founding fathers. You know the whole 3 branches of government thing.

I've heard the phrase “this is the most important election in our lifetime” a lot over the last several weeks and I believe it IS important, as are all elections. But the phrase is hardly new. My research indicates that as far back as 1868, the Atlantic Monthly described the Grant vs. Seymour race as the most important election we have ever known. The point being, we have survived and yes thrived through all of these “most important

elections” and using history as a guide, we will survive this regardless of which candidate wins in November.

The Pitfalls of Investing and Politics: Buy, Sell, or Hold

OK, this is what everyone wants to know and the majority of my conversations...Isn't a Biden/Harris win going to be bad for the economy and the markets? I know the prevailing view is that this would have a negative impact on the market. However, history suggests this assumption is premature. Historically, no political party has been exclusively good or bad for markets.

So why do investors view Democratic Presidents to be bearish? One reason is they tend to enact more business-unfriendly policies....such as tax increases and regulations, which can weigh on corporate profits.

Although a reasonable expectation, the reality is far more complicated. Presidential policies matter more than just party affiliation. Some markets and industries may emerge as relative losers, while others may be more insulated.

Who is Better for Investors? A Democratic or Republican President?

A long-term analysis, however, suggests that things are not that clear-cut. Although you might think Democratic Presidents are worse for equity markets, the evidence suggests the contrary.

Since 1933, Democratic Presidents have, on average, seen higher stock market returns than Republican ones. For example, the average real (adjusted for inflation) total return for the S&P 500 Index under Democratic Presidents was 10.2% vs. 6.9% under Republicans.

The problem is that nearly all of this average outperformance advantage can be explained by the boom years under Bill Clinton and the subsequent dot-com bust and Global Financial Crisis under George W. Bush. Excluding these two Presidencies, the difference in returns is practically zero.

Neither political party is exclusively good or bad for markets. Instead, what matters more is the policies Presidents choose to enact and their net impact. For example, although President Trump's tax cuts were widely seen as a positive development for markets, his handling of foreign policy and trade issues had the opposite effect.

So, regardless of whether Trump or Biden wins in November, the likely and perhaps preferable outcome will be that the Senate will still be held by Republicans and the House by Democrats. The returns of the market under this scenario since 1937, is that the S&P 500 Index has averaged 14.6% annually and 13% when a united government was voted in. Gridlock isn't always bad.

So let's look a little at recent elections that created a lot of nervousness to investors:

- Barack Obama – Election night, 11/4/08 through election night 11/8/16 – S&P 500 Index Return = 153.3%. So much for the Obama feared sell-off.
- Donald Trump – Election 11/8/16 through 9/4/20 – S&P 500 is up 72.8%. About half the Obama S&P's return in half the time.

Being a stock investor in either administration has yielded compelling returns.

The Takeaway?

No matter your political passion, don't give in to the temptation to throw in the towel. Remember stock prices generate positive returns in two-thirds of annual periods.

If you are worried about the uncertainty elections present and the fact that 2020 may be a Presidential election year when we can't declare a winner on election night, resist the temptation to sell or make quick changes to your portfolio.

Instead, let your diversified Multi-Asset Strategy do its work to protect and grow your assets. Depending on your specific strategy, portfolios have been defensive since last fall and held up well during the initial pandemic sell-off and participated in the recovery since April. Albeit, with a much "smoother" ride.

So take a deep breath and hang on. This November, like all of 2020, promises to be quite a ride.

As always, I am humbled and honored to be your trusted wealth advisor.

Jeff

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