A SHORT GUIDE TO

ELECTIONS AND THE MARKETS

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INTRODUCTION

It's that time again! Every four years, Americans take a few minutes out of their day to choose the next President of the United States. Under normal circumstances, voting is a simple, uncomplicated act—but the months preceding it are anything but. After all, before we vote, we first have to endure the dreaded "campaign season." From endless televised debates to the plethora of signs on our neighbors' lawns, "politics" becomes the order of the day.

If you're like us, you probably don't enjoy all the campaigning. But you also know how important the political process is. Being an informed, engaged citizen is crucial to maintaining the stability of our Republic. That means asking some tough questions, like: "Which candidate best represents my opinions and values?" "What will each candidate do to ensure both our safety and our personal liberties?" Getting the answers can be both frustrating and time-consuming.

Fortunately, there's one question you don't have to ask:

HOW WILL THE ELECTION AFFECT THE MARKETS?

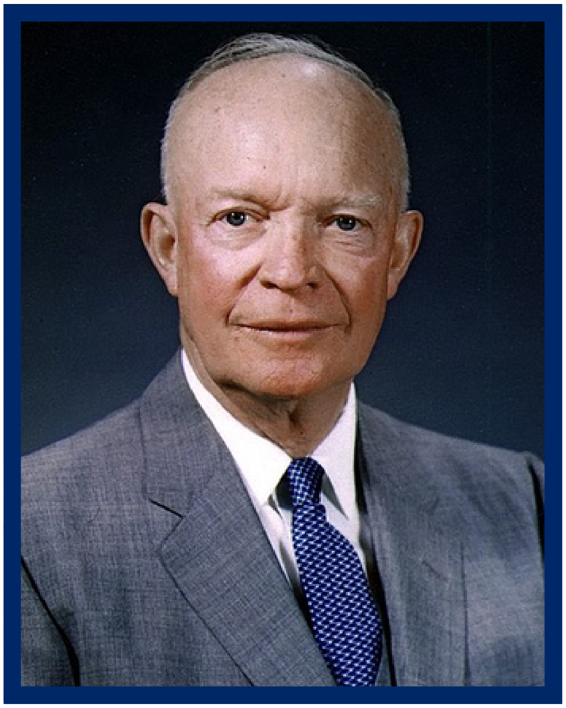
This is a question we get every four years. This year, we thought we'd make life a little easier for you by answering it now. That means you have one less question to worry about! So, how do elections affect the markets? The answer is:

NOT MUCH.

Since 1957, the S&P 500 has gained an average of roughly 9.8%every presidential election year.* Of course, there can be some massive exceptions. For example, in 1928, the S&P rose over 37%. In 2008, it fell over 38%.**

*What could the S&P 500 tell us about Trump's reelection?" *Forbes*, October 21, 2020.

**"S&P 500 Historical Annual Returns," *Macrotrends.*



But there's a danger in using averages to try and predict what will happen. Take the Presidential Election Cycle Theory for instance. Once upon a time, many people believed that U.S. stock markets are always the weakest in the year following a presidential election. This was the case for Franklin Roosevelt. It also held true for Truman and Eisenhower.

But in George H.W. Bush's first year, the S&P 500 rose 27%. In Bill Clinton's first year, it rose 7%. Barack Obama's first year saw a 23% rise. Most recently, in Donald Trump's first year, the S&P rose 19%.*

It's clear that the "Presidential Election Cycle Theory" just doesn't hold water. And that's true for actual election years as well. An average merely shows you what has happened, not what's going to happen. (Side note: this is why you often see the financial industry emphasize that "Past performance does not guarantee future results." Because it's true!)

*"S&P 500 Historical Annual Returns," *Macrotrends.*

Here's the next question we get every four years:

"BUT WHAT IF THE DEMOCRATS/REPUBLICANS WIN? WON'T THAT HAVE AN EFFECT?

Our answer:

NOT REALLY.

Skeptical? Let's take a little quiz. On the next page, we've listed the last eight presidents of the United States, with their political party next to their name. (We're skipping Ford as he took office in the middle of Nixon's second term.) Look at each name and guess whether you think the S&P 500 went up or down during the first year of each president's term. Write your guess in the space provided, if you like.

President	Party	Markets Up or Down?
Richard Nixon (1st Term)	Republican	
Richard Nixon (2nd Term)	Republican	
Jimmy Carter	Democrat	
Ronald Reagan (1st Term)	Republican	
Ronald Reagan (2nd Term)	Republican	
George H.W. Bush	Republican	
Bill Clinton (1st Term)	Democrat	
Bill Clinton (2nd Term)	Democrat	
George W. Bush (1st Term)	Republican	
George W. Bush (2nd Term)	Republican	
Barack Obama (1st Term)	Democrat	
Barack Obama (2nd Term)	Democrat	
Donald Trump	Republican	

Now, maybe you'll score 100% on this quiz. But we're willing to bet at least a few of the answers will surprise you. Speaking of which, here they are.*

RICHARD NIXON (FIRST TERM)

DOWN 11.36%

*"S&P 500 Historical Annual Returns," *Macrotrends.*

RICHARD NIXON (SECOND TERM)

DOWN 17.37%

JIMMY CARTER (ONLY TERM)

DOWN 11.5%

RONALD REAGAN (FIRST TERM)

DOWN 9.73%

RONALD REAGAN (SECOND TERM)

UP 26.33%

GEORGE H.W. BUSH (ONLY TERM)

DOWN 11.5%

BILL CLINTON (FIRST TERM)

UP 7.06%

BILL CLINTON (SECOND TERM)

UP 31.01%

GEORGE W. BUSH (FIRST TERM)

DOWN 13.04%

GEORGE W. BUSH (SECOND TERM)

UP 3.0%

BARACK OBAMA (FIRST TERM)

UP 23.45%

BARACK OBAMA (SECOND TERM)

UP 29.6%

DONALD TRUMP (CURRENT TERM)

UP 19.42%

Well, how did you do? Any surprises?

If a hypothetical investor had followed the "Presidential Election Cycle Theory", he or she would have missed out on some of the biggest gains in market history. The same is true if that hypothetical investor had made decisions based on politics. Convinced Democrats are terrible for the country? Fine, but have fun missing out on Clinton's second term. Can't stand Republicans? Okay, but too bad you didn't catch the train between Reagan and the first Bush. The fact of the matter is that, while the president may be the most powerful individual on the planet, their power to drive the markets is distinctly limited. For investors, that should actually be a comforting thought!

SOMETHING TO WATCH OUT FOR: POLITICAL BIAS

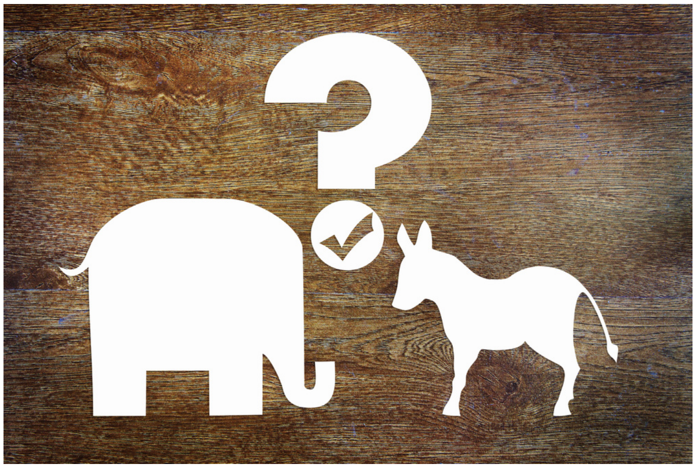
No, we're not talking about bias in the media, on the internet, in books, or anywhere else you might sometimes encounter it. We're talking about our OWN biases. Because make no mistake, we all have them. It doesn't matter whether you're a liberal, a conservative, or something in between. As human beings, we all have biases and blind spots.

As worked up as we often get about our political beliefs, did you know that neither party tends to have that much impact on the markets compared to the other? Historically, the S&P 500 has gone up 10.8% under Democratic presidents, and 5.6% under Republican presidents.* That's not a large difference and can be attributed to a whole range of factors besides politics. Either way, the markets go up over time. That's because the markets are driven by far more than just one person or event.

This is a good reason for why it's unwise to mix politics with personal finance. You see, when we do that, we run the risk of becoming selective as to which facts and data points we consider. Without even realizing it, we often gravitate towards the ones that seem to confirm our existing beliefs. We rationalize why this bit of data matters and why that bit of data doesn't. But when it comes to planning for your financial future, we can't afford to let our political preferences drive our decisions. We have to factor in all of the data that's relevant to your personal goals, regardless of whether we like it or not. That's how we make educated decisions as opposed to emotional decisions.

*"Democratic presidents are better for the stock market and economy than Republicans, one study shows," *Business Insider*, August 24, 2020.

To put it bluntly, making financial decisions based off biased or overly narrow information is dangerous to our long-term goals. As your financial advisors, you certainly wouldn't want us to do that. As your financial advisors, we certainly don't want you to do that, either.



"Historically, the S&P 500 has gone up 10.8% under Democratic presidents, and 5.6% under Republican presidents."

The reason we're telling you this is because we are coming down the home stretch of the most recent campaign season. That means we're being subjected to a dizzying assault of political news, analyses, and opinions. Everywhere you turn –- from TV to radio, from Facebook to the yard-signs in your neighborhood -- will be saturated with it. Of course, that's not necessarily a bad thing. After all, we live in a representative democracy, and a democracy lives or dies by the participation of its people. So, as we enter a new political season, we encourage you to have opinions. Express them. Get involved. Just remember that your financial decisions should stand on their own, free of any angst or worry that politics might cause. Don't make important decisions based on which candidates you think will win or should win. Base them on sound financial planning and actual financial facts.

CONCLUSION

Obviously, it matters a great deal who our president is … but not when it comes to the markets. And that's a good thing! Here's why:

1. **The Founding Fathers created a system of government where no branch (executive, legislative, or judicial) was supposed to dominate the other.** The fact that neither the presidency nor any one political party has that much influence on the markets shows that our system of checks and balances extends to investing, too.
2. **Again, the markets are driven by far more than just one person or event.** They're controlled by the ebb and tide of trade, by the law of supply and demand, by innovation and invention, by international conflict and consumer confidence. The markets are like life. The course our lives take isn't determined by one gigantic decision, but by the millions of small decisions we make every day.

Not sure about you, but we find that comforting.

So, what's the takeaway from all this? The takeaway is that when it comes to investing, we control our own destinies, not politicians. The way to reaching your financial goals is by having a sound investment strategy, making informed decisions, and taking emotion out of investing. Not by worrying about the election.

So, this year, as you watch the debates, chat amongst your friends, and decide who you want the next president to be, you can do so with the knowledge that whatever happens, the markets will go their own way … and so will you.

On behalf of our entire team, we wish you a happy (and headache free) election! Please let us know if there is ever anything we can do for you.

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