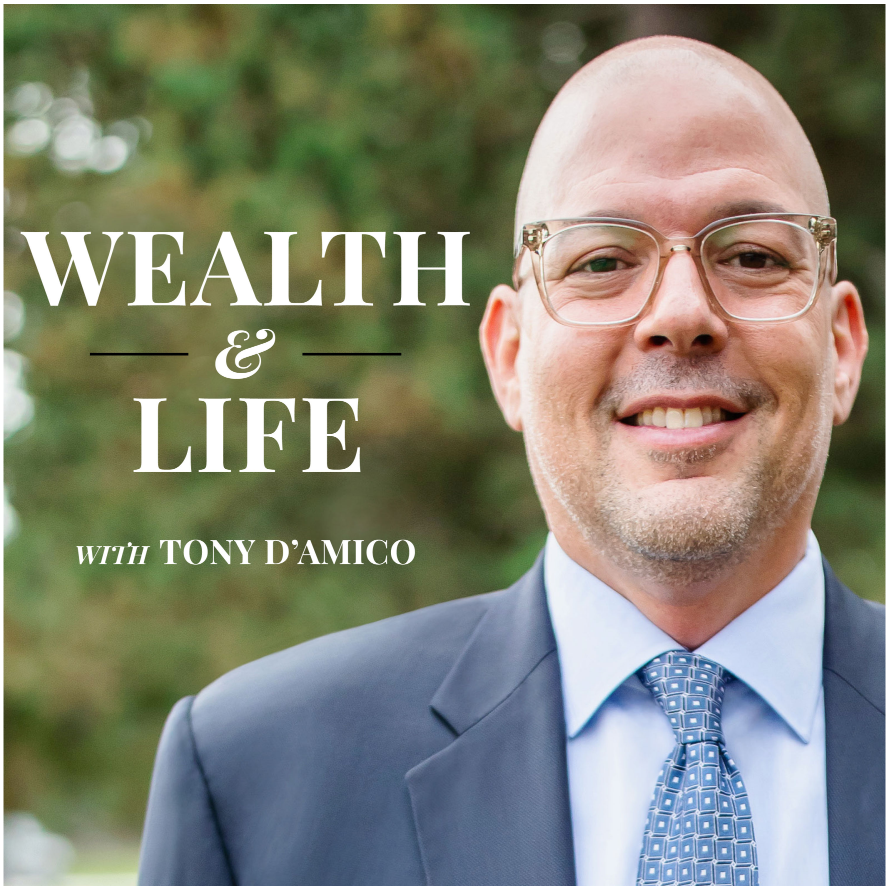
Ep #10: Trump vs. Biden – Does the Stock Market Care Which Party Wins?



Full Episode Transcript

With Your Host

Tony D'Amico

***Wealth and Life* with Tony D'Amico**

Ep #10: Trump vs. Biden – Does the Stock Market Care Which Party Wins?

Welcome to *Wealth and Life*, where you'll learn with financial planner, consultant, speaker, and business owner, Tony D'Amico. You'll hear stories from successful business owners and individuals about how they navigated the inevitable challenges that arose as they achieved each new level of success, and you'll get insights and strategies from leading wealth planning professionals on how to achieve your next level of success. Now here's your host, Tony D'Amico.

Tony D'Amico: Hi, this is Tony D'Amico, and welcome to this episode of *Wealth and Life*. And today we're going to talk about something that's very important, and I think on a lot of people's minds. We're going to talk about the upcoming presidential election. And we're going to discuss, does the stock market really care which party wins? And should this upcoming election really be on your mind with your investment plan or your financial plan? And if you're listening today to us, perhaps on Apple Podcasts, you may want to check out this YouTube version as well because we'll be reviewing some slides today.

So Trump versus Biden, does the stock market care which party wins? So let's take a look at returns following presidential elections. So these are median total returns of the S&P 500, by party, following presidential elections. So you can see three months after a presidential election, there's a very small difference. In six months there is a small difference, but once you go past 12 months, you could see at that 12 month mark returns are the same. Regardless if it's a Republican or a Democrat that's elected president.

There are some differences over four years, but again, you can see the total return of the S&P 500 for one party is 63% versus the other is 72%. So in either case the stock market or the S&P 500 has gone up with either party following the presidential election. So according to Goldman Sachs Research, since 1976, the S&P 500 has offered approximately 10% total returns in 12 months following a presidential election, regardless again of which party wins. So performance is also very similar over shorter three and six month windows, and median returned are slightly better early in Republican administrations. While during an entire four year term, the equity market is somewhat higher, has somewhat higher returns under a Democrat presidency.

Let's take a look at average annual returns when there's a Democrat versus a Republican president. This is according to Vanguard research. So you can see here that whether the president is Democrat or Republican, returns are identical and they're 11%. So there is no return difference regardless of which president wins. So, that's very important to note.

So what do we want to do here? We want to look at the evidence. We want to look at the academic evidence and understand, is there data that should indicate that you should do something differently, or with us managing our client portfolios, should we do something differently? So according to this research, which covers data from 1853 through 2015, returns are identical, regardless if it's a Republican or Democrat president.

And so what did Vanguard summarize in their research? They said the returns of the stock market under

Democratic and Republican administrations are virtually indistinguishable. This is one more reason why investors should focus on more meaningful factors when it comes to their portfolios such as diversification. So a very important point. It's very important to be diversified, to be globally diversified amongst stocks, amongst bonds, and to really have a robust portfolio.

So let's take a look at another factor that we've researched and it's partisan control and market returns. So there's eight possible combinations of partisan control between the office of the president, the House majority, and the Senate majority. And since 1948, the worst case scenario was an 8.4% annualized return for the S&P 500. That was the worst case out of all eight possible combinations. And that occurred when there was a Republican president with a Democrat House and a Democrat Senate.

Here's the key takeaway here. The S&P 500 since 1926 has averaged about 10%. So the fact that returns are just a little bit lower than the average. Again, indicates there is no room to mix concern about an election or your own political preferences, with how you manage investments and your longterm financial plan. Some of the best cases for returns happen when there's either an all Democrat or all Republican presidency, House majority, and Senate majority. So those are some of the highest returns.

And it's been speculated that perhaps returns are higher under those situations because in those situations in roughly half the people are excited that their political affiliation has control of all three of those entities. So they're making investments, they're perhaps buying household goods, or investing into their business, or perhaps buying a house.

So when it's a mix between the presidency, the House, and the Senate, when it's kind of a mixed bag, 75% of the country might be in lukewarm territory and not really too excited. So that's speculation, but that's one thought is that when one party does have all three presidency, House majority, Senate majority, half of the country is excited their party is in and they're spending money or making investments, which drives the economy. So that's the key there.

And we also looked at all different eight possible combinations of, again, what were the S&P 500 returns? This was over a substantial period of time. So it is statistically significant. That's important as well. And again, the worst case is 8.4%. And again, longterm, the S&P 500, the average has been a little over 10%. So what this does show you is that yes, there could be returned differences based upon those how the partisan control figures out. But again, this was nothing here that should cause any portfolio decision, change, as long as you have a globally diversified portfolio, which is what we obviously do for our clients. And you can't just buy and forget, you do have to buy and manage the portfolio. And we'll talk a little bit about that.

So there's definitely some data that shows some differences in returns looking at partisan control. So it's really important. One thing I want to emphasize here is that money is green, it's not red or blue. And if someone invested a $100,000 in US large companies, so the S&P 500 between 1948 and 2015, it would have grown to

$13.3 million. So again, it's really important, in that period of time encapsulates Republican presidents, Democrat presidents, all sorts of different crisises between wars and other things that have happened, so long term is the key to maintain that focus.

And really, again, what do we want to focus on? Is you want me to focus on what you can control. And what I'm referencing here is obviously maintaining that longterm investment plan, but also financial planning. And focusing on obviously understanding what's important to you and how your resources are positioned. And where those two overlap is what you should focus on. Focus on what you can control based upon what's important to you.

So along those lines, I think the key ingredient here is to maintain a longterm investing and planning perspective. So an investment plan and financial plan are not just built for a four year period of time, or one presidential cycle, or one economic cycle. Plans are built to be successful over the long term. And maintaining that perspective is really important.

Secondly, guard yourself from commercials and programs with agendas. So the media does have an agenda and it's prevalent with both sides equally. And there's a lot of science behind what the media does, and they know that if they appeal to fear and greed, they will sell more ads. I know I'm being very frank here, but it's all about getting your attention and them being successful with their endeavors. And it's really tough today to turn on the media and find fact-based news. To the point where I personally have eliminated virtually watching all cable news and just read one publication that delivers fact-based news. And I can read it and take it in as I want to.

Three, is to ensure really that you have all the components of a diversified portfolio in place. And the presidential election is another need for that. And earlier this year with COVID-19, having a diversified portfolio paid off. So during that period of time for our clients that were in their moderate portfolio, about 30% of the portfolio was still up over the past 12 months because bonds had did well during that period. So it's very important to have a diversified portfolio. Understand why you want to be diversified, understand how those assets are not all going to track and overlap going up or down. And that's the whole purpose of that. So it's really important to have that diversified portfolio and then stick to that longterm strategy.

So the markets over the longterm had been really resilient, whether it's a presidential election, some sort of war or crisis or virus, or a pandemic, or other thing, other things that may have happened, markets are resilient. And economy is also too very complicated. There's a lot of things that go into an economy, and is it growing? How is the market going to react? Sometimes the stock market doesn't always follow the economy. So it's a very complicated thing. And so because of that, we have to look at the evidence in returns.

So number four is to plan. So this is also really critical. It's very important to have a comprehensive financial plan, which is why we focus on that with our financial planning clients, that they have a comprehensive plan, that we review it with them periodically, and that they're comfortable with their plan's probability of success. So very important. There's a lot of research that, to show, well, why aren't plans successful over the longterm? And the conclusion of that research is that it's not market volatility.

People are not successful with their financial plans because they spend too much compared to their means. And that's why people's plans fail, often. It's not been attributed to market volatility. It's been attributed to spending and staying disciplined. So having a comprehensive financial plan that takes into account all of your goals, that reflects inflation, tax code, the spending that you want to have, a little bit of, perhaps longevity in the plan, knowing what would happen to your plan if you have rainy days, if your spouse predeceases you or other things.

So there is a lot of work that goes into having a solid, well thought out, comprehensive financial plan. So when you have a comprehensive financial plan that addresses those scenarios, a plan should also factor in potential market volatility. So it's really important to know what your plan has in it, make sure that it reflects your actual spending. That's really important, but then if you have all those ingredients, and if your plans probability of success, let's say is 95%, you should feel very comfortable that you have a solid plan that has factored in potential market volatility.

So number five, and also very important, is to implement. So, and that's to take advantage of wealth planning strategies that will do a couple of things, that will further your best interests, maximize any available opportunities to you, and also increase your financial position. So even if there is volatility in the market, whether it's to the downside or upside after this presidential election, there's things that could be done.

So, for example, when COVID-19 really became a widespread issue in the US, and in March, there was the shutdown and the market dropped the fastest it ever has done in US history. So what we did is we rebalanced our client's portfolio accounts seven times during that quarter to take advantage of the volatility. Because obviously stocks were dropping, bonds were up. So we sold positions that were up in the portfolio to buy the ones that are down. And that is what basically the goal of threshold based rebalancing is, it's to systematically and objectively sell positions that have increased out of band to buy them the ones that have decreased. So basically, it's a systematic way of selling high and buying low.

And that's an important thing that will be focused on with the election, perhaps the stock market will go up and things will drift out of band. It might be to sell, soft some of those positions that have really increased out of band. So again, having a longterm perspective with investors is important. And most of the time, the vast majority of the time, it's better to do nothing than anything, than something rather.

So it's better to do nothing, however, it does make sense to take advantage of volatility with rebalancing to keep your portfolio in band with your risk profile file, and also to take advantage of that volatility, to try to sell winners and buy losers. Because chances are 12 months later, perhaps 18 months later, the reverse will be true. Things that were low will go up and vice versa.

There's also other things that you can always be focusing on, sometimes these opportunities that are amplified during a period of volatility. So for example, if the market is down, that could be an opportunity to do some Roth conversions. So there's other wealth planning strategies, whether it's tax planning, estate planning is also very important to provide you and your loved ones that peace of mind that has a plan for your estate, both while you're alive, and while you're gone. Is really one of the best gifts that you can give yourself and your loved ones.

So there's risk management strategies. So there's all different sorts of financial planning opportunities that can be taken advantage of, that will increase your financial security and increase your financial position. So it's about taking that evidence based approach to your financial situation, tuning out the short term noise, and staying disciplined.

And being an advisor now for quite a period of time here, I started in the financial services industry in 1999. I've been in this for multiple presidential elections, multiple different crisises, and significant drops in the market. And it's my belief that those that stay disciplined, take advantage of opportunities, are the ones that come out better on the other end of this. And so that's really important.

So regardless of your political affiliation, perhaps you may choose to donate to certain causes or give to charities or do other things that are important to you. But one of those things is to not disrupt your financial plan. If you have a solid financial plan with a good probability of success, the upcoming election should not even come into your pitcher as far as your plan or your investment plan, if you have the right plan.

And one of the things that we do with our clients is when we start working with them, we build a plan first then we figure out what investment strategy is best for their plan in light of their goals. So again, keep that in mind, this is about accomplishing your goals with the highest degree of possible success over the long term. Not just a two year period or a four year period, but for many years to come.

So I hope this helps, and I hope you do review this. For our clients that are listening to the podcast, we're always here to field questions. I did something very similar for the last presidential election and heard from a lot of our clients, how it was really pivotal for them to understand the facts and understand what's the best way that they can use this information to again, increase their financial position. Thanks for joining us today. And again, if you're an existing client, we'd be happy to hear from you if you have any questions. Thanks so much and have a great day.