FA Financial Alternatives
integrated wealth management

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Should the Presidential Election Affect Your Investment Strategy?

Every four years during our presidential election, clients ask us how we think the election is going to affect their investments and which candidate will be better for the stock market. We can remember lively discussions going back to 1992, when one of our business owner clients was extremely distressed by what a Bill Clinton presidency might do to our economy. Because this year's election is producing the same level of anxiety in some, we decided to address the topic in this quarter's newsletter using research and commentary from the Capital Group.

The news media and pundits often debate which political party or candidate is best for investment markets. From this discourse, some may develop strong views about how the economy will be affected by an individual candidate, while others wonder if it's even a good idea to invest at all during a contentious election year like this one. Taking a look at past election years through the perspective of a long-term investor can help.

Executive Summary

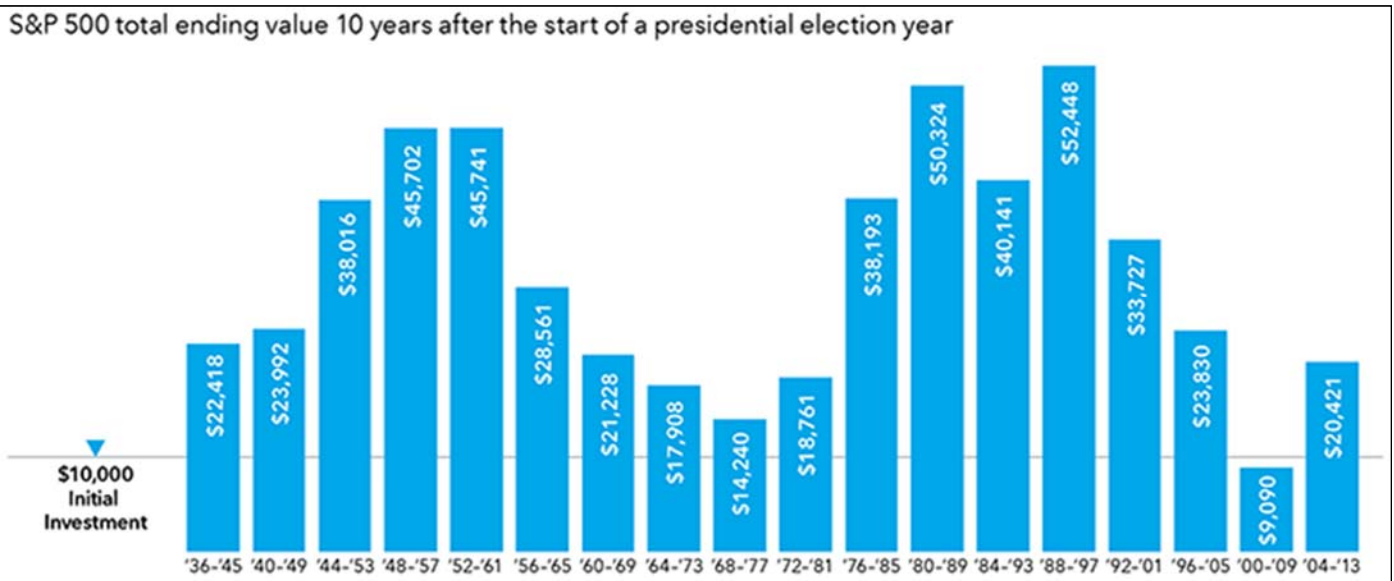
- Emotions are running high this election season and investors are nervous about how the election will affect their investments.
- Tumultuous events have been a constant theme for presidential elections throughout history.
- In 17 of 18 past presidential elections, a hypothetical $10,000 investment in the S&P 500 made at the beginning of each election year would have gained value 10 years later.
- Long-term investment success has depended more on the strength of the US economy than on which party occupies the White House during any particular four-year period.
- Beliefs about which political party is best for the markets may encourage you to vote, but shouldn't discourage you from investing.

Campaign Rhetoric Can Raise Feelings of Uncertainty

Historically, presidential elections have been framed by turbulent times. Presidential candidates often draw attention to the challenges facing the nation - everything from economic policies to immigration - and campaign rhetoric tends to amplify the negative. These concerns can raise feelings of uncertainty among investors.

In 1968, Richard Nixon and Hubert Humphrey faced off against a backdrop of the Vietnam War, civil rights protests, and the assassinations of Robert F. Kennedy and Martin

Growth of a Hypothetical $10,000 Investment Made at the Beginning of an Election Year



Source: Thomson InvestmentView. Each 10-year period begins on January 1 of the first year shown and ends on December 31 of the final year shown. For example, the first period listed (1936–1945) covers January 1, 1936, through December 31, 1945.

Luther King Jr. More recently, Barack Obama and John McCain were debating in 2008 - during the worst economic crisis in decades. These political events can understandably distract investors and cause people to worry about their economic future.

Historical Stock Market Performance

Consider the historical performance of the S&P 500 Index - a measure of US stocks - over the past eight decades as shown by the chart on the prior page. In 17 of 18 presidential elections, a hypothetical $10,000 investment in the index made at the beginning of each election year would have gained value 10 years later - regardless of which party's candidate moved into the White House. In 14 of those 18 decade-long periods, a $10,000 investment more than doubled, and each party saw a few instances when the investment would have tripled. While there are guarantees of future performance, history has shown that long-term investors have been rewarded despite election-year fears.

In 1936, the US was in the midst of the Great Depression and Democrat Franklin D. Roosevelt won the election. A $10,000 investment made that year would have more than doubled to $22,418 by 1946.

Republican Richard Nixon was elected in 1968, and the next decade included the US invasion of Cambodia, high levels of inflation, and the president's resignation. However, over that decade, a $10,000 hypothetical investment would have grown to $14,240.

George W. Bush took office after the 2000 election year, which was the only negative 10-year period. During that time, the S&P 500 was hit by two profound market downturns: the dot-com crash in 2000 and the financial meltdown of 2008. In contrast, the biggest election-year return would have been in 1988, when George H.W. Bush won office, and $10,000 would have grown to $52,448 by 1998.

Summary

Long-term investment success has depended more on the strength of the US economy than on which party occupies the White House during any particular four-year period. And the market has proven resilient time and again.

Long-term investors who began investing in any election year have generally come out ahead, regardless of the winning party. Those who look beyond the headlines, focus on long-term goals and avoid trying to time the market have tended to reap the rewards in the long run. That's true not just during elections, but any time of the year.

Beliefs about which political party is best for the markets may encourage you to vote, but shouldn't discourage you from investing.

Please call us if you'd like to discuss your investments or any other aspect of your financial life in greater detail. We hope this newsletter finds you well.

Past performance is no guarantee of future results. All content in this newsletter is intended as general information, not specific advice. Performance data listed is for illustrative purposes only. Portfolios are personalized and often consider many variables, including investment objectives, age, time horizon, risk tolerance, and tax variables. Information contained herein has been obtained from sources believed reliable, but not guaranteed.

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