PUNCH & ASSOCIATES INVESTMENT MANAGEMENT, INC.

The Integrated Investor: Money and Politics

Thoughts for Investing Ahead of the 2020 Election

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Recently, our team at Punch & Associates has been fielding a growing number of questions from friends, family, and clients on the upcoming elections. We tend to get these questions and concerns every four years or so, but the number of inquiries—and the palpable anxiety behind them—seems to be higher this year.

In some ways, this anxiety and concern is understandable. We are six months into the worst healthcare crisis this country has seen in a hundred years, and fears of a resurgence in the fall and winter are legitimate. Social unrest, economic uncertainty, and never-ending partisan politics all feed into the perception that there is more is at stake in this election than usual.

Some common questions we are getting include:

What are the economic implications of this election? How will the market react?

Is one candidate or the other going to be better or worse for the economy?

How should I position my portfolio for this uncertainty and a potential adverse outcome?

No doubt, there is a high degree of uncertainty in the world right now, and this election is going to look different than previous ones, if only because it is being held amidst a global pandemic. Social distancing and mail-in voting are going to affect polling places and may delay election results. Things may get messy, and the outcome could be contested for weeks or even months.

But is this election really more uncertain than previous ones? Have we as a nation faced similar challenges before? You don't have to go back very far in history to find some glaring examples. In 2000, the result of the presidential election was not known for weeks, and the ultimate outcome was partially decided by the courts. This was at a time when a bubble in tech stocks was beginning to implode, and we unknowingly were only months away from the terrorist attacks of September 11. In 2008, the country faced an enormous financial and housing market crisis, the likes of which we had not seen in 75 years, and the contrast between presidential candidates was stark. Certainly, the outcome of that election held enormous ramifications for the country, the economy, and investment that were similar to what we are experiencing today.

There is a tendency in all of us to think, "this time really IS different," and "no, THIS time is really bad." Surely this thinking is egged on by a hyperbolic media and doomsday politicians. Roughly half the people we know today think that one candidate is terrible and will wreak havoc on the country and the economy; the other half think the same thing but about the other candidate. We're not so sure that ANY candidate can really do that much damage in only four years (two if control of congress shifts mid-term), simply because our government was designed with a robust system of checks-and-balances.

And isn't the political and economic environment always uncertain? We're not so sure that this time really is so different.

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Presidential Terms and the Stock Market 1933 to 2020

Returns measured between inauguration dates

President	Party	Term	S&P 500 Total Return
Franklin D. Roosevelt	D	1933 - 1937	219%
Franklin D. Roosevelt	D	1937 - 1941	-27%
Franklin D. Roosevelt	D	1941 - 1945	72%
Harry S. Truman	D	1945 - 1949	34%
Harry S. Truman	D	1949 - 1953	131%
Dwight D. Eisenhower	R	1953 - 1957	104%
Dwight D. Eisenhower	R	1957 - 1961	55%
John F. Kennedy	D	1961 - 1963	27%
Lyndon B. Johnson	D	1963 - 1965	29%
Lyndon B. Johnson	D	1965 - 1969	33%
Richard M. Nixon	R	1969 - 1973	33%
Richard M. Nixon	R	1973 - 1974	-28%
Gerald Ford	R	1974 - 1977	41%
Jimmy Carter	D	1977 - 1981	57%
Ronald Reagan	R	1981 - 1985	63%
Ronald Reagan	R	1985 - 1989	89%
George H.W. Bush	R	1989 - 1993	72%
Bill Clinton	D	1993 - 1997	99%
Bill Clinton	D	1997 - 2001	83%
George W. Bush	R	2001 - 2005	-7%
George W. Bush	R	2005 - 2009	-26%
Barack Obama	D	2009 - 2013	101%
Barack Obama	D	2013 - 2017	66%
Donald J. Trump	R	2017 - ????	54%
Median Return			***56%***
Median Return for Republicans			***54%***
Median Return for Democrats			***66%***

Consider a few points of fact:

Historically, there is very little correlation between which party holds the office of president and stock market returns. Despite conventional wisdom, stock market returns have been higher during Democratic terms going back to 1932, although this is somewhat skewed by exceptional swings during the Great Depression. In only one case since FDR occupied the White House has the stock market had a negative return during a president's entire term. Long-term investing really does work.

Most often, it is the exogenous events that are largely out of the control of the president that have the most impact on stock market returns. Think of the Gulf War, September 11, and COVID-19 as perfect examples.

Finally, and perhaps most importantly, people tend to forget that the stock market is a discounting mechanism, which is to say that markets tend to move well in advance of an actual event occurring in anticipation of a likely outcome. By the time an event hits the newspaper headlines, markets have in all likelihood already moves to fully price in its implications. Since 1932, the S&P 500 has correctly anticipated almost 90% of election outcomes (20 of the last 23 presidential elections). When the S&P is up in the three months before the election, the incumbent party usually wins; when it is down, the incumbent party loses. Since 1984, this indicator has been correct 100% of the time (Source: LPL Financial - see chart on the last page).

Over long periods of time, stock prices tend to rise. Over the past 40 years, despite multiple recessions, wars, terror attacks, changes in leadership, and even a global pandemic, the S&P 500 is up over 25-fold and its dividend per share is up almost 10-fold. Why? Because over time, the economy grows, population increases, productivity improves, technology is adopted, new products and services are innovated, and, ultimately, companies increase their profit to shareholders. New companies are constantly being created with new business models and growing profitability—think of all the exciting growth companies today that dominate our stock market that barely existed even twenty years ago: Google, Netflix, Facebook. The marvel of capitalism continues despite uncertainty and adversity.

Allowing our own predictions or predilections about politics or the market or the economy to influence our investment decisions can cost us real money. If you thought in 2008 that a newly-elected democratic president would be terrible for markets, you would have missed out on the longest bull market in U.S. history. If you thought in March of 2020 that coronavirus would permanently impair the world economy and change life as we know it, you would have missed out on the fastest market rebound since the Great Depression. If you thought that the crisis of 2008 would lead to runaway inflation and higher

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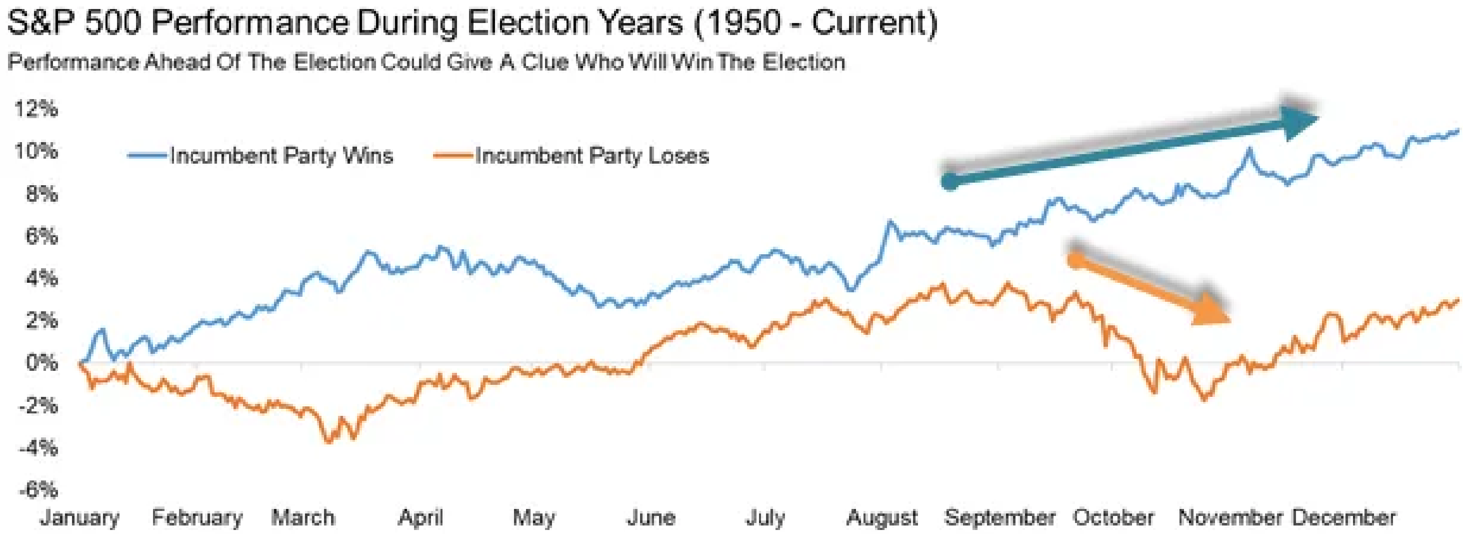
interest rates over the past decade, you would have missed a bull market in bonds as rates actually dived toward zero and deflation became a more pressing threat.

The point is, that it's difficult to correctly predict the future with any degree of certainty or consistency, and translating those predictions into correct investment decisions is downright impossible. The best bet is to have a thoughtful long-term plan that is carefully designed to help you meet your own life goals and stick to it knowing full well that markets and economies always have uncertainty and do go through scary rough patches from time to time.

As always, our team at Punch & Associates is here to help you navigate markets and create a thoughtful investment plan and strategy that will improve your chances of reaching your own life goals. We appreciate the confidence that you have placed in our group. We take that trust and confidence seriously. If you have any questions, or would like to talk more about your personal financial situation, do not hesitate to reach out to us directly.

We hope you and your family are safe and doing well, and we look forward to speaking with you soon.



Source: LPL Research, FactSet 6/22/20
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

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