INVESTOR'S EDGE

What not to do with your investments

Election likely will have little impact on portfolio

"You know nothing for sure ... except the fact that you know nothing for sure."
— John F. Kennedy

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By the time you are reading this, the presidential election is less than 48 hours away. Investors seem to be anxious about how their portfolio will react to various election outcomes and what they should do about them.

What if there is a Joe Biden/Democratic sweep of the White House and Senate? What if there is a contested election where the outcome is not known for weeks or even months? Finally, what if President Trump pulls off another surprise victory?

Well, 12 years ago it was pretty clear that Barrack Obama would be elected. Many on the right proclaimed that Obama was a "radical socialist" that might severely damage long-term equity returns. Eight years later, in 2016, many on the left viewed Donald Trump as an "unstable demagogue" who would disrupt financial markets.

Here's the facts — with no fake news — during the Obama years, the S&P 500 Index averaged a fantastic 13.8% return per year. During the last four years under President Trump, the S&P 500 is up a powerful 12.4% per year.

Needless to say, the last 12 years have proved quite disappointing for investors who allowed partisan politics to dictate their investments!

Look, politics and investing have always been discussed as if they were directly linked to one another. After all, it makes for good theater.

However, contrary to what many expect, the 2020 election will likely have very little effect on your portfolio. Consider this — over the last 12 years, eight under President Obama and approximately four under President Trump, only two major pieces of legislation were passed — The Affordable Care Act in 2009, and The Tax Cuts and Jobs Act in 2017. The truth is, our country's unique system of checks and balances leads to incremental — not fundamental — policy changes.

In fact, after President Trump's election in 2016, I distinctly remember hearing many investment professionals throughout the financial media recommending to buy energy, industrial, and financial stocks because it was believed a Republican Congress and President would favor these industries. The reality has been the total opposite as these sectors have been the very worst performers during the Trump administration — by far!

Furthermore, I distinctly remember Jeffery Gundlach, a world-renowned investor, urging investors to sell their "FAANG" stocks (Facebook, Apple, Amazon, Netflix, and Google) because of the Trump election. Bad call — these stocks have been the very best performers over the last four years — by far!

It is true that a Democrat sweep of the White House and Senate may lead to higher taxes and regulations. From a corporate earnings perspective, however, these policy changes would likely be more than offset by a removal of many trade tariffs and a significant increase in fiscal spending.

Without question, a contested election could lead to heightened market volatility, and perhaps even a correction. So, nothing new here. But if you think you are going to outsmart a $20 trillion stock market by correctly timing exactly when to get in and out based on the results of the election, well, "fuhgeddaboudit!"

Don't delude yourself — none of us are that smart. And moves like this will be costly.

DELICATE BALANCE

What I have clearly noticed, is that it is the retail investor who seems nervous and focused on waiting to invest until after the election while more sophisticated institutional investors are hardly concerned with it. They make their decisions based on other factors: interest rates, economic growth, corporate earnings, and successful long-term investment themes. That's the mindset I want you to have today.

To be clear, I am not advocating throwing caution to the wind with your investments. A delicate balance of risk and prudence should always guide your portfolio strategy. But short-term election results will have little bearing of where your portfolio will be over the next one, three, or four years.

One important reason I remain constructive on equities over the next few years is that, according to CNBC, over 80% of pension funds in the U.S. are still targeting annual returns of 7% or greater. Bonds and cash, which investors have bought with impunity, won't get them there; only focused equity strategies will.

This Tuesday, please vote. Once you get home, pour yourself a stiff drink or two, and don't worry about your portfolio as you watch the returns come in. A solidly constructed portfolio will grow with America regardless of who wins the election. Rest assured, the American spirit, enterprise, and innovation are alive and well.

Stay bullish.

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