October 16, 2019

F.I.T. Focus – October 2019

10 Things You Should Know About Politics and Investing

Donkeys, elephants, bears, and bulls: Why who is in the White House may matter less than you think.

The frenzy surrounding a US presidential election cycle often causes investors concern about how their portfolios will fare under a Republican or Democratic administration. Perceptions, including beliefs about which political party will be better for investors, may overshadow their investment strategies. But a long-term look at the performance of the S&P 500 Index[1] can help investors stay on course. Here are 10 reasons to stay the course during the next election cycle.

1. **It takes a village:** The president is one of many factors that influence the market and other influences may be stronger. Macroeconomic (macro) factors, such as interest rates, inflation, economic outlooks, changes in policies, and wars, may have more impact than who resides in the White House.

2. **Profits can be prophets:** Yes, politics and policies can impact the stock market, but business profitability is a strong gauge that should not be ignored. Increased demand for goods and services boosts company profits and, ultimately, stock prices. Look to profitability to foreshadow what's to come in the market.

3. **The Fed:** The US Federal Reserve (the Fed) controls interest rates. Interest rates are another key underlying factor, so watching what the Fed does will provide important information. When the Fed lowers rates, it makes it easier for companies to borrow and expand, which may help boost stock prices in the long run.

4. **Innovation is an influencer:** Researchers found that the tech giant, Apple, was more of a force in the market than the White House. Apple's products stimulated the US economy with 2 million jobs. Its "app economy" alone has led to the creation of 1.5 million US jobs and earnings of $16 billion for US developers[2].

5. **It's not party time:** Past performance in the market when a particular political party is in power does not mean the same results will occur the next time that party is at the helm. In fact, this is one of the most common misconceptions about politics and the market. Stocks have done well in the long term with a mix of Democratic and Republican presidents (See chart below).

6. **Diversification is a powerful tool:** Rather than trying to time the market around an election or political party, a diversified portfolio can help you build long-term wealth regardless of who is in the White House.

7. **You play a role:** When big events such as an election take place, they don't automatically trigger market changes. Rather, the way investors react to the big news and the actions they take (or don't take) can set in motion a sea change. So it's important to evaluate whether a new president's policies will really cause dramatic market changes, or if other macro factors will be more likely to influence the course.

8. **Policy changes take time:** Proposed legislation must pass through the House, the Senate, and be signed by the president to become law, a process that can take up to a year. A lot happens in the market in a year.

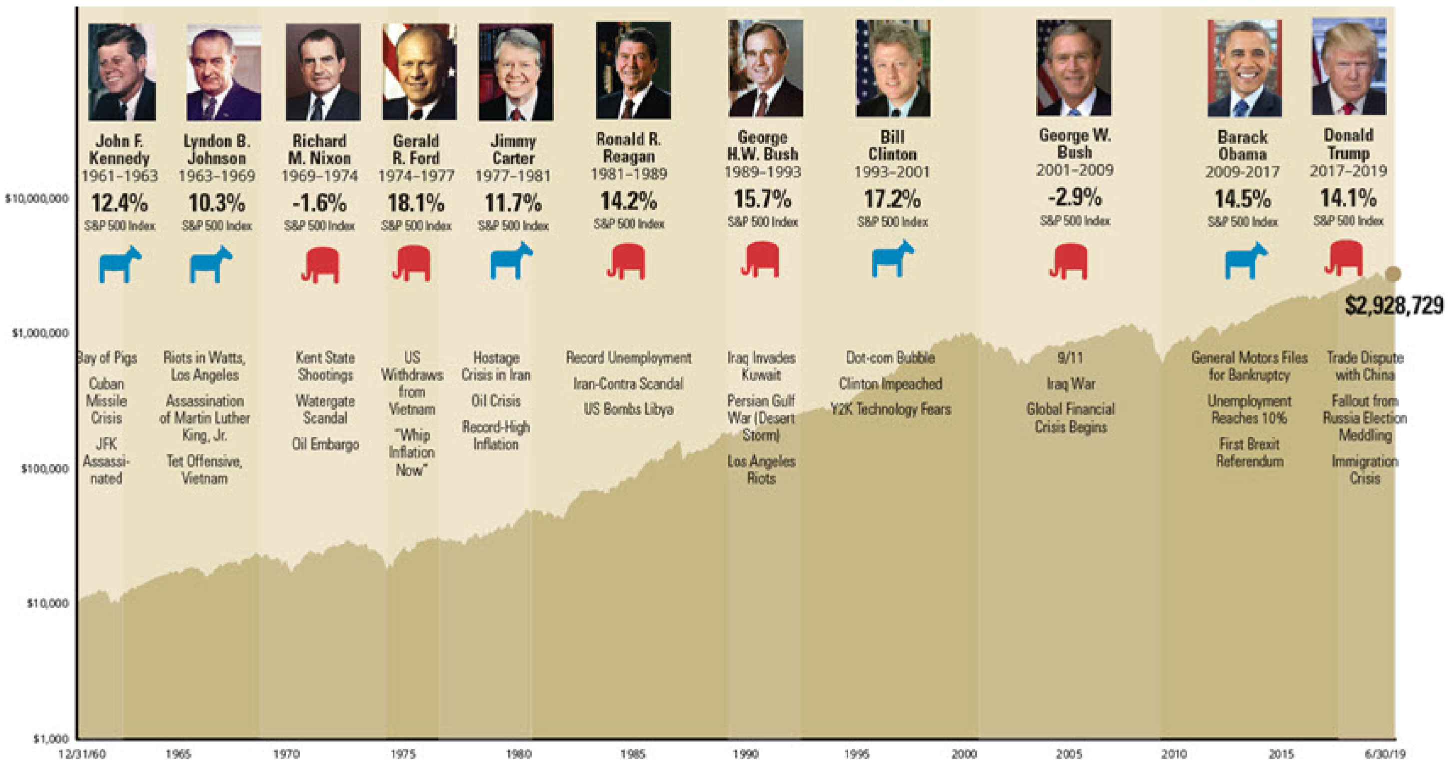
9. **History speaks:** Election cycles, especially recent ones, are fraught with misperceptions, personal biases, and bad information. Dire predictions that a candidate's policies will negatively impact a particular sector often prove to be wrong. President Obama's healthcare law was expected to harm the healthcare sector, and

healthcare stocks sold off as a result. In reality, the healthcare law created a set of winners and losers within the sector that astute investors were able to capitalize on.

10. **Prudent investing is a healthy habit:** Decisions made during election cycles can be driven by emotion rather than facts. Your financial advisor can help you ignore the noise and make decisions that align with your financial goals so you're better positioned for long-term success.

Market Performance and Party Affiliation

A hypothetical $10,000 investment in the S&P 500 Index in 1961 would have grown to nearly $3 million as of 6/30/2019



1 S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.
2 Source: www.apple.com/job-creation/ July 2019

If you have any questions regarding this report, please contact us at info@atwob.com or 914.302.3233

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