October 2022

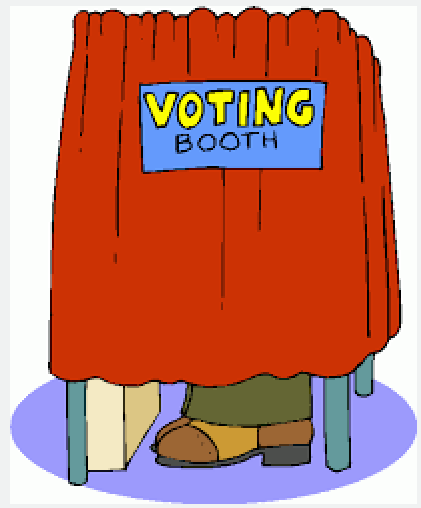
Here's to Your Wealth

Discussions for financial health and well-being

We are only a few weeks out from the midterm elections. As we attempt to survive the bombardment of political advertisements, it is only natural to wonder what impact the election results will have on the stock market. I wish I could tell you that I unlocked some secret sauce and figured out the perfect strategy to take advantage of elections. Unfortunately, investment success across election cycles is much more boring. It all boils down to this: over the long-term, the markets don't care who gets elected. Let's look at a few charts and graphs to show this is true.

Let's start by looking at the performance of the S&P 500 across various time periods. In the chart below, I show the annualized total return through the most recent quarter ended September 30, 2022.

Begin Date	End Date	# of Years	S&P 500 Annualized Total Return
9/28/2012	9/30/2022	10	11.67%
9/30/2002	9/30/2022	20	9.83%
9/30/1992	9/30/2022	30	9.55%
9/30/1982	9/30/2022	40	11.49%
9/29/1972	9/30/2022	50	10.31%
9/28/1962	9/30/2022	60	10.34%
9/30/1952	9/30/2022	70	10.72%
9/30/1942	9/30/2022	80	11.58%
9/30/1932	9/30/2022	90	10.82%



"Political opinions are best expressed at the polls, not in a portfolio", (Pandit, 2022).

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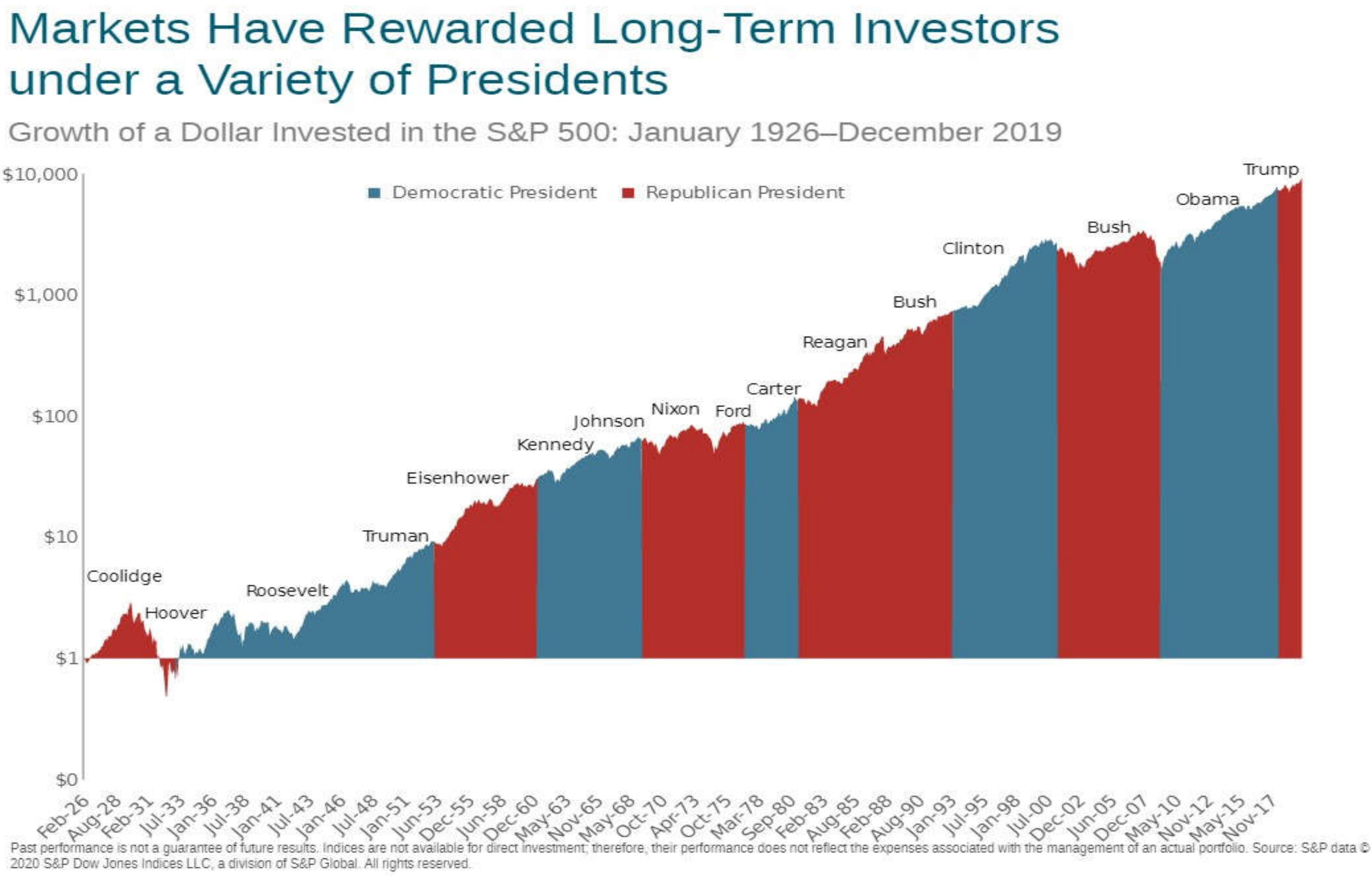
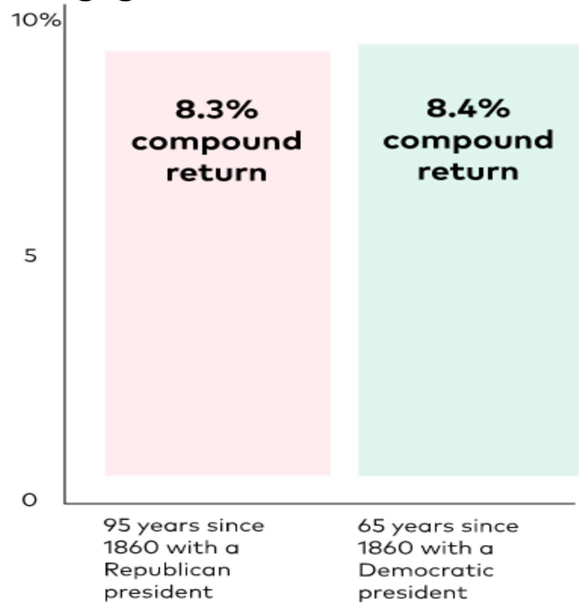
Year-by-year, decade-by-decade, stocks continued to earn a reliable rate of return. Most periods in the chart show an annualized total return of over 10%. The two exceptions are the 20 and 30 year periods that were more heavily influenced from the technology bubble and the Great Financial Crisis. The thing to really note is that over the past 90 years, the S&P 500 has averaged 10.82% per year. The United States had 16 different presidents and 46 different Congresses since 1932. The political party in control of the White House and Congress changed frequently, but stocks marched onward and upward.

Ben Carlson, CFA, found similar data. He wrote an article back in 2020 reminding us that our political feelings will not lead us to make good investment decisions. Every president since Herbert Hoover has gone through a double digit market decline. Yet, “the long-term trend of the stock market has been up and to the right no matter who the President is”, (Carlson, 2020). He provided the following chart to reinforce his message:



The chart I first presented went back to 1932. Ben’s graphs above shows stocks going back to 1926. What if we went back even further? Vanguard looked at a portfolio of 60% stocks and 40% bonds going back to 1860. They wanted to see if it mattered if the president was a Republican or Democrat.

They found that it did not matter which party sat in the White House. The difference in returns was negligible.



Source: Vanguard calculations based on data from Global Financial Data (GFD). 60% GFD US-100 Index and 40% GFD US Bond Index, as calculated by historical data provider Global Financial Data as of September 29, 2020. Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

In the short-term, the markets can be more volatile in response to speculation and headlines around the election cycle. Long-term gains, however, are driven by economic growth and corporate profits. "Investors who allowed their political opinions to overrule their investing discipline may have missed out on above-average returns during political administrations they didn't like", (Pandit, 2022).

The best **outcome** for investors would be for a divided government, which has occurred 61% of the time since World War II. (Pandit, 2022). A divided government means legislation and policy will change more slowly. Regardless, the best **strategy** is for investors to stay disciplined and ignore the short-term noise.

References

Carlson, B. (2020, October 20). *Don't mix your politics with your portfolio*. https://awealthofcommonsense.com/2020/10/dont-mix-your-politics-with-your-portfolio/

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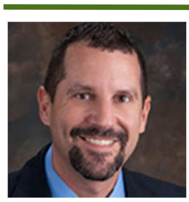

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