
**RBC Wealth Management**

**The Crescent Group**

**Carsten Frederiksen, CFP®**
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
The Crescent Group website

**Paul Hendershot**
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

**Nick Weege, CPFA**
Financial Advisor
214-775-6408

**Lindsey Vickers, MBA**
Client Service Associate
214-775-6458

**Andrew Ielmini**
Client Service Associate
214-775-6448

# September 2020 Monthly Commentary

How will next month's U.S. elections impact your investments and retirement plan? Every four years, many investors experience a large amount of anxiety and fear surrounding the presidential and other elections. An individual's political and social views often involve strong emotions, for understandable reasons. But our Group is here to help prevent you from allowing those emotions to spill over to your investment and retirement plan decision making. In this commentary, we'll take a look at the historical data and show that there's essentially no connection between presidential elections and investment market returns, and also show that which particular political party has gained or lost power has not impacted investment markets. Even in cases where particular industry sectors were expected to do well under specific administrations, the opposite happened. The good news is that America has worked regardless of which party or which president has come to power. The best thing an investor can do to succeed amid election cycle uncertainty is stay the course with a carefully constructed investment and retirement plan.

Here's a ranking of the performance of the Dow Jones index for the first three years of the past ten presidents (excluding Kennedy and Ford, who didn't serve 36 months):

1) Bill Clinton (D)
2) Dwight Eisenhower (R)
3) Barack Obama (D)
4) Donald Trump (R)
5) George H.W. Bush (R)
6) Ronald Reagan (R)
7) Lyndon Johnson (D)
8) George W. Bush (R)
9) Richard Nixon (R)
10) Jimmy Carter (D)

The ranking on this list doesn't reflect party, but instead timing and prevailing economic circumstances. With one exception, the bottom performances all occurred during the 1960's, 70's, and 80's, which were time periods dominated by global inflation concerns. George W. Bush took over as president after the bursting of the tech bubble had already begun. A longer study conducted by Hartford shows a similar result. Dating back to 1933, Democrat presidents have presided over a higher U.S. equity market, but the difference becomes zero after stripping away outlying booms and busts that started before presidents took office. If you take a look at a recent example with Obama and Trump, annual GDP growth under the final three years of Obama's administration equaled 2.5%, whereas GDP growth under the first three years of Trump's administration equaled 2.4%. Not a significant difference, despite the vastly different policies put forth by the two presidents. Perhaps most telling of all, while which party wins the presidency doesn't seem to have mattered to historical stock returns, which party controls Congress has mattered. Specifically, the stock market has done best under scenarios of gridlock where Congress was split with one party controlling the House and the other party controlling the Senate[(1)(2)].

Besides trying to guess the impact on the market as a whole, another popular investor preoccupation around elections is trying to guess which specific industries will benefit from a particular President or Congress. To quote Mike Santoli of CNBC: "In order to treat an election as a specific catalyst for investment moves, one would have to handicap the result, anticipate the makeup of Congress, intuit the key policy priorities, evaluate the likelihood of them becoming law, estimate their economic impact and then determine how much of this decision tree has already been priced into financial markets. Sound doable?" This is beyond our Group's capabilities, and beyond those of everyone else as far as we're concerned. Looking back over the past twelve years shows the challenge of trying to guess which industries would do well under which administration. Under a Trump presidency, the oil and banking industries were expected to do well, yet they have been the worst performing sectors since 2016. Under the Obama presidency, the oil and firearm industries were expected to do poorly, yet they did very well. So much for trying to guess which industries will prosper under which administration[(2)(3)(4)].

And finally, some investors have expressed concern about the possibility of an undetermined or contested presidential election result. We can look to the Bush / Gore election twenty years ago, which remained unresolved for more than a month, for some insight. The U.S. stock market fell 4.2% during the five weeks from Election Day until the Supreme Court ruled George Bush the winner. But the disputed election doesn't appear to have driven the market decline. Instead, the market decline came after Microsoft and other technology companies issued earnings warnings. The five week period of market decline during the disputed election was simply part of a major bear market that started eight months prior to the election and bottomed in late 2002 with U.S. stocks declining a total of 49% over that time period[(2)].

Our Group understands the uncertainty and anxiety some investors face surrounding the elections. But we will do everything we can to keep our investors invested and on track with their retirement and financial goals. Studies show that investors who sell when they're nervous and buy back in when they feel comfortable earn a rate of return 62% lower than investors who simply stay the course. No, 62% isn't a typo. Of course, everyone's risk tolerance differs and plays a major role in their decision making. For that reason, we know some investors will want to make changes to their portfolio, even if the data tells you not to. We will do our best to make sure these clients only reduce a portion of their stock exposure, rather than selling everything. The last thing you as an investor ever want to do is make a market call with your entire portfolio, which has the potential to derail your retirement plan[(5)].

Best Regards,

The Crescent Group
Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege | Andrew Ielmini | Lindsey Vickers, MBA

**<u>Sources:</u>**


(1) Morningstar
(2) CNBC
(3) Associated Press
(4) CNN Money
(5) RBC Wealth Management