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market news

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PPE (Personal Protective Equipment) for the 2020 Election...

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"It's the economy, stupid," James Carville's often quoted reminder to Bill Clinton in the 1992 presidential campaign seems a particularly good reminder as we approach the 2020 election. President Clinton's administration saw the largest increase in the S&P 500 of approximately 210%. This contrasts with Clinton's successor President George W. Bush who saw the S&P 500 post negative returns during his administration. I think it fair to say that this disparity in stock market performance had more to do with timing than policy. Bill Clinton had the good fortune to begin his term in a recession and end it in a bubble. Conversely, George W. Bush began his term in 2001 with the bursting of the tech bubble and ended with the post 9/11 financial crisis. With a few notable exceptions, it's fair to say that the economy impacts the president far more than the president impacts the economy.

As we are confronted with the often dishonest and overly dramatic ads and coverage around the election, our challenge is to separate our politics from our investments and financial plans. Political views often elicit an emotional response in people. This is why commingling political thoughts and investment decisions can be so dangerous. Successful investing largely depends on one's ability to control one's emotions and remain objective.

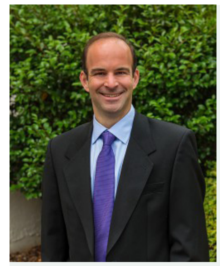
Perspective

I saw a bumper sticker like this after the 2016 election and thought it interesting as an illustration of just how people view elections as matters of life and death. As I tell everyone when I first discuss our investment philosophy, we begin our investment process with the assumption that the world will not end. Unfortunately, it appears many political commentators and media personalities do not share that same opinion. The best advice I can give you from an investment perspective is to turn off your TV and take a break from social media until Thanksgiving; you probably won't miss much and will likely be a happier person. However, this is probably unrealistic (particularly in North Carolina this year) so we simply must try to keep things in perspective and know we are likely to survive regardless the outcome.

No elected official ever campaigns on a platform of trying to hurt the economy and cause a recession. There are differences of opinion around taxes and spending and how or where to stimulate the economy, but the goal of any politician is to get re-elected and you do not accomplish that with a weak economy. Historically, the economy, the bond market and the stock market have all served as a check against extreme policies.

Another trend we tend to see as elections move from the primary to the general election is candidates moving toward the middle to attract the undecided voters whom are usually more moderate. It is also important to remember that very rarely do the platforms of a campaign translate into the policies that are implemented into law. Even in a case where one party controls the White House, the U.S. Senate, and the U.S. House, we tend to see moderation as politicians move from campaigning to governing.

Time can be the ultimate source of perspective in many areas of life and this is true in politics as well. It is important to remember



Scott consults with TSWM clients and relationship managers to implement their financial plans through building diverse portfolios of high quality, low-cost investments relative to individual goals. Scott helps clients to gain better understanding and peace of mind in a complex and often confusing world. He strives to bring patience and objectivity to the investment process on a daily basis in order to avoid the destructive impact emotional reactions can have on financial decisions. Scott joined TSWM in 2006.

that politics are cyclical, like other aspects of life and do tend to balance out over time. More importantly, the next election is always only two years away. Compare that to the long-term view we take in our investments and financial plans and that seems like a very short time. For example, if you have a 20-year time horizon, then any 2-year period represents only 10% of your investment experience.

Preparation

While we never encourage people to make long-term or dramatic changes in their investments based on events like an election, we do take several steps to prepare for the potential short-term volatility that might accompany such an event. We always structure the asset allocation in client accounts to plan for any known cash flows by having cash available well in advance of those needs. This insures that we do not find ourselves forced to sell to meet a client's cash need during a period of panic. In a normal environment we usually carry sufficient liquid funds for 6-9 months, but in periods when we expect higher volatility, we may increase liquidity to 12 months.

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PPE (Personal Protective Equipment) for the 2020 Election...

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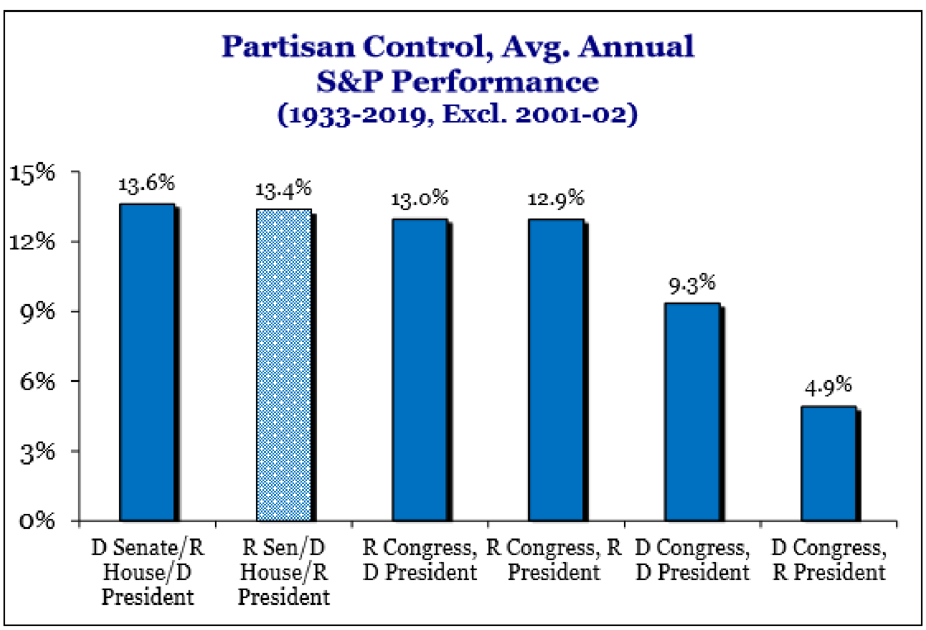
One of the most valuable tools in preparing for a stressful event is your financial plan. The historical modeling that underpins your financial plan includes many elections and results and allows us to share with you a realistic expectation of what the future might look like. Your plan is a useful tool for showing you the potential trade-offs of different actions. For example, if you choose to change your asset allocation, how would that impact your goals? These are the types of conversations we can have with you on our calls and are available to discuss any time.

In looking at the potential election outcomes it appears that there are three possible scenarios to consider. The first is a continuation of the status quo, which includes the President being re-elected, the Republicans maintaining the Senate, and the Democrats maintaining the House. The economy and the stock market are clearly important to the President and we would expect Congress to continue to provide a check against some of his nationalist and protectionist tendencies. We would anticipate individual tax cuts to be a focus of any economic stimulus plan. Investors have become accustomed to these trade-offs and we would expect minimal disruption from this outcome.

The second outcome to consider is Joe Biden winning the presidency, the Republicans maintaining the Senate and the Democrats holding the House. Interestingly, this might offer the least uncertainty to investors. This split government likely removes any risk of large changes in tax or social plans that are feared by some. We would also expect a more moderate and predictable trade and international policy in this scenario, which should be positive for business and capital investment.

The third possible outcome is a Democratic sweep. This would concern the markets the most and create the largest disruption in the short term as this leads to the most unknowns regarding policy. While there is talk of raising taxes on individuals and corporations, *would they really do that if we are still in a recession?* We would expect considerable government spending in this case, which would add to the economy in the short term. A question to ask in this scenario, *would the Democrats be united*? The emergence of the Progressive wing of the Democratic Party may create a situation not unlike the Republicans faced after the Tea Party emerged. It is possible that this dynamic, combined with a narrow majority, will make governing with these two factions harder than people expect.

There is some concern that we will not know the winner of the presidential election when we wake up on November 4th. While this would result in some uncertainty and potential court challenges, this too is not unprecedented. In 2000, when we last had a disputed election, we saw the S&P 500 down approximately 5% during this period of uncertainty. In a year where nothing has gone smoothly, we cannot discount this possibility, but find it unlikely to cause permanent damage. The chart below shows there is no value or significance in investing based on the political composition of our government.



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Regardless of the election outcome, we expect a short-term and emotional overreaction similar to what we saw following the election of President Trump. The important thing to remember is the stock market is the collective judgment of all market participants and will approximate that 50% of people are unhappy and pessimistic and the other 50% are happy and optimistic.

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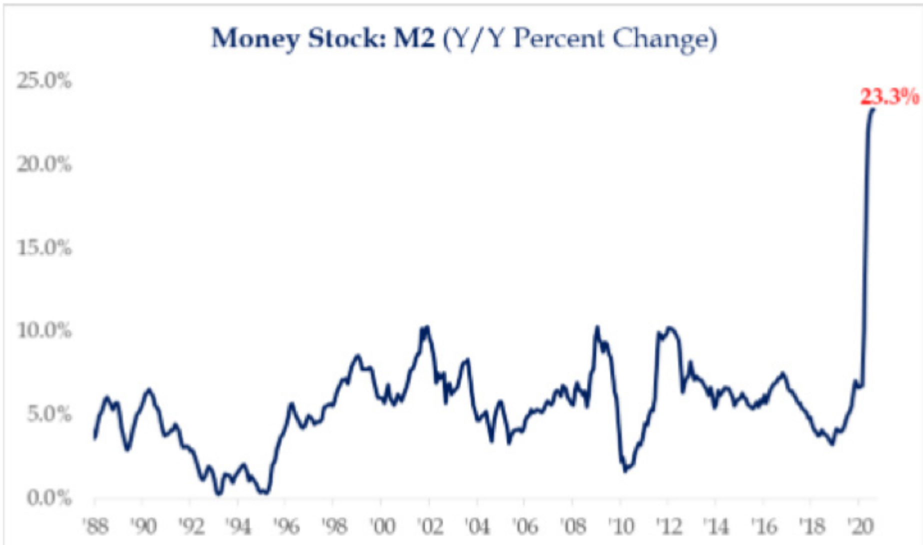
Economics

Keep in mind that the outcome of the election is only one of several factors that will impact the economy in the coming years. Continued progress of reopening the global economy and combating the Coronavirus will be impactful. Regardless of the outcome of the election, we expect a fiscal stimulus bill as a priority. Even more importantly, we are seeing an unprecedented expansion of the money supply. As the charts below show, these are historically very significant and coordinated boosts which should propel the economy for some time.



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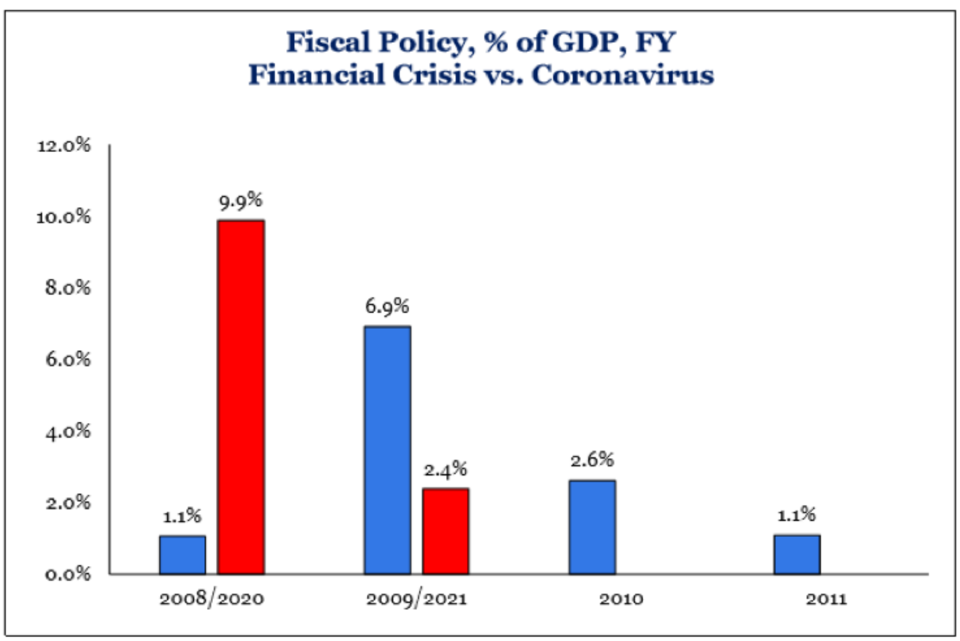

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Looking at the economy from the top down there are many positive factors to boost growth regardless of the election outcome. Most economic measures fell to historical lows during the lockdown and the natural impact of reopening the economy and resuming normal patterns of activity will aid the economic recovery. Similarly, the benefits of historically low interest rates should continue to support asset prices and economic activity. Also, there likely will be some sustained impact to productivity from enhanced efficiency people have gained from working remotely. While we are technically in a recession, all the elements needed from an economic perspective to restore the health of the economy are in place. We are just waiting for the medical catalyst to put things in motion.

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Triangle Securities is a privately owned investment advisory firm that specializes in assisting families with developing a realistic strategic plan to provide the best opportunity for achieving their long-term financial goals as prudently as possible.

We provide clients structure, clarity, confidence and reassurance as they move toward the next phase of life. Our clients value our honesty, integrity, transparency and genuine concern for their well-being.

We are in business to serve our clients.

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Closing Thought

The most challenging aspect of investing is keeping your emotions under control. Generally, to be successful, you need to do precisely the opposite of what your emotions tell you to do. This is why we rarely see market timing work. If you sell when you are scared about what is going on in the markets, to come out ahead, then you would need to buy when you are absolutely terrified. It is important to remember that businesses are less volatile than stock prices. If you have a diversified portfolio built to meet your goals, then the short-term movements in the market really should not concern you.

As we head into this noisy election season, please try to keep your head about you as surely plenty of those around you will be losing theirs. Remember that just because someone is on TV or the internet does not mean that they are being honest. Beware of your emotions as there will be some very talented people trying to manipulate them in the weeks ahead. Regardless of the election outcome, there will be another one in just two years.

In the long run I would suggest we all heed Warren Buffett's advice, *"Nothing can stop America when you get right down to it. Never bet against America."*

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