Investing and Politics

November 2019

OVERVIEW

- **Americans frequently view economic conditions through a political lens, for better or worse**
- **Markets are driven by fundamentals over long periods of time, not politicians**
- **Modifying investment portfolios based on political views can be hazardous to returns**

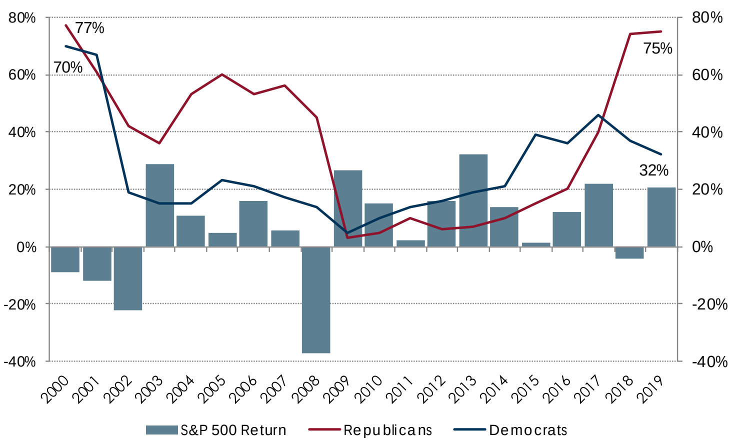
Background

This time next year the U.S. will have just concluded another presidential election cycle. If recent history repeats itself, the winning candidate is likely to receive less than 55% of the popular vote. This means that no matter which candidate wins, roughly half of the U.S. population will not be happy with the outcome. Politics can be a very polarizing topic. However, investors should be cautious about letting their political biases impact their investment decisions.

Political Views and Views on the Economy

The Pew Research Center, a non-partisan think-tank, conducts a survey that categorizes how Americans rate current national economic conditions. Survey participants are asked if they identify as Republican, Democrat, or Independent, and if they rate current economic conditions as Excellent, Good, Fair, or Poor.

S&P 500 Return and % of Respondents Who Rate National Economic Conditions as Excellent or Good



Source: Pew Research Center, ACG Research
Note: Data as of September 30, 2019

The high level trends are not particularly surprising. For the most part, Republicans and Republican-leaning Independents have a more favorable view of economic conditions when there is a Republican president (2000, 2002 – 2008, 2018, 2019). On the other hand, Democrats and Democrat-leaning Independents typically have a more favorable view of economic conditions when there is a Democratic president (2009 – 2016). The surprising aspect of this survey is how big of a gap there can be based on party affiliation. In 2007 (George W. Bush), for example, 56% of Republican respondents rated national economic conditions as "Good" or "Excellent," compared to only 17% of Democratic respondents. In 2015 (Barack Obama), 39% of Democrats considered national economic conditions as "Good" or "Excellent," compared to only 15% of Republicans.

Stock Markets are Driven by Profits, not Politics!

In the short run, markets can fluctuate because of the most recent news story – Fed interest rate commentary, US-China trade negotiations, tensions in the Middle East, and new presidential tweets, just to name a few. However, over long periods of time, markets go up (or down) because of (a) earnings growth (degradation) and/or (b) P/E multiple expansion (contraction). An investor that wants to profitably incorporate politics into their investment strategy needs to know how specific political agendas will impact earnings growth and stock market multiples, an incredibly difficult task.

Don't Let Political Views Impact Long-Term Investment Strategy

From 2003 through 2007, only an average of 18% of Democratic respondents had a favorable view of economic conditions. If the other 82% of Democratic respondents decided to de-risk their portfolios based on politics, they would have missed out on a 13.2% average annual return from the S&P 500. From 2009 through 2016, only an average of 10% of Republican respondents had a favorable view of economic conditions. Still, they would have been happy to remain in the market during a period when the S&P 500 generated an average annual return of 14.9%.

S&P 500 Average Annual Returns: 2000 – YTD September 2019

Republican President	3.0%
Democratic President	12.2%
Average	**7.1%**

Source: ACG Research
Note: Years were classified as Republican or Democratic based on the party of the President for the majority of the year (e.g. 2001 = Republican; 2009 = Democrat; 2017 = Republican)

The S&P 500 generated a 7.1% average annual return from January 2000 through September 30, 2019. Simply looking at the data by presidential party could lead one to believe that markets generate stronger returns with a Democratic President than a Republican President. However, there are more important fundamental factors that impacted the S&P 500 over this period. For example, the S&P 500 lost 37% in 2008 (a year in which a Republican was President). Regardless of which party resided in the White House, the market was not likely to perform well in 2008, a year in which S&P 500 companies exhibited negative earnings growth of more than 75% amid the Great Recession.

ACG's Position

The key to a successful investment program is to develop an asset allocation that fits with an investor's risk/return profile and to stay close to that allocation over long periods of time. We live in a world with a 24/7 news cycle where politicians can directly communicate with millions of people instantaneously. With presidential campaigns gearing up, it is safe to assume that politics will be one of the leading daily headlines over the next year. Politics can be an extremely divisive topic – just don't let them impact your portfolio!

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

231 South Bemiston Avenue ♦ 14th Floor ♦ Saint Louis, Missouri 63105
www.acgnet.com
314.862.4848