2020 Election: Navigating the Uncertainty

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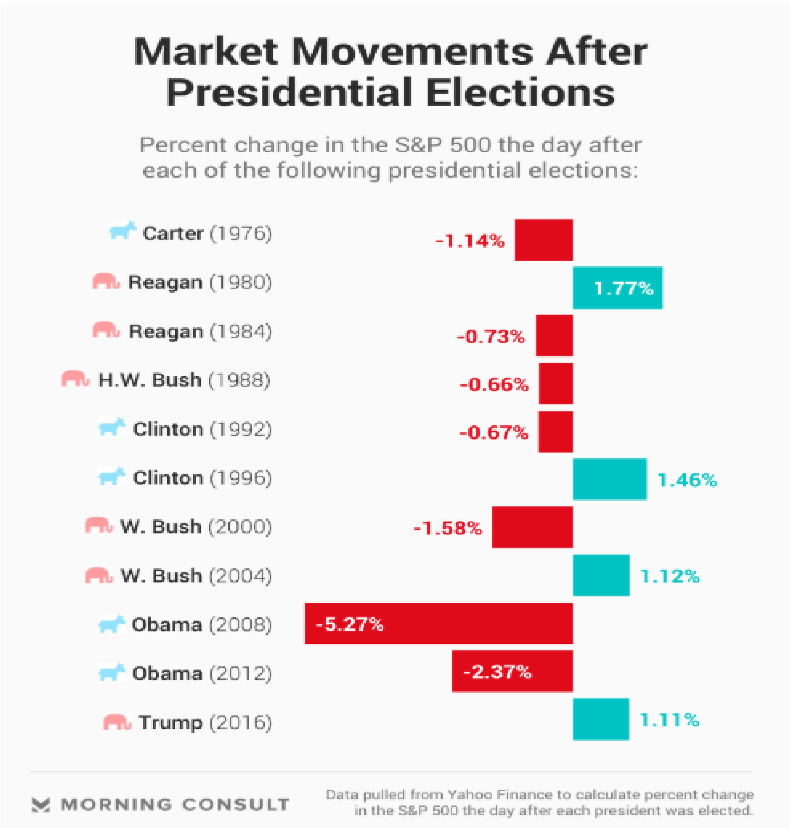
The 2020 election is upon us and, not unlike every other in the past, this is the most controversial election to date. Many news media outlets are connecting uncertainty to terminal market declines; however, history would tell a different story as it relates to the correlation of market action in the midst of Presidential elections. Let's review history, look at the facts, and remember some practical solutions to prepare for what lies ahead.

THE U.S. ECONOMY IS ANCHORED

History would show that although there are often knee-jerk market reactions immediately following a Presidential election, they tend to be limited.



When we focus on long-term investing, these slight fluctuations will generally have minimal impact on our planning. These short-term reactions are primarily emotion-based, but when we look at current economic data, we can identify many encouraging signs. First, the U.S. greenback is still firmly entrenched as the world's reserve currency. This means the world still depends on the U.S. dollar. Also, seven of the nine U.S. recession recovery variables* point towards improvement or expansion, which suggests the economy has begun a new economic expansion. Further, the quantitative and monetary easing that the government has provided us will anchor the economy for at least a couple years. Through fiscal policy and stimulus, the government has pumped over $6 trillion into America, equating to roughly 28% of 2019 GDP, and that number could continue to grow. Finally, M2, which is a measure of the money supply that includes cash, checking deposits, and easily convertible investments and savings, is up 24.1% year over year as of July 15. This indicates that consumer spending should increase, thus increasing the flow of money throughout the economy and potentially some of the companies in which you may be invested. In short, what makes the market change in the long run has less to do with elections, and more to do with economic growth.

**9 variables according to ClearBridge Investments, Data as of 6.30.2020.*

CORPORATIONS ADAPT

History would suggest that quality companies are resilient and learn to adapt. Some may feel concerned for corporate balance sheets when they hear promises of raised corporate taxes or higher minimum wages, but top companies will prepare for curveballs with cash reserves and by continually refining business practices. Even through this pandemic, many companies are finding ways to cut costs and maintain profitability and dividend payments. Ford Motor, despite decreased sales in the second quarter, reported earnings of $1.1 billion thanks to savvy investing *(Ford Motor Company 2020 2Q Earnings Press Release).* In another example, Apple reported $11.25 billion in profits from April to June, seeing those numbers rise 12% from the previous quarter *(Apple Inc, Consolidated Statements of Operations, Third Quarter 2020.)* This came despite Wall Street's forecast of declines in revenue and profits. These are just two examples of blue-chip firms that have found ways to prosper during the pandemic. While higher taxes and various obstacles may have the potential to hinder the growth of startups and smaller businesses, top companies will continue to become more efficient and maintain profitability.

TRUMP VS. BIDEN

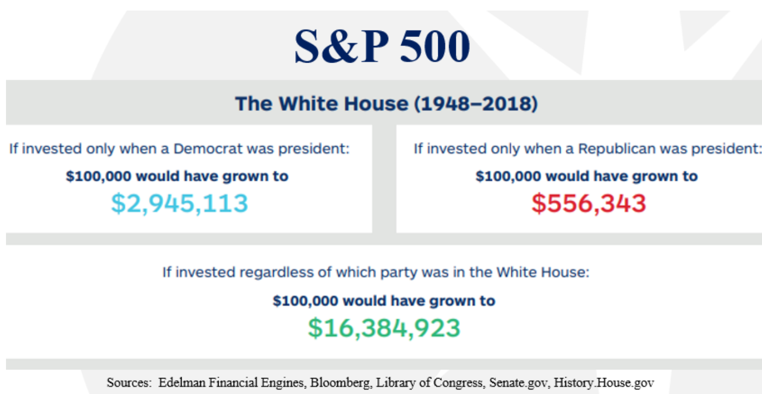
Some may fear the market will "crash" from either result of this year's election. A look back at previous elections would suggest this is far from the first time the media, and Americans alike, have had these fears. Presidential campaigns often promise extremes regarding tax laws and regulations, and then ease toward a middle ground once in office. This is in part due to the checks and balances system America has in place. History shows us that long-term investors who stay the course and stick to their financial blueprint have fared much better than those who only invest during Republican or Democratic Presidencies. Since 1948, the S&P500 has averaged a 7.9% return during a Republican Presidency and a 10.0% return during Democratic. This means historically, America has found a way to thrive in the long run no matter who was elected. At Mission Financial, we believe this trend will continue with this election.

Returns of the S&P 500 Stock Index During Presidential Administrations

The White House (1948 – 2019)

Democrats	Average Annual Return	**Republicans**	Average Annual Return
Truman	+11.7%	*Eisenhower*	+10.3%
Kennedy	+8.9%	*Nixon*	-4.4%
Johnson	+6.7%	*Ford*	+18.5%
Carter	+6.1%	*Reagan*	+9.4%
Clinton	+14.9%	*George H.W. Bush*	+11.9%
Obama	+12.0%	*George W. Bush*	-4.6%
		Trump	+13.9
Average	**+10.0%**	**Average**	**+7.9%**

Sources: Edelman Financial Engines, Bloomberg, Library of Congress, Senate.gov, History.House.gov



The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

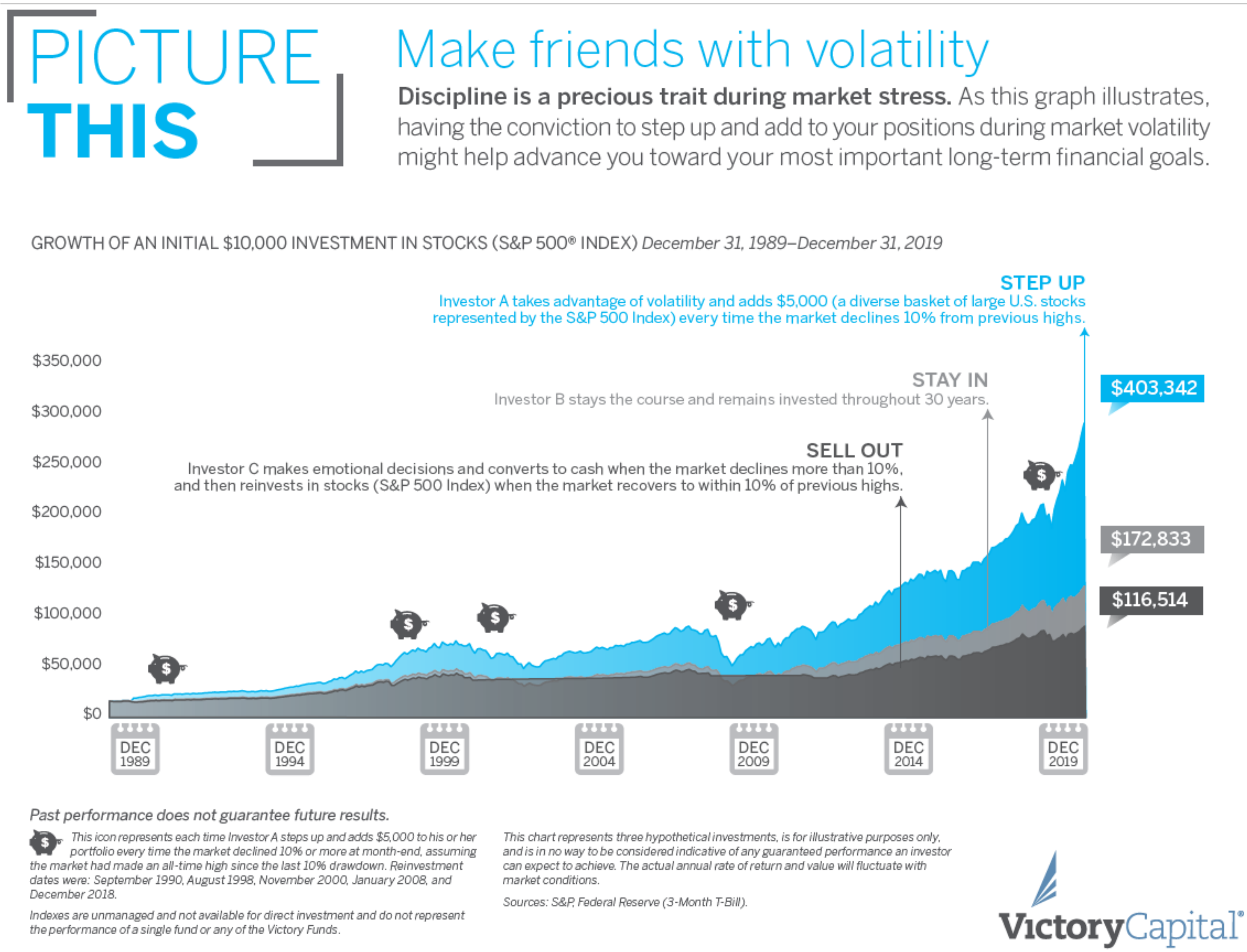
WHAT WE CAN CONTROL

- ***Have a Solid Blueprint:*** Ensure you take the steps to solidify your portfolio through a diversification strategy catered to your unique goals, risk tolerance, and time horizon.

- ***Stress Test Your Blueprint:*** Make sure you are stress testing your portfolio against future bear markets, financial crises, and unexpected obstacles to ensure your portfolio's longevity. We can help you perform a stress test.

- ***Stick to Your Blueprint:*** The best financial plans are built upon unbiased, quantitative data with regards to your most important financial goals. Careful and thoughtful preparation throughout the planning process helps avoid the need for audibles and emotional decisions down the road. Strategic changes should be made during proactive reviews using logic, not emotion.

- ***Make Friends with Volatility:*** Uncertainty is unavoidable, and with uncertainty comes market volatility. Don't let market movement cause you to deviate from your long-term investing goals. The best blueprints have opportunity funds available and ready to take advantage of volatility as opposed to letting it derail them.



If you would like to discuss your tailored blueprint with regard to the forthcoming election, we are here for you. Please call us if you would like to schedule some dedicated time to talk specifically about election volatility or any other topic that is on your mind. We are periodically monitoring our clients' blueprints and stress testing their portfolios against future volatility, and would be happy to help you create or build confidence in your financial plan. We look forward to continuing this Mission of helping you achieve your most important financial goals and helping you find true fulfillment in life!

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