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THE CLIENT LETTER
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# Election Worries?

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## <u>Question</u>: What's the most important election in our country's history?

## <u>Answer</u>: The next one.

No client conversation takes place these days without the election coming up as a key topic. Managing the portfolios of 500 clients, you can imagine the gamut of these conversations. The emotions in this election range from apathy to flat out anger and distain. In many clients view, this election is the most important of our lifetimes.

Readers of this complementary (and sometimes self-indulgent) rag know that I have made the point in previous missives that presidential elections themselves have very little long-term impact to financial markets. But I have a theory as to why many people believe the opposite. While I am sure there is a psychological term for it, I have made up a term called "***importancy bias***" (yes, I realize *importancy* is not an actual word).

You see, we all have deep, but differing emotions to various political topics: for some it may be abortion, for others it might be securing the border, or perhaps entitlement spending, or climate change, or government largess,…you get the picture.

And because we have deep emotional ties to those issues, I think it is easy to infer that the markets have the same level of concern for those issues. Folks, nothing could be farther from the truth. Just like the market doesn't care what you paid for a stock, it also doesn't necessarily care about the issues important to you. In fact, the things the market worries about change much more whimsically than your own personal virtues, morals and values.

Frankly, this is why markets are so difficult to time or outguess. If they were worried about the exact same things as you personally, they would be much easier to predict. Certainly, short term headlines can move markets and create volatility, and I expect we will see some of this surrounding the upcoming election. But I believe there are mostly just two things that move markets long-term: **corporate profits and interest rates.** And while the many political issues are important to us, as a society, it is only to the extent those issues impact corporate profits and interest rates that matter most in my humble opinion.

To illustrate this point further, I did a little research on stock market performance by presidential administration term. The results may surprise you. Below is the performance of the S&P 500 index during each presidential term going back to President Reagan. (note: the S&P 500 is simply an index of the 500 largest companies and is not indicative of any particular investment or strategy - just one example of overall market performance without any diversification or fees).

| Presidential term | Stock market performance |
|---|---|
| Reagan 1st term | +30% |
| Reagan 2nd term | +67% |
| George HW Bush | +51% |
| Clinton 1st term | +79% |
| Clinton 2nd term | +73% |
| George W Bush 1st term | -12% |
| George W Bush 2nd term | -31% |
| Obama 1st term | +85% |
| Obama 2nd term | +53% |
| Trump | +67% |
| Biden (so far) | +48% |

(Source: Investopedia)

As you can see, no particular party has a lock on good or bad performance. I am giving President George W. Bush a bit of a hall pass here, as he presided over not only the dot.com bubble bursting, but also the tragedy of 9/11 as well as the Great Financial Crisis of 2008. That's a tough draw for sure.

The bottom line is that presidential elections come and go. And while we should passionately vote on the issues that are most important to each of us - none of them have been particularly accurate at predicting economic or financial market performance.

# Cole's Take

Wow, what a market. It never ceases to amaze me how resilient and surprisingly profitable US businesses can be – capitalism at its finest. While I classify myself as an optimist and firmly believe that stocks/businesses will continue to innovate and make money over the long term, I'm also a student of history, and understand the short-term fluctuations that come with being a long-term participant in the stock market. As investors we should always be prepared for these unexpected disruptions, especially during periods of high valuations where many of the most popular businesses seem to be resting on extremely rosy assumptions. And as Warren Buffet once famously quoted: "You pay dearly for a rosy forecast."

History tells us that we should expect a 10% correction on average once a year and ***a 20% correction every 3.5 years***. Friends, it is our job to prepare for the inevitable… and live through it to see another day, not necessarily to predict the future or the next AI stock set to take off. This is why we remain disciplined in our investment selection process and focus our portfolios on ETFs, mutual funds and individual stocks that we believe possess durability, profitability, cash flow, fair valuation, balance sheet strength and proven management. It's our opinion these types of characteristics allow companies to navigate periods of high inflation and economic uncertainty more successfully.

Brick, Edie and I are in this business to serve you and our #1 goal remains to grow the value of the assets you have entrusted to us. With a combined 73 years of investment experience, we have navigated a constantly changing investment landscape and continue to "eat our own cooking" with you through both the good times as well as the occasional, but inevitable bad.

# Edie's corner

We are entering the most popular season for IRA owners age 73 and over to take their required minimum annual distributions. If anyone chooses to take this distribution now, they can contact me anytime, and I will process it. Otherwise, I generally work my way through the list to make sure everyone is compliant by year end.

Also, as our clients age, we are increasingly dealing with children named as power of attorney. A POA is a simple document that allows another person to act on your behalf – in our case, for financial matters. Without this, we are not allowed to accept instructions or even share information about your account with another person.

A POA can be created by an estate planning attorney, usually as part of a will/estate planning package, or it can also be obtained and completed online (note: they are state specific). We have found it is always easier to have this document in place ahead of time, otherwise it can require doctor and sometimes court intervention. It’s usually easier to do a lifeboat drill *before* the ship starts sinking.

As always, we thank you for your business, your friendship and the trust you place in us.  Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years and encourage the introduction to others.  Edie, Cole and I are happy to answer any questions you may have.  Until then, wishing you health and happiness.

Regards,

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***“2019, 2020, 2021, 2022, 2023 RJFS Leaders Council Member”***
***“2019 Bank Investment Consultant Top 100 Bank Advisors”***
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**Top 100 Bank Advisors (2019)**
To compile the list, multiple variables were combined into one composite score.  The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production;  (5) amount of fee business; and (6) the ratio of production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.)  The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked.  Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.

*The Forbes Best-In-State Wealth Advisors 2024 ranking, developed by SHOOK Research, is based on an algorithm of qualitative criteria, mostly gained through telephone and in-person due diligence interviews, and quantitative data. This ranking is based upon the period from 6/30/2022 to 6/30/2023 and was released on 4/3/2024. Those advisors that are considered have a minimum of seven years of experience, and the algorithm weighs factors like revenue trends, assets under management, compliance records, industry experience and those that encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Out of approximately 44,990 nominations, roughly 8,500 advisors received the award. This ranking is not indicative of an advisor's future performance, is not an endorsement, and may not be representative of individual clients' experience. Neither Raymond James nor any of its Financial Advisors or RIA firms pay a fee in exchange for this award/rating. Compensation provided for using the rating. Raymond James is not affiliated with Forbes or Shook Research, LLC. Please visit* ***https://www.forbes.com/best-in-state-wealth-advisors*** *for more info.*