A SHORT GUIDE TO

Elections and the Markets

BY Jeff Moormeier

EMERALD CITY FIDUCIARY GROUP
A WEALTH MANAGEMENT COMPANY

INTRODUCTION

It's that time again! Every four years, Americans take a few minutes out of their day to choose the next President of the United States. Under normal circumstances, voting is a simple, uncomplicated act – but the months preceding it are anything but. After all, before we vote, we first have to endure the dreaded "campaign season." From televised debates to the plethora of signs on our neighbors' lawns, "politics" becomes the order of the day.

If you're like me, you probably don't enjoy all the campaigning. But you also know how important the political process is. Being an informed, engaged citizen is crucial to maintaining the stability of our Republic. That means asking some tough questions, like: "Which candidate best represents my opinions and values?" "What will each candidate do to ensure both our safety and our personal liberties?" Getting the answers can be both frustrating and time-consuming.

Fortunately, there's one question you don't have to ask:

HOW WILL THE ELECTION AFFECT THE MARKETS?

This is a question I get every four years. This year, I thought I'd make life a little easier for you by answering it now. That means you have one less question to worry about!

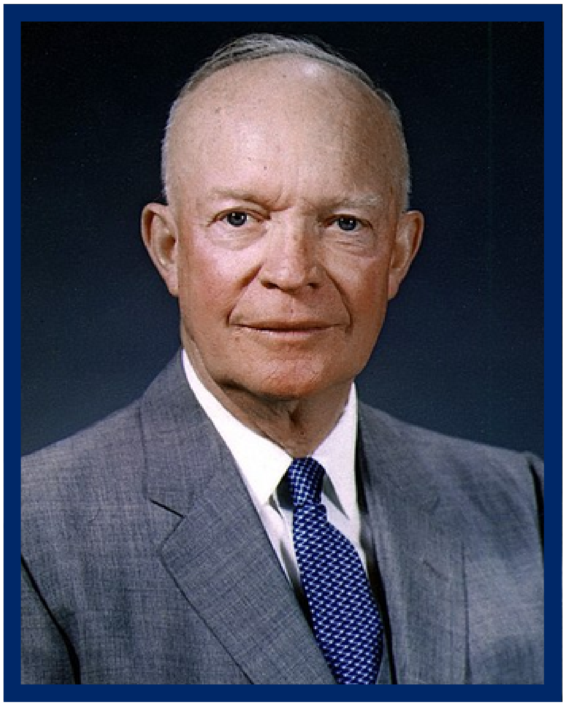
So, how do elections affect the markets? The answer is:

NOT MUCH.

Since 1944, the S&P 500 has gained an average of roughly [10.7% every presidential election year](). * Of course, there can be some massive exceptions. For example, in 1980, the S&P rose over 25%. In 2008, it fell over 38%. *

*"Election year market patterns," ETRADE, us.etrade.com/knowledge/library/perspectives/daily-insights/election-stock-patterns

But there's a danger in using averages to try and predict what will happen. Take the **Presidential Election Cycle Theory** for instance. Once upon a time, many people believed that U.S. stock markets are always the weakest in the year following a presidential election. This was the case for Franklin Roosevelt. It also held true for Truman and Eisenhower.



But in George H.W. Bush's first year, the S&P 500 rose 27%. In Bill Clinton's first year, it rose 7%. Barack Obama's first year saw the markets climb 23%. In Donald Trump's first year in office, the S&P rose 19%. Most recently, in 2021, the S&P 500 jumped nearly 27% after Joe Biden was elected.*

It's clear the "Presidential Election Cycle Theory" just doesn't hold water. And that's true for actual election years as well. An average merely shows you what has already happened, not what's going to happen. (Side note: this is why you often see the financial industry emphasize that **"Past performance does not guarantee future results."** Because it's true!)

*"S&P 500 Historical Annual Returns," *Macrotrends.*

Here's the next question I get every four years:

"BUT WHAT IF THE DEMOCRATS/REPUBLICANS WIN? WON'T THAT HAVE AN EFFECT?

My answer:

NOT REALLY.

Skeptical? Let's take a little quiz. On the next page, I've listed the last eight presidents of the United States, with their political party next to their name. (I'm skipping President Ford as he took office in the middle of President Nixon's second term.) Look at each name and guess whether you think the S&P 500 went up or down during the first year of each president's term. Write your guess down if you like.

President	Party	S&P 500 Up or Down?
Richard Nixon (1st term)	Republican	
Richard Nixon (2nd term)	Republican	
Jimmy Carter	Democrat	
Ronald Reagan (1st term)	Republican	
Ronald Reagan (2nd term)	Republican	
George H.W. Bush	Republican	
Bill Clinton (1st term)	Democrat	
Bill Clinton (2nd term)	Democrat	
George W. Bush (1st term)	Republican	
George W. Bush (2nd term)	Republican	
Barack Obama (1st term)	Democrat	
Barack Obama (2nd term)	Democrat	
Donald Trump	Republican	
Joe Biden	Democrat	

Now, maybe you'll score 100% on this quiz. But I'm willing to bet at least a few of the answers will surprise you. Go to the next page to see you how you did!*

*"S&P 500 Historical Annual Returns," *Macrotrends.*

RICHARD NIXON (FIRST TERM)

DOWN 11.36%

RICHARD NIXON (SECOND TERM)

DOWN 17.37%

JIMMY CARTER (ONLY TERM)

DOWN 11.5%

RONALD REAGAN (FIRST TERM)

DOWN 9.73%

RONALD REAGAN (SECOND TERM)

UP 26.33%

GEORGE H.W. BUSH (ONLY TERM)

DOWN 11.5%

BILL CLINTON (FIRST TERM)

UP 7.06%

BILL CLINTON (SECOND TERM)

UP 31.01%

GEORGE W. BUSH (FIRST TERM)

DOWN 13.04%

GEORGE W. BUSH (SECOND TERM)

UP 3.0%

BARACK OBAMA (FIRST TERM)

UP 23.45%

BARACK OBAMA (SECOND TERM)

UP 29.6%

DONALD TRUMP (ONLY TERM)

UP 19.42%

JOE BIDEN (ONLY TERM)

UP 26.89%

THE FINAL TALLY

President	Party	S&P 500 Up or Down?
Richard Nixon (1st term)	Republican	-11.36%
Richard Nixon (2nd term)	Republican	-17.37%
Jimmy Carter	Democrat	-11.5%
Ronald Reagan (1st term)	Republican	-9.73%
Ronald Reagan (2nd term)	Republican	+26.33
George H.W. Bush	Republican	-11.5%
Bill Clinton (1st term)	Democrat	+7.06%
Bill Clinton (2nd term)	Democrat	+31.01%
George W. Bush (1st term)	Republican	-13.04%
George W. Bush (2nd term)	Republican	+3.0%
Barack Obama (1st term)	Democrat	+23.45%
Barack Obama (2nd term)	Democrat	+29.6%
Donald Trump	Republican	+19.42%
Joe Biden	Democrat	+26.89%

Well, how did you do? Any surprises?

If a hypothetical investor had followed the "Presidential Election Cycle Theory", he or she would have missed out on some of the biggest gains in market history. The same is true if that hypothetical investor had made decisions based on politics. Convinced Democrats are terrible for the country? Fine, but have fun missing out on the first year of Clinton's second term. Can't stand Republicans? Okay, but too bad you didn't catch the train between Reagan and the first Bush.

The fact of the matter is that, while the president may be the most powerful individual on the planet, their power to drive the markets is distinctly limited. For investors, that should actually be a comforting thought!

SOMETHING TO WATCH OUT FOR: POLITICAL BIAS

No, I'm not talking about bias in the media, on the internet, in books, or anywhere else you might sometimes encounter it. I'm talking about our OWN biases. Because make no mistake, we all have them. It doesn't matter whether you're a liberal, a conservative, or something in between. As human beings, we all have biases and blind spots.

As worked up as we often get about our political beliefs, did you know that neither party tends to have that much impact on the markets compared to the other? Historically, the S&P 500 has gone up under presidents of both parties. That's because the markets are driven by far more than just one person or event.

In fact, the markets often well under a divided government. (That's when one party controls the White House and another controls at least one chamber of Congress.) For example, from 1945 through 2020, the S&P 500 has risen an average of:

- 13.6% with a Democratic president and a split Congress*
- 13% with a Democratic president and Republican Congress*
- 12.9% with a Republican president and Republican Congress*
- 9.8% with a Democratic president and Democratic Congress*
- 5.8% with a Republican president and a split Congress*
- 4.9% with a Republican president and Democratic Congress*

This data shows why it's unwise to mix politics with personal finance. You see, when we do that, we run the risk of becoming selective as to which facts and data points we consider. Without even realizing it, we often gravitate towards the ones that seem to confirm our existing beliefs. We rationalize why **this** bit of data matters and why **that** bit of data doesn't.

*"What a contested election means for the economy," *The Washington Post*, November 4, 2020.

But when it comes to planning for your financial future, we can't afford to let our political preferences drive our decisions. We have to factor in all of the data that's relevant to your personal goals. That's how we make educated decisions as opposed to emotional decisions.

To put it bluntly, making financial decisions based off biased or overly narrow information is dangerous to our long-term goals. As your financial advisor, you certainly wouldn't want me to do that. As your financial advisor, I certainly don't want you to do that, either.

The reason I'm telling you all this is because we are coming down the home stretch of the current campaign season. That means we're being subjected to a dizzying assault of political news, analyses, and opinions. Everywhere you turn – from TV to radio, from Facebook to the yard signs in your neighborhood – will be saturated with it.

Of course, that's not necessarily a bad thing. After all, we live in a representative democracy, and democracies live or die by the participation of its people. So, as we enter a new political season, I encourage you to have opinions. Express them. Get involved. Just remember that your financial decisions should stand on their own, free of any angst or worry that politics might cause. Don't make important decisions based on which candidates you think will win or should win. Base them on sound financial planning and actual financial facts.

CONCLUSION

Obviously, it matters a great deal who our president is ... but not when it comes to the markets. And that's a good thing! Here's why:

1. **The Founding Fathers created a system of government where no branch (executive, legislative, or judicial) was supposed to dominate the other.** The fact that neither the presidency nor any one political party has that much influence on the markets shows that our system of checks and balances extends to investing, too.
2. **The markets are driven by far more than just one person or event.** They're controlled by the ebb and tide of trade, by the law of supply and demand, by innovation and invention, by international conflict and consumer confidence. The markets are like life. The course our lives take isn't determined by one gigantic decision, but by the millions of small decisions we make every day.

I don't know about you, but I find that comforting.

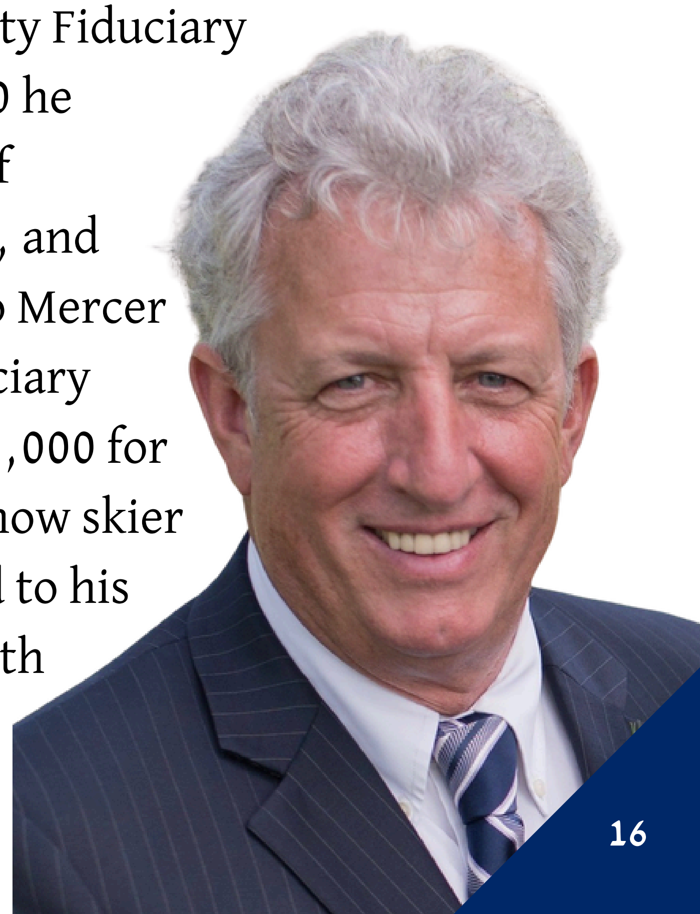
So, what's the takeaway from all this? The takeaway is that when it comes to investing, we control our own destinies, not politicians. The way to reaching your financial goals is by having a sound investment strategy, making informed decisions, and taking emotion out of investing. Not by worrying about the election.

So, this year, as you watch the debates, chat amongst your friends, and decide who you want the next president to be, you can do so with the knowledge that whatever happens, the markets will go their own way … and so will you.

On behalf of my entire team, I wish you a happy (and headache free) election! Please let us know if there is ever anything we can do for you.

JEFF MOORMEIER

For three decades Jeff Moormeier has been aiding families and friends navigate the road to pursue their financial goals and objectives. His philosophy begins with helping clients define their perfect day and then aligning their money to support that lifestyle. He began his financial advising career at Merrill Lynch in 1988 after spending 8 years serving in the U.S. Army as a computer programmer with top-secret clearance. During his 14 years at Merrill Lynch, he worked his way up from an entry level financial advisor to Vice President. In 2002 he started his own firm, Quantum Advisors, to focus his efforts in an entrepreneurial environment that more closely fit his style of advisory work. In 2018 he affiliated his independent practice with City Fiduciary Group in Vancouver, Washington. In 2020 he acquired the financial planning practice of Vivienne Strickler in Seattle, Washington, and relocated his office from Mukilteo, WA, to Mercer St. in Seattle. His firm, Emerald City Fiduciary Group, now manages more than $250,000,000 for clients across the country. He is an avid snow skier and PSIA Instructor. Jeff has been married to his wife Jean for 40 years. Jeff and Jean are both U.S. Army veterans. They have four children and many grandchildren, (8 and counting as of 2024).



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206-448-9107

jeff@vstrickler.com

www.emeraldcityfg.com

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