# *The* Investment Letter

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## Clinton or Trump? Your Investments Are Indifferent

Theodore Roosevelt once said: "the more you know about the past, the better prepared you are for the future." Today, the presidential election may invoke high emotions for investors, with some fearing the worst should their favored candidate come up short. Fortunately, history offers a glimpse into stock performances in changing political climates and suggests a more optimistic approach. While presidential election outcomes can affect tax rates, foreign policy, and health care, past elections have not significantly affected investments long-term. With that in mind, here are a few points to consider as you head to the voting polls this November.

### The Election Year

We can first examine the election year – that is, how has the stock market historically performed 12 months after the election? Most recently, the S & P 500 (a benchmark for U.S. stocks) increased 16% during Obama's election in 2012, but declined 37% for the same candidate in 2008. Like Obama, George Bush's election years saw an increase in 2004 and decrease in 2000. The stock market increased nicely during Bill Clinton's election years, increasing 7.7% and 23.1% in 1992 and 1996 respectively. The same held true for republicans in the three previous presidential election years (Bush Senior, Reagan, and Reagan).[1]

When reviewing these results, it becomes clear there has been no definitive relationship between stock market performance and the prevailing party in an election year. Since the early 1980s, the stock market on average performed almost the same regardless of the prevailing party. While the stock market declined significantly in President Obama's 2008 election year, most would agree the declining housing market impacted stock performance. During George Bush's 2000 election, an overvaluation in technological stocks caused a similar decline. In short, current events and economic conditions tend to affect stock performance during a presidential year—not the particular party elected into office.

### Presidential Term

Like the election year, there is also no clear indication that stocks perform better during a democratic or republican presidency. Since the 1930s, the stock market rose on average 9.7% during democratic presidencies and 6.7% during republican presidencies. Though the market has performed slightly better under democratic presidents, many economic variables outside the president's control can affect stock performance, especially during a 4- or 8-year period. When holding these variables constant, a recent study determined that the difference was not "statistically significant."[2] In other words, the slight difference in the stock market performance was due to random chance and natural fluctuations in economic trends rather than who held office.

### Stock Markets Can Be Volatile, But Tend To Rise

Regardless who is president, stock prices can fluctuate every minute, day, month, and year. The good news is stock prices tend to increase over time, especially when investing in high quality U.S. companies. In fact, the S & P 500 has generated positive returns two-thirds of each calendar year since 1926. Media headlines often will predict the "sky to fall" when faced with uncertainty, such as who will be our next president, but the S & P 500's overall positive performance occurred with over a dozen presidents and an almost even-split of republicans and democrats.[3]

More important than the presidential election is the overall state of the economy, which appears to be in a strong state going into the 2016 election. Stock performance has been strong over the past year, leaving those with the right investment strategy with excellent returns. Incomes have, on average, risen across all levels and the employment rate is low, which tends to result in more spending on consumer goods. Many worried about the implications of Brexit, but the dollar has remained strong, the inflation rate has been low, and stock prices have remained stable in Brexit's aftermath. It may be human nature to fear the worst should you preferred candidate lose, but you should remain confident given the strength of the U.S. economy and that, even if there are downward fluctuations, these movements tend to be followed by upward long-term gains.

### Stick With Your Investment Strategy

While elections may cause some investors to fear, our strategy at Investment Counsel is not influenced by who becomes president. While monitoring economic factors, we structure our client's investments in a way to maximize gains by investing in high-quality securities meant for long-term growth. We do not attempt to predict the unpredictable, nor do we engage in high-risk trading based on who does or does not become president. Using this strategy, whether Hillary Clinton or Donald Trump prevails, you should remain confident in your investment strategy given historical trends and the strength of the U.S. economy. ■

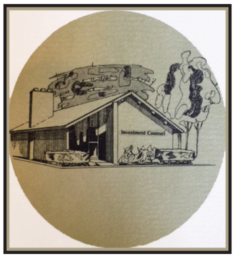
[1]http://www.henrywealth.com/files/34658/Presidential%20Election%20SP%20500%20Returns%20-%20Dec%202015.pdf

[2]https://www.blackrock.com/investing/literature/whitepaper/political-outlook-market-perspectives-january-2016.pdf?cid=blog:marketperspectives:blackrockblog:russ

[3]http://time.com/money/page/2016-presidential-election-clinton-trump-affect-finances/

## Investment Counsel News

### *Inside the Office*



*After serving the area for over 40 years, we have re-established a Grosse Pointe office to better serve our clients.*

### *Outside the Office*

*Dorothy had an entire weekend of "Grandma time" with Abby & Casey.*