

PREDICTION IMPOSSIBLE:

HOW AN ELECTION COULD
IMPACT YOUR RETIREMENT



Will the Presidential Election Impact My Retirement?

While predicting which candidate will win the next presidential election is a little like forecasting the weather, one thing is for sure: Elections tend to shake things up — for a little while at least.

It's no secret that uncertainty heading into presidential elections can affect the stock market and cause economic fluctuations — but did you know that the effects can be felt as early as the year leading up to a general election and last well through the following year?

Read on to learn more about how presidential elections can affect your finances and if there's anything you should be doing now to avoid a potential dip in your retirement nest egg.

Who Will Win?

Instead of gazing into a crystal ball or watching the never-ending television news cycle, you may have better luck at guessing our next president by looking at our country's history. Market strategists and economists tend to ignore election polls and personal characteristics of candidates. Instead, they focus on models using historical trends and then add in key economic data, including growth rates, wages, unemployment, inflation and gas prices to predict voting behavior and election outcomes.¹ If history repeats itself, the incumbent stands a decent chance of reelection if the economy is strong.

Even following the House of Representatives voting in favor of impeaching President Donald Trump in December 2019, the stock market trended relatively flat, having little to no impact on the economy. Due to the extremely partisan votes in both the House and the Senate, experts felt the impeachment proceedings were a “non-event” for the stocks.² The economy's response to the coronavirus pandemic, however, has been an “event.” After COVID-19 struck the U.S., the single fastest drop in the history of the Dow Jones Industrial Average (2,997 points, or 13%) happened on March 16.³ Over the course of just 22 trading days, the S&P 500 fell 30%.⁴

The downturn eventually led to the declaration of a recession on June 8, 2020. While the market made a nice recovery, unemployment continued to hover in double figures.⁵ Consequently, the economy could be problematic for Trump in his reelection bid.

Historical trends generally favor the reelection of sitting presidents. The only incumbent president since 1984 who failed to win a second term was George H.W. Bush. In fact, an incumbent president has never failed to win a second term if the economy avoids recession in the lead-up to the election.⁶ It's when times are hard, which they could be with the recession that stemmed from COVID-19, that we are more likely to see change.

Aside from the political interest, understanding these trends is important because reelecting a sitting president tends to have a positive effect on the markets. That means there may be less volatility that could affect your retirement accounts. Nevertheless, what happens in the economy and the stock market may surprise us after the 2020 election.

The Party Difference

Republicans and Democrats have widely different views on how to boost economic growth. Stances on job creation, minimum wage, taxes, immigration, health care, climate change, the national debt and trade (among others) vary so much that you'll see vastly different agendas with each party's candidate. Yet, changes to policy and the effects those policies have on the economy may take years to realize fully.

Regardless of whether a Republican or Democrat wins the White House, experts say it's what happens in all three levels of our government that can best determine how the markets perform. Although it's easier to get laws passed when one party controls the presidential

seat and both chambers of Congress, the stock market generally performs better under a divided government. If either party wins total control of the White House, Senate and House of Representatives, it can potentially have a negative effect on the markets.⁷

Expensive Campaign Promises

If you're worried about the toll a candidate's campaign promises could have on your pocketbook, taxes or even your future retirement savings, you're not alone. While it sometimes feels like candidates are just telling us what we want to hear, generally, politicians do try to accomplish the things they say they'll do when elected to office.

However, due to America's system of checks and balances, no president can single-handedly accomplish all of their goals, and occasionally, compromises have to be made. While presidential candidates usually have big dreams of changing the world, it is usually difficult for a sitting president to achieve all of their goals unless their political party controls both chambers of Congress. On average, about two-thirds of campaign promises are kept.⁸ So while changes are bound to happen under any administration, it takes a while for legislation to be passed, making the likelihood that you'll see a huge impact immediately low.⁹

Fear of the Unknown

One of the biggest things you can do to help protect your retirement nest egg is to make sure you're comfortable with the levels of risk you have in your current portfolio. When investing in the market, it's important to keep volatility in perspective. Market corrections — a decline of at least 10% of a stock, bond, commodity or market index from its highest recent point — are common and don't always indicate a bear market. Corrections are generally temporary and typically end when the price of a stock or bond "bottoms out" and investors start buying again.

Many things can lead to a market correction, including profit selling, technical analysis and corporate earnings. A broad sense of fear based on a negative event in the news or perception about the economy can trigger a sell-off, and in turn, a correction — the same is true with presidential elections.

For instance, as Bill Clinton's 1996 reelection seemed more likely, the Dow Jones Industrial Average surged, rising through Election Day and into the next year. On the other hand, when George W. Bush's reelection seemed uncertain a week before the 2004 election, the market tanked. After his victory, the Dow gained 10.6% through the end of the year.¹⁰

When heading into election season, it's important to remember that the stock market — while fairly volatile on a short-term basis — has a strong track record of long-term success. Since 1980, market corrections have averaged about 14.6%.¹¹ However, looking at the overall picture each year, the positive years outweigh the negative years, with negative returns occurring approximately one out of every four years.¹² As history has shown, those who

choose to stay the course are rewarded for their patience more often than not.

Considering all of the unknowns and the uncertainty of what the markets could do come election time, one of the biggest things you should remember is to be patient and not to panic. Consider the adage of “time in the market, not timing the market.” If you're comfortable with the amount of risk you are



GOING TO THE POLLS

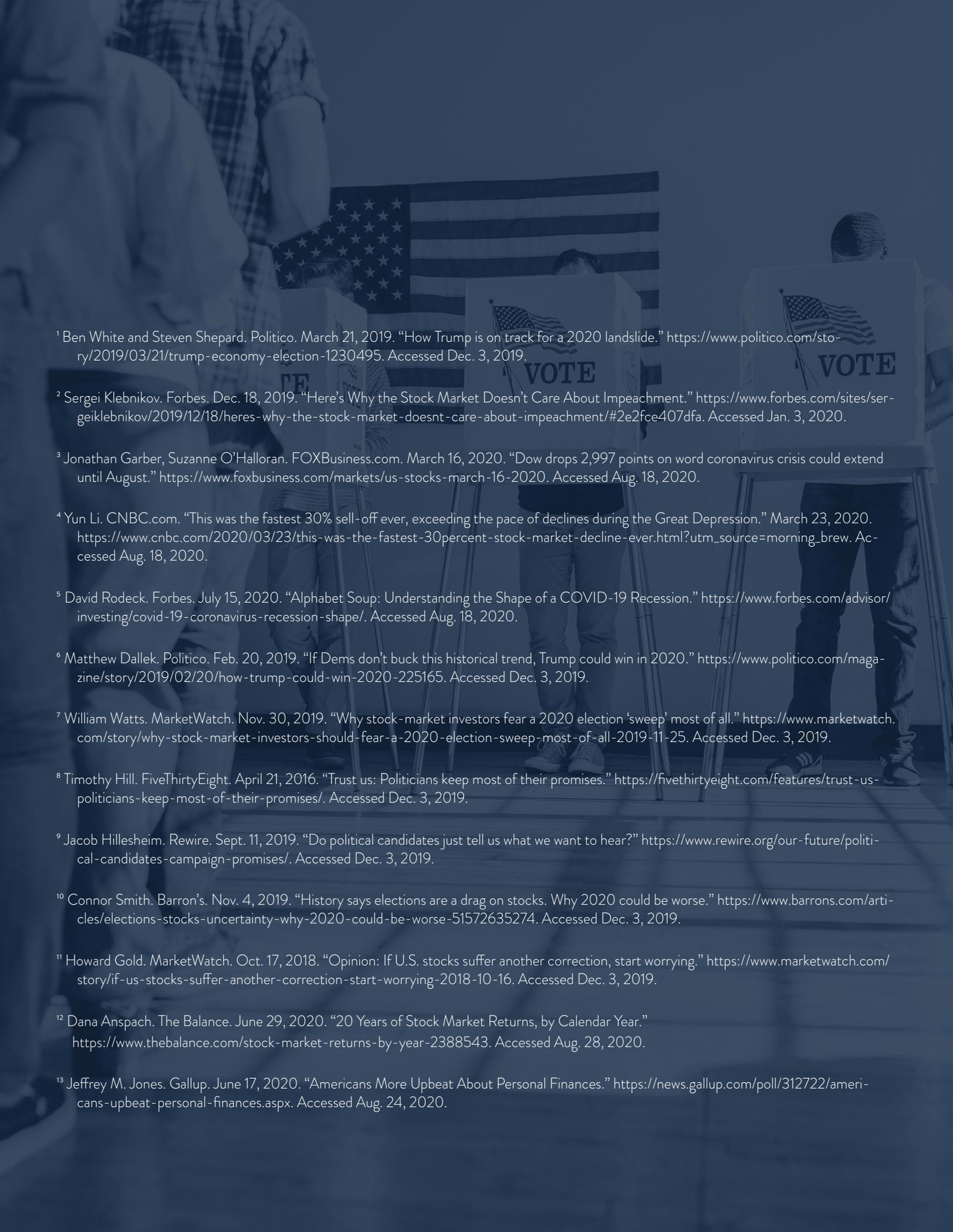
A Gallup poll conducted from May 28-June 4, 2020, found that 53% of Americans rated their personal finances as either “excellent” or “good.” This marked a slight improvement over the 49% who offered that same description in early April when the initial impact of COVID-19 created economic uncertainty. The positive bounce in the polling still did not reach the 56% mark recorded in 2019 from a similar Gallup poll.¹³

If you feel uncertain about the economy, it might be time to speak to a financial professional.

currently exposed to and have the time to ride out whatever may come, you’re likely best to stick it out and see what happens. On the other hand, if you’re within three to five years of retirement, it may be a good idea to review your financial strategy to make sure you’re comfortable with the level of risk in your portfolio.

Work With a Financial Professional

Having a well-constructed financial strategy in place can give you confidence for the future — whatever it holds. Give us a call for a complete retirement income analysis to help make sure your finances are ready for Election Day and beyond!

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- ⁷ William Watts. MarketWatch. Nov. 30, 2019. "Why stock-market investors fear a 2020 election 'sweep' most of all." <https://www.marketwatch.com/story/why-stock-market-investors-should-fear-a-2020-election-sweep-most-of-all-2019-11-25>. Accessed Dec. 3, 2019.
- ⁸ Timothy Hill. FiveThirtyEight. April 21, 2016. "Trust us: Politicians keep most of their promises." <https://fivethirtyeight.com/features/trust-us-politicians-keep-most-of-their-promises/>. Accessed Dec. 3, 2019.
- ⁹ Jacob Hillesheim. Rewire. Sept. 11, 2019. "Do political candidates just tell us what we want to hear?" <https://www.rewire.org/our-future/political-candidates-campaign-promises/>. Accessed Dec. 3, 2019.
- ¹⁰ Connor Smith. Barron's. Nov. 4, 2019. "History says elections are a drag on stocks. Why 2020 could be worse." <https://www.barrons.com/articles/elections-stocks-uncertainty-why-2020-could-be-worse-51572635274>. Accessed Dec. 3, 2019.
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