Investing Based On Presidential Candidates:

MINING FOR FOOL'S GOLD?

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It might seem obvious to over or under-weight stocks or industries based on who is president. However, our research shows this may not be a winning strategy and, could in fact be harmful to a portfolio.

For example, in September 2009, the economy was just beginning to recover in the first year under President Obama. Famed investor Peter Thiel suggested, “The recovery is not real.” He suggested to the Wall Street Journal, “deep structural problems haven’t been solved and it’s unclear how we will create jobs and get the economy growing again.” That was six months into what became a powerful multi-year bull market.

Here is another example. The famous entrepreneurs Mark Cuban opined in 2016, a Trump Presidency would have stocks plunging and the bond market capsizing. At the same time well-known investor Marc Faber suggested a Hillary Clinton Presidency would cripple the economy due to hiking taxes by $1 trillion. While we do not know what would have happened under Hillary, the predictions for Trump could not have been more wrong. Since the end of January 2017 (inauguration) to the end of July 2020, the S&P 500 has made 12.8% annualized and long-term Treasuries did even better, making 13.5%. The lesson is to beware of the dangers of politically biased investing.

Meir Stratman, the well-known Behavioral Finance professor, found “People’s positive sentiment when their party is in power leads them to think the world will deliver higher returns with lower risks.” Another study looked at the behavior of approximately 60,000 investors from 1991 through 2002. The authors’ findings:

"The lesson is to beware of the dangers of politically biased investing."

- People take greater market risks when their party controls Washington.
- When their party is out of power, these investors grow restless and trade more frequently, often causing them to underperform those whose party is in charge.

The key to success is to visualize history, not your worst fears or greatest hopes. When tempted to sell because of a presidential bias, remember the S&P 500 has advanced in more than two-thirds of the years since 1926, a period featuring eight Republicans and seven Democrat presidents.

Another key is to avoid politicizing your portfolio. It seems “everyone” knew clean air, defense, and multinationals would only do well under Mrs. Clinton and suffer under Trump. Instead, they averaged a gain of 52% since Trump was sworn in. Meanwhile, a Trump presidency was supposed to be a windfall for coal miners, small companies, and construction companies. Their average gain was only 21%. Another example, President Obama was going to put gun makers out of business and bring healthcare to heel. Both areas far outpaced the broad market under his presidency.

It was the same under Presidents Carter and Reagan. Many assumed President Reagan would be wonderful for small businesses, as he would cut taxes and red tape. It was a big contrast from Carter, who oversaw rises in inflation and unemployment. Despite this, smaller stocks did twice as well as larger stocks under Carter than Reagan.

The world, however, is often too complicated for simple storylines. For instance, President Obama is known for having pushed for a reduction in U.S. greenhouse-gas emissions by curbing the country's reliance on fossil fuels. Yet significant advancements in technology to extract petroleum from shale formations have led to a near doubling of U. S. crude oil production under his watch.

In conclusion, there is little empirical evidence suggesting you want to tailor your investment strategy based on whether a democrat or republican is in the White House. Stocks generally rise over time regardless of which party is in control at 1600 Pennsylvania Avenue.

Be safe, may your candidate win and your portfolio prosper!

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