Elephants and Donkeys vs. Bulls and Bears? Oh my!

Ronald A. Papa, MBA, **CLTC**
President
Legacy Advisors Wealth Management

17 Accord Park Drive Suite 200
Norwell, MA 02061

781-421-3204

rpapa@legacycadvisors.com

www.AskRonPapa.com

Legacy Advisors
Wealth Management
Enriching Today...Ensuring Tomorrow

October 26, 2016

The 2016 presidential race has already offered plenty of surprises. But what could it mean for the economy and the markets; and, ultimately, your financial picture?

We've got a lot of uncertainties in this election; and if there's one thing markets hate, it's uncertainty. Predictably, the markets have had a bumpy ride that will continue all the way through the November 2016 election.

Since 1928, the Standard & Poor's 500 - a widely watched benchmark of U.S. large-cap companies - has dropped an average of 2.8% in presidential election years that don't include an incumbent seeking reelection. By contrast, in years when the sitting president is up for reelection, the S&P 500 has averaged returns of 12.6% (the average for all years from 1928 through 2014 is 7.5%).

"It's the economy, stupid"

- Markets like incumbents because, as they're trying to get reelected, they make speeches about economic change and promote market-friendly policies.
- Incumbents are going to be doing as much as they can to support the business cycle, make things look good and make people feel good, so people will say, 'I'm going to reelect this person.'"
- Democratic challenger Bill Clinton defeated Bush in part by drumming the now-famous phrase: "*It's the economy, stupid*."
- But when reelection is off the table, second-term presidents like Obama may be more mindful of their long-term legacies, and deflect away from issues that are tied to current economic growth and employment.
- From the first days of the 2016 campaign, we had some prominent candidates who had no political experience, so we have very little basis to judge how well they would deal with Congress, with the Senate, and with running the show.
- Furthermore, party affiliation doesn't offer clues about which candidates might help or hurt investments.

At least from a market perspective, the general idea that the Republicans are the party of business and the Democrats are the party of labor is actually not very accurate.

- The Dow Jones Industrial Average nearly tripled under Democratic President Franklin Roosevelt's three terms, according to a 2014 study. But, these stats were exaggerated because they based their numbers on the recovery from the Great Depression. Other Democrats, like Bill Clinton, were in office during market surges, as were Republican presidents Reagan and Eisenhower. However, Republican George W. Bush, whose second term ended with the 2008-2009 financial crisis, saw the Dow drop dramatically during his time in office. So,this suggests that there is no clear-cut trend to follow.

- Presidential races don't occur in a vacuum, and statistics based on previous elections in no way guarantee what will happen in 2016. Unforeseen developments ranging from faraway wars and coups to natural disasters can easily move markets in unpredictable ways.
- In the weeks leading up to the November 8 vote, major international banks and financial companies have discussed their concerns about the risks to global growth, trade, foreign investment and financial market stability. Many have already taken steps to soften these risks.
- On the bright side, investors may look forward to a possible "relief rally" in 2017, after a new president takes over.

Stay focused on the big picture

- For most investors, the best way to prepare for possible market volatility in 2016 is to take a long-term perspective. That means staying focused on your personal goals and on broader economic trends reshaping U.S. and global markets. The real message is that the stock market is a great place for people to put their money for the long run—emphasis on: ***for the long run***.
- There are much larger forces holding tremendous potential for markets and investors in coming years. There are huge, long-term trends that will generate opportunities—and, in some cases, challenges—no matter what happens politically. The digital industry, big data, cloud computing and cyber security will continue to change the world.
- The retiring baby boom generation alone represents a $15 trillion economy, generating demand for everything from health care to leisure to hospitality. **These elements of the economy are not going to change, whoever ends up winning the White House**.

What Should We Do Right Now?

First, ask [me] these questions:

- **Is my portfolio adequately positioned against market volatility?**
- **How would a more sustained downturn in the markets affect my retirement savings?**
- **How should developments in the daily news affect my investment decisions?**

Remember: this is not the end of the world, but rather a journey to a slightly different world. If you are truly a diversified long-term investor with a solid financial plan, you are accustomed to the noise and will allow your portfolio to work for you over time.

If you are inclined to react to headlines, try to temper your reaction by making minor adjustments versus wholesale changes to your portfolio. This is not the first and won't be the last world event.

In my unbiased opinion, there are no changes that need to be made. I'm sure that each of our individual portfolio strategists will be making appropriate adjustments and reallocations. As you know, the strategists make frequent tactical changes, some defensive, some opportunistic.

I recognize that this kind of uncertainty can cause you a great deal of concern. As always, I welcome your feedback and invite you to give us a call should you want to discuss your portfolio and/or come in for review.

In closing, I'd just like to say what I have always said: that these economic swings are part of that pendulum affect that is natural, and even expected. Two things I firmly believe to be true are:

1) The markets will move up and down; and,

2) A properly managed portfolio of stocks and bonds continue to be the best place to achieve long-term retirement security.

Ronald Papa is the founder and senior advisor at Legacy Advisors Wealth Management, where he focuses on helping people understand the practical and technical aspects of retirement income planning. Legacy Advisors Wealth Mgmt. is an independent registered investment advisory firm providing unique, unbiased insight into the most critical financial, legal and tax issues facing pre-and post-retirees. Legacy Advisors was founded in 1996 and is located in Norwell, MA.