Consilium

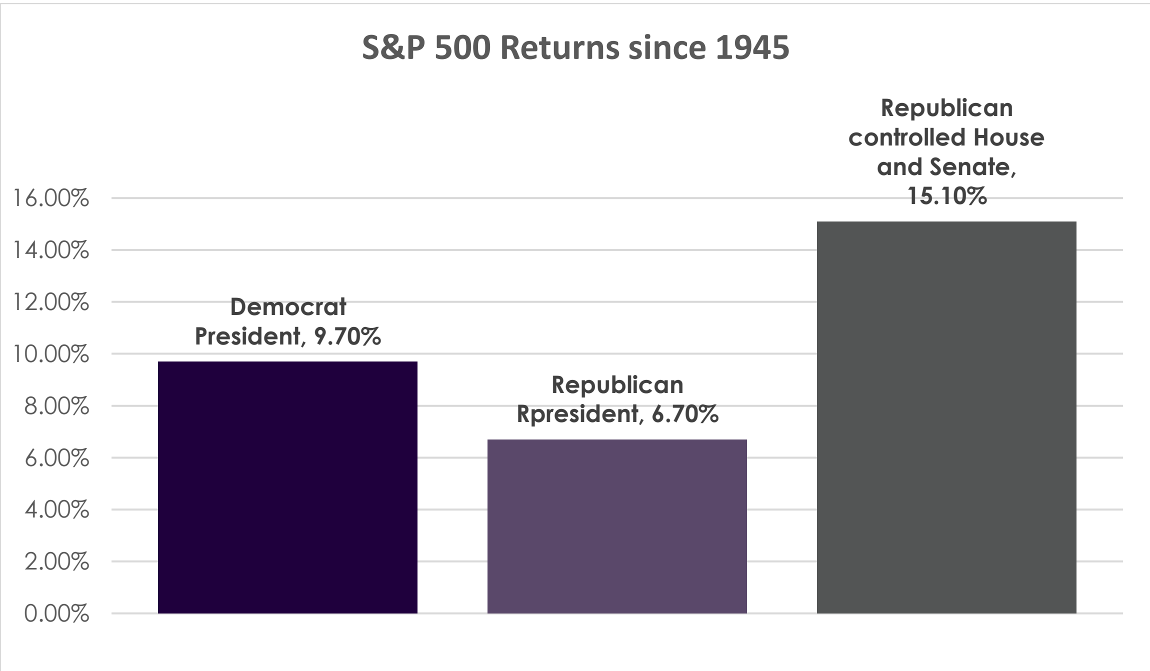
The US Election and your Portfolio

We've all now heard the result of the election. Given the polls just before election day, the outcome was a surprise, to say the least. The result has been compared to Brexit, which was one that was similarly surprising.

Perhaps we are less sceptical. Living in the world of financial markets, we know that probability is only ever as the name suggests. It represents something that is likely or probable to occur, and so is very different to the word certainty.

Markets quickly adjusted yesterday as reality set in. Overnight, S&P 500 futures markets were down. It has rebounded today though, and is up 1.4% at the time of writing. All that means is that, ironically, investors don't know what this means. Will the American business community reign Trump in, or will he be allowed to follow through on his election campaign promises? Trump won't be able to pass law, but he will be able to put a block on securing trade deals (such as the TPPA), for example. Many New Zealanders that are anti-TPPA would also be very anti-Trump, and yet he's very likely to kill the deal that they didn't like. It shows how complicated this election really is.

From the perspective of your portfolio, it's intriguing to look at the relationship between the US president and investment returns. Historically, markets have done better when a democrat is president rather than a republican (9.7% growth as compared to 6.7%). However, the same data shows the markets do best when the republicans control both the House of Representatives and the Senate.



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

After this election, the republicans hold the House, the Senate and the presidency.

But there is more to the data. When the US president has a negative approval rating the markets have done 4% better than when the country gives the president positive ratings.

In reality, the data indicates that the relationship between investment markets and the presidency is a fairly weak one. What drives markets are businesses that innovate, solve problems and continually provide better goods and services at lower prices. Businesses have been doing this for hundreds of years and will continue to do so for many more.

Someone almost universally regarded as being one of America's worst presidents was Warren Harding, the 29th US president (1921 – 1923). Amongst his many blunders, he appointed a number of corrupt officials. One of his cabinet secretaries went to prison for corruption[1]. Beyond this, President Harding was an accused adulterer and fathered a child with a mistress that he didn't acknowledge.

How did he get elected? Author Malcolm Gladwell suggested in his book *Blink* that people believed Warren Harding would be a good president because he appeared stately and presidential. It was a "blink" decision.[2]

Why do we bring this up? Only because between 1921 and 1923, the Dow Jones returned around 32%.[3]

An article in US magazine *Money* put it well:

> "Conventional wisdom says a president's economic policies matter greatly to Wall Street. But… investors since the Great Depression have managed to make money in war and peace and under successful and failed administrations."[4]

Many of our clients are invested in portfolios built to last 20 to 30 years. Over that time frame, both good times and bad times are a given. That is the nature of capitalism which funds, what we can see in retrospect, are both worthwhile and worthless economic ventures. We believe history shows us that a globally diversified, low cost portfolio is a ship that can and will survive the storms of politics, because it is founded on the success of business. Presidents come and go, but business in aggregate has never gone out of business, and won't in the future, whatever president-elect Trump does.

So we encourage you to relax, to tune in to the news as an interest, but know that your long term plans are based on something much more solid and stable than politics.

[1] https://en.wikipedia.org/wiki/Teapot_Dome_scandal
[2] http://content.time.com/time/specials/packages/article/0,28804,1879648_1879646_1879696,00.html
[3] Based on data found at http://www.automationinformation.com/DJIA/dow_jones_closing_prices_1921_to_1930.htm
[4] http://time.com/money/page/2016-presidential-election-clinton-trump-affect-finances/