4 Ways to Survive and Thrive in an Election Year

223 E. Blackstock Road
Spartanburg, SC 29301

p. 864 582 7766
1-800-277-0025

asknoel@theprovestperspective.com
www.TheProvestPerspective.com
www.ProVestWealth.com

As the 2024 election year heats up, it is normal for clients to feel stressed about what our future President means for our wallets. But studies have shown that while Politicians come and go, the markets keep rolling onward. Because this is election year, many investors start getting nervous.

As we evaluate performance during the waxing and waning of the two political parties, history has proven that it has paid to stay in the market—despite which party is in office and despite election-year anxieties.

Sensationalized news headlines predicting the impact of either candidate on the economy are based more on speculation and drama than fact. It is best for clients to tune out the noise and separate personal and political feelings from financial planning. Because historically speaking, elections have made essentially no difference when it comes to long-term investment returns.

So, how do people maximize returns during a time of political uncertainty and polarization? Capital Group and Clearnomics both published some nice charts on navigating election season volatility based on historical data that we will be discussing today.

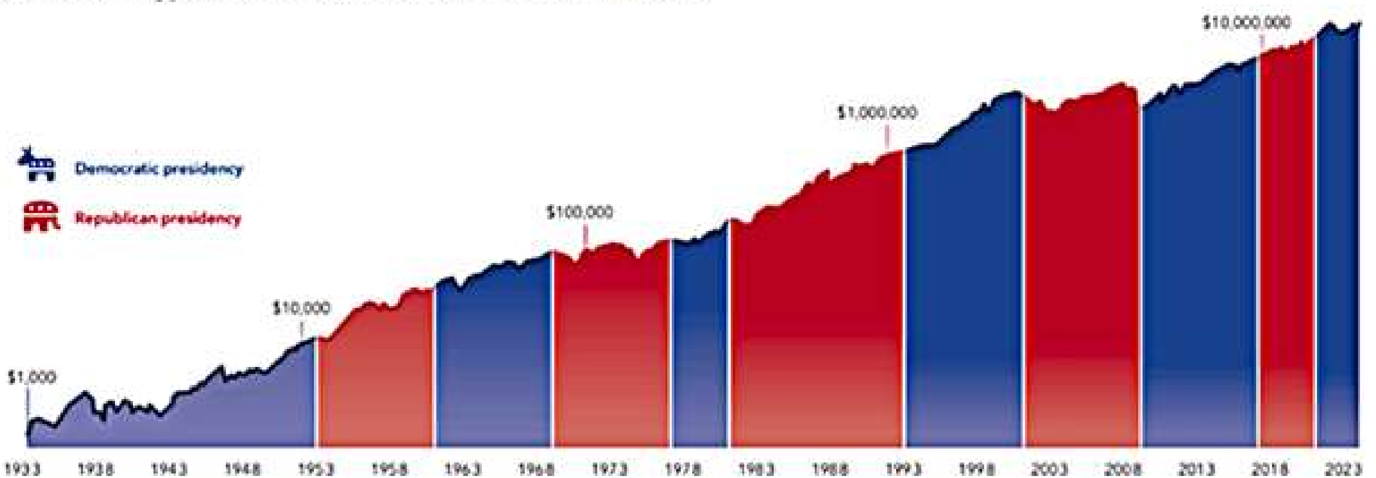
This report will highlight four key takeaways from their studies, for investors to survive and thrive in the upcoming election year.

1. Election Results, whether Democrat or Republican, have had very little impact on long-term investors.

So if you’re wondering which party is better for an investor’s wallet? The answer is either one. History shows that markets have risen whether a Republican or Democrat has been in office. Clearnomics found that from 2008 through 2020, the S&P 500 generated a total return of 236%. These returns happened across multiple presidencies for both parties despite their political differences. Current economic and political challenges may seem unprecedented but every election cycle is marked by controversy and uncertainty. The graph below shows that the market has proven to be resilient no matter which party is in the White House. Despite seeing eight Democratic and seven Republican presidents from 1933–2023, a hypothetical $1,000 investment in the S&P 500 made when Franklin D. Roosevelt took office would have been worth over $21 million as of December 31, 2023.

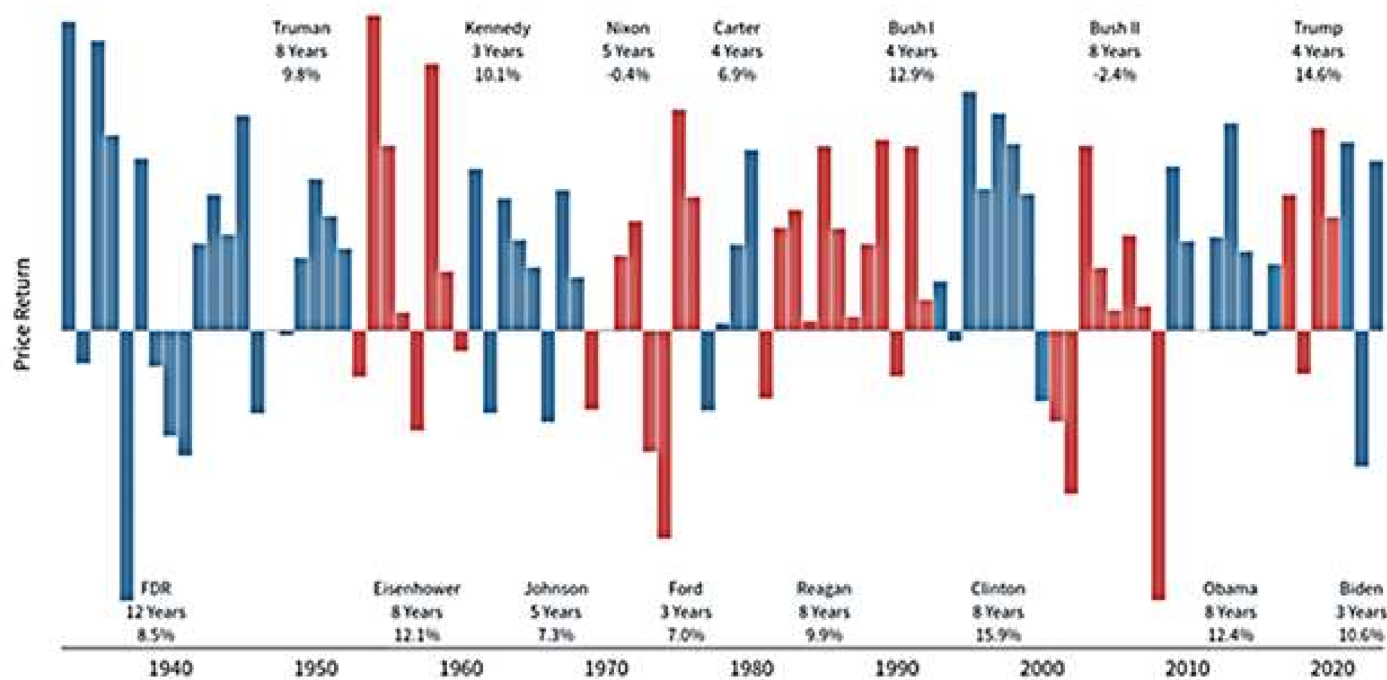
Red or blue, the market has remained trending up.

Growth of a hypothetical $1,000 investment in S&P 500 Index



SOURCES: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1K investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through December 31, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

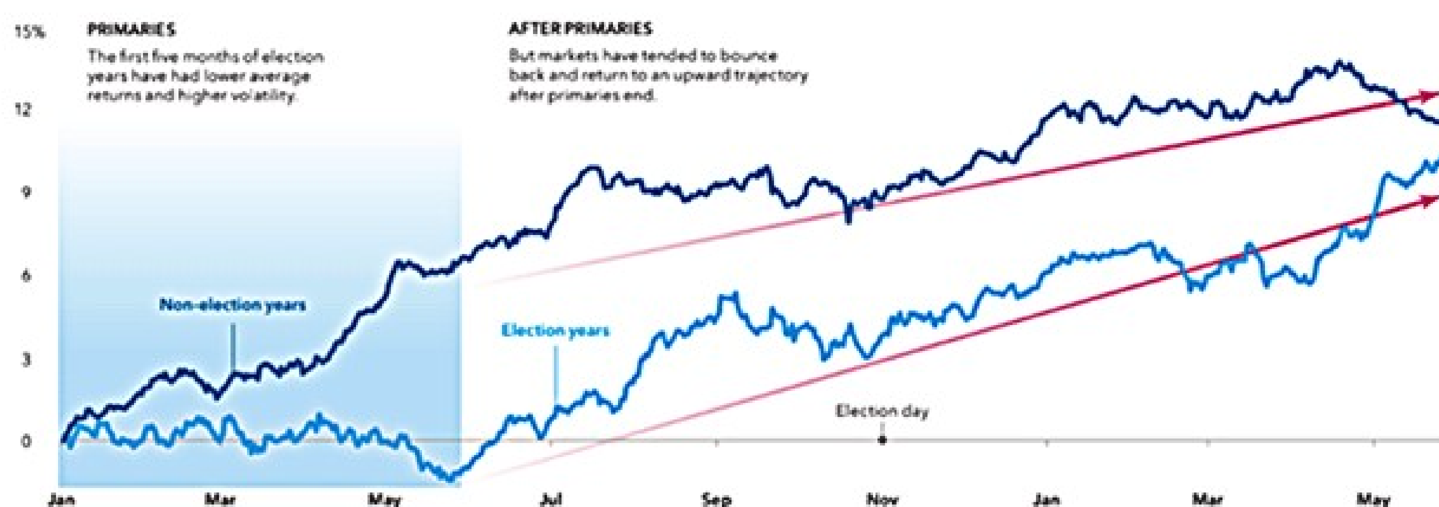
So, regardless of who sits in the Oval Office, stocks with strong long-term fundamentals will often rally once the election ends. For example, the stock market returned 14.5% on average during Democratic presidencies and 10.7% on average during Republican presidencies. Digging deeper, and as the chart below demonstrates, the stock market returned 12% a year under Obama, 14.6% a year under Trump, and 10.6% a year under Biden.



Tip #1: Successful investors don't try to time the market and get out when they are afraid and only to get back in when it's went back up. They maximize their time in the market instead. It's important to think and act like a long-term investor.

2. Markets have been more volatile during the primary season, but tend to rise strongly thereafter.

Even though Primary season tends to be volatile as we are seeing now, markets have historically bounced back strongly afterward. Stocks have returned 11.3% in the 12 months following primaries, compared to 5.7% in similar periods of non-election years. It's important for investors to expect and tolerate the short-term volatility in primary season to benefit from any potential rally once final candidates emerge.



Tip #2: Understand that short-term volatility is just that—short term! Investing for the long term requires staying the course when things get bumpy.

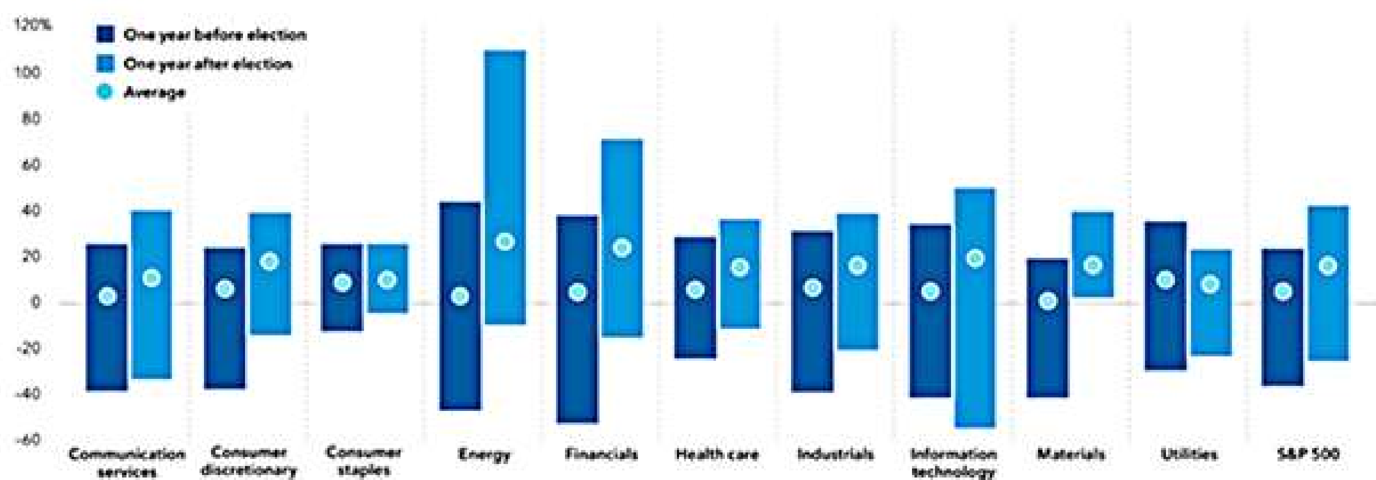
3. Election year volatility can create buying opportunities for long-term investors.

What should we invest in during election years? It would be great if there were go-to sectors to invest in every election year, but unfortunately investing isn't that simple. Every election cycle brings new candidates with new agendas, making it almost impossible to predict market winners.

History shows us that it is almost impossible to know how any particular policy might impact the economy. New policies are accounted for in stock prices quickly, and companies and industries tend to adjust and adapt. This is why for most long-term investors, it makes more sense to focus on fundamentals related to the business cycle rather than provocative headlines.

On a short-term basis, campaign news stories can have the power to move markets and create stock market volatility. However, these moves are eclipsed by the long-term gains created by market and business cycles.

Range of one-year returns by S&P 500 sectors



Sources: Capital Group, Refinitiv Datastream, Standard & Poor's. Includes all elections since 1992, as of December 31, 2023. October 31 used as a proxy for each election date in the calculations of returns one year before and after an election. For example, the first year measured before the 1992 election is October 31, 1991-October 31, 1992, and the last year measured after the 2020 election is October 31, 2020-October 31, 2021. Past results are not predictive of results in future periods.

Tip #3: Pre-election market turbulence can create buying opportunities for investors who can tolerate short-term volatility. But it is often difficult to predict which sector will outperform.

4. Investors who were fully invested or made monthly investments, did better than those who stayed in cash.

Investors often get nervous and move into cash during election years. Capital Group found that net asset flows into money market funds, traditionally one of the lowest-risk investments, have been more than twice as high in election years as in the year after an election. By contrast, equity funds have seen the highest net inflows in the year immediately after an election. This trend holds true even for international funds.

However, the S&P 500 Index had negative returns in only two of the last 20 election years (2000, 2008), and both declines were largely attributed to asset price bubbles rather than politics.

Unsurprisingly, sitting on the sidelines in the market during an election year will not make you more money. Capital Group ran a simulation of three hypothetical investors, each with different strategies, and calculated the end value of their portfolios over the last 23 election cycles, assuming a four-year holding period. Investors who stayed on the sidelines, or went to cash, had the worst outcome 17 out of 23 times, and only had the best outcome three times. Meanwhile, investors that were fully invested or made monthly contributions to a 401(k), for example, during election years came out on top.

Three hypothetical $10K investment strategies during an election cycle

Analysis of 23 election cycles since 1932

Investor strategy	Average ending value after four-year holding period	Best outcome	Worst outcome
FULLY INVESTED This investor isn't concerned about election uncertainty and invests the full $10K on January 1 of the election year.	$10K → $15,860	14/23 cycles	6/23 cycles
CONSISTENT CONTRIBUTIONS Similar to a 401(k) retirement plan, this investor invests $1K in each of the first 10 months of the election year.	$10K → $15,765	6/23 cycles	0/23 cycles
SITTING ON THE SIDELINES Nervous about how elections affect markets, this investor waits until January 1 after the election results to invest the full $10K.	$10K → $14,867	3/23 cycles	17/23 cycles

SOURCES: Capital Group, Board of Governors of the Federal Reserve System (US), RIMES, Standard & Poor's. The three hypothetical investors each have $10K to invest during an election cycle and are invested in a combination of equities and cash at all times. FULLY INVESTED is always fully invested in equities. CONSISTENT CONTRIBUTIONS starts with $1K in equity and $9K in cash. At the start of each of the next nine months, this investor reduces cash by $1K and makes a $1K contribution to equities, after which they will have made the full $10K contribution to equities. SITTING ON THE SIDELINES is entirely invested in cash during the first year. At the start of the second year, this investor reduces cash by $10K and makes a $10K contribution to equities. S&P 500 Index used for equity returns, and returns reflect the reinvestment of dividends. 3-month Treasury Bills used as a proxy for cash returns, and returns reflect the reinvestment of interest. Returns and portfolio values are calculated monthly and in USD. Analysis starts on January 1 of each election year and reflects a four-year holding period. Past results are not predictive of results in future periods.

Tip #4: Not participating in the market during election years will only win you smaller returns.

Conclusion

As you can see, Red or blue, returns in the market will remain strong. History shows us that political preferences should not be used to make financial decisions. However you feel about the candidates, sitting out of the market due to the outcome of an election, or simply because an election is occurring, will only hurt your portfolio in the long run. Putting aside short-term noise and focusing on the long-term will make achieving investment goals easier in 2024 and beyond.

Elections don't really have the long-term impact on the markets that we worry they will. It's important to stay diligent and consistent with your investment plan in an effort to maximize the money you will have in retirement. This will give you the best chance for a happy retirement.

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