Client's Corner

Every Four Years, "This Time It's Different"

"If you mix politics with your investment decisions, you're making a big mistake." —*Warren Buffett*

AFTER MORE THAN 50 YEARS AS AN INVESTMENT PROFESSIONAL—encompassing 13 presidential elections, not counting this next one—I have some deeply felt personal advice for the American investor. First and foremost:

Calm down. Think it through.

I'm regularly in touch through my newsletter with a very large network of financial advisors. They report that they have never had even remotely as many clients very worried about a presidential election as they do this time.

Indeed, one of my most thoughtful subscribers—who joined the profession in the late 1990s, and who is not given to hyperbole—says that he's encountering more intense client angst this time around than he did in his first five elections ***combined***.

I get that. I understand that this election seems to be freighted with extraordinarily high levels of investor anxiety. And it isn't just the usual "If so-and-so gets elected/reelected, I'm moving to Canada" stuff, which is normal. This one feels rather more existential—more like "If so-and-so gets elected/reelected, that's the end of American democracy." That being the case, here's some more advice:

Take your political convictions completely out of your investment decision-making.

I know that's hard. That's why it's essential. Don't take it from me; take it from America's most admired, least imitated investor, quoted above. (In that same interview, Buffett pointed out that for about half his career as an epically successful investor, the president has been the guy he voted ***against.***)

The mistake a lot of investors seem hell bent on making these days is thinking that the person and policies of the president are importantly correlated to the stock market. There is zero basis in fact for this conviction, but at times like this, facts go out the window. (Hence this essay.)

Two relatively recent examples of this nearly perfect non-correlation: (1) The subprime mortgage bubble inflated over several years, and then burst into global crisis, during the two-term incumbency of a strongly free market Republican. (2) During the following two terms of a strongly progressive Democrat, the stock market went up every year for eight years.

You can't predict, much less time, what the stock market will do around the election. Neither can anyone else.

If you made investment strategy from the policy pronouncements of both men, you got spectacularly skunked. Twice. And in a month or so, you're going to get the opportunity to go for the trifecta.

Next:

No matter who gets elected, nor what his policies, superior companies will continue to thrive by acting in their shareholders' best interests.

The president (nor the Congress, nor the Supreme Court) cannot force a company to operate at a loss for any length of time. Facing punitive taxation, draconian regulation, tariffs or whatever, a rationally managed business (not to say 500 such businesses in the S&P Index) will simply stop doing whatever the president/Congress/regulators have taken a mind to punish.

In time, most if not all of those companies will find other avenues of economic enterprise in which they are free to earn a return for, and pay dividends to, shareholders. And since it is earnings and dividends which drive stock prices in the long run, ingenuity, innovation and financial discipline seem likely to be rewarded in the future, as they have been in the past.

Then consider:

No matter who becomes president in January, and no matter what policies he implements, the electorate—you and I—get another go at him in 23 months.

That's one key feature that has made ours the most successful and longest-lasting democracy in history. In November 2022, the entire House of Representatives and a third of the Senate will have to face the voters again. And if the president or the Congress—or both—are held to have gone too far in one direction, they'll get thumped. It happens all the time.

And finally:

You can't predict, much less time, what the stock market will do around the election. You mustn't fault yourself for this: neither can anyone else.

Given the historically elevated levels of investor anxiety noted earlier, a lot of people seem to have convinced themselves that it would be a nifty idea to just get out of the market, wait until the election blows over one way or the other, and then get back in.

Even setting aside the self-inflicted wound of capital gains taxation, this is historically a singularly bad idea. Its presumed premise—that you'll be able avoid a lot of volatility and get back in at lower prices—is again one of those deeply attractive emotional impulses for which there is no basis in the record. (Reading this, you may be tempted to burst into the four-word death song of the American investor, "This time it's different." **Don't.**)

When you radically alter your long-term portfolio because of current events—even when you tell yourself it's "just this once, and just briefly"—you're not investing anymore. You're gambling. Too many people find to their regret that once they've crossed that line, they're never able to get back.

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I take some comfort—and devoutly hope you do too—from the near certainty that all I've been doing here is summarizing pretty much exactly what your financial advisor has been counseling all along. Now, I suppose it's possible that he/she and I are both wrong. But if I were you, I wouldn't bet my retirement on it.