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ELECTION SEASON & YOUR PORTFOLIO: INSIGHTS ON WEATHERING UNCERTAINTY WITH SPECIAL GUEST, ANDREW TAYLOR, CFP®

David Mandell:

Hello, this is David Mandell, host of the podcast. Thanks for jumping on today, either by audio or video on our YouTube channel. We've got a really special episode today. I know I say that most days, but this one is special because we're doing something that is tied to current events. We're doing something that's tied to the timeframe of where we are, which is approaching a very well-contested, for some people, stressful presidential, and then of course congressional, election. And as we manage well for clients all over the country, we get this question, what should I be doing? And sometimes it's not even that calm. People think their side is going to do well or not do well, and that impacts what they're thinking in terms of investment. So what I wanted to do was cover that topic, that's how important I think it is, and brought on my partner Andy Taylor, who's part of our portfolio team and has been putting some content out on this very topic, did a video on it, article, et cetera.

So while all of us I think understand the concepts here, he's been looking into the research and the numbers. So let me tell you about Andy and then we'll get him in here.

So Andy Taylor's an experienced investment advisor, portfolio manager, and he provides comprehensive financial planning services to our clients at OJM. He's been with us at OJM since 2012, so now we're about 12 years in. He's a partner. He's a partner of mine. He's actually my point person in the portfolio team. So he works with me. And before he even came to OJM, he had 15 years of financial service industry experience with Charles Schwab and Fidelity. He's been a contributing author to all of our books that we've done, including our most recent playbook, which I've talked

about, the Multimedia Playbook, Wealth Strategies for Today's Physician. He speaks at a number of conferences when they want expertise that he's got. So he's on the speaking circuit like I am, and he is quite competent in everything we're talking about today. So Andy, thanks for coming on.

Andrew Taylor:

Thank you for that kind introduction, Dave. Happy to be here.

David Mandell:

Excellent. I know some of you are watching us on YouTube, but the vast majority of you are probably still listening because it's a podcast obviously. And we were four seasons in, or three and a half, midway through season four last year, when we added the video component. So I'm guessing most of you are listening to my voice right now, and that's what the data shows. Now, we're going to refer to some slides here because the concept, we don't want to just say, here's what you should be thinking about in terms of investing through an election. We want to dig in a little bit and say, hey, here's what the data shows from the last X number of elections. And to do that, it's I think most effective to show some data and some charts.

So we're going to be referring to slides or charts as we go through this. If you're listening, it's okay. You can get the big concepts and you can go back to our web page on Ojmgroup.com on the particular episode here. I think the Apple podcast and maybe Google platform allows us to do in the show notes, links or put the PowerPoint or slides in there and we will, if they allow us to. So we're going to try to get it to you in a number of ways, but even if you're listening and driving and we don't want you looking at anything, it's okay, I think you can get the concepts and we'll make sure that we broaden the discussion while also going deep into some of the data.

So that's my caveat if you are just listening. So let's jump in. Before we get into investing, Andy, investing in the election, I should say, before we get into the election

itself, I want to step back because you and I look at this, and obviously our team does, and I think most professionals in the area would look at this and say investing through an election in some ways is just like investing through any potential impactful national world event.

There's always something going on, and certainly we've been doing this long enough that we've gone through some significant events. So what can we learn from history here generally in terms of impactful current events, not just in elections, and then we can jump into elections.

Andrew Taylor:

Yeah. Investing is challenging because there's always a reason to be fearful. So for those of you looking at the slide, you're seeing a series of whether it be financial events or geopolitical events that can cause disruption to financial markets. And the fact that there is always a reason to be fearful is why we get rewarded for investing in stocks. So the risk-free rates considered to be the rate that you would receive investing in treasuries or even CDs, and that tends to be 4 to 5%. It can be a little higher or lower depending upon where interest rates fall. And then investing in stocks or equities have historically averaged 10% through most extended cycles throughout history. So there tends to be a premium for being willing to take on such risk.

However, we're constantly faced with challenges and there's always a lot of noise out there that will generate some level of concern for investors. And it's no different than election season and what we're hearing today, you tend to have financial events or instability in various parts of the world. And the question is, hey, how is that going to impact my portfolio? And it's a valid question that investors have.

David Mandell:

For sure. , looking at this chart and those of you listening, you can imagine a chart that starts from 1970 to 2024 and all of the big stressful negative events. It's

everything from Vietnam War to Nixon resigning to Iran hostage crisis to major financial events in the '80s and the elements of the '90s that 9/11s in there. I mean, there's all this stuff over 44 years that I think Andy's point, which is the most important, which is there's always a reason not to invest. There's always a reason to look at the news and say, oh my God, this seems like the end of the world or something close to it. And if you look back on these 44 years, there's a lot of major stuff. Each one of these little lines has something that at the time was just major.

So I think that's in some ways comforting to know that the market has done well through all that. Not every day, not every month, not every year, but over the time period. So as we look at this chart, what stands out to you in terms of some of the really key things and your take on it from a financial point of view?

Andrew Taylor:

Yeah, well, I think the first takeaway is just to understand that the market's resilient and you want to look at investing throughout the lens of a full investment life cycle because it's easy to get distracted by the noise and some of the news that's out there. But if you take a step back and look through any one of these single events through the lens of a five and a ten-year cycle, you're going to realize that in the bigger picture, most of these events that created some level of concern just ended up being a blip in terms of your larger financial plan.

And the challenge that we have as investors is that financial media frankly doesn't really do us any favors because there's an inherent conflict with the way that the financial media works versus what is sound and prudent investment advice. So if you're watching some type of program, whether it's on any news network for that matter, or reading any headlines, what sells and what is going to keep you engaged is that fear factor. So what you're not going to hear very often is everything is fine, stay the course, stick with your strategy, right? Because you're quickly going to move on and stop watching or stop reading and continue with your day. But the media knows very well that fear sells and will keep you engaged. And if ratings are higher, if

clicks are higher, they generate more revenue. So as a result, the incentive that some of these companies may have is not necessarily aligned with prudent and practical investment advice.

David Mandell:

That's right. So when you see this chart, point out a couple of things that stand out. Obviously, let's start with COVID, which is probably the most recent.

Andrew Taylor:

Yeah, sure. It's hard to believe it's been four and a half years, but I think most people listening had lived through that period of time where the S&P and again, when I make references to the market throughout the course of this conversation, it's generally going to be to the S&P.

David Mandell:

Just to be clear to everybody, that's the S&P 500, which is a basket of 500 major US-based companies.

Andrew Taylor:

Yeah, exactly. Thank you. So and the S&P 500 lost 35% of its value in about five weeks. So I mean, that was very traumatic for many of us. I mean, frankly, we didn't really know what was involved with COVID. We didn't have the answers at that time that we certainly do today. There was not an active vaccine, and we just didn't know what the impact would that be on our country and what the impact would be globally. So as a result, with all the uncertainty in the markets, we saw that drastic decline. But for those viewing the chart-- by the end of the year, those lowest losses that transpired during March and April of 2020 were all offset, and in fact, the market finished the year in positive territory. So that's just one example. And if we go to maybe the most extreme example of my lifetime certainly was the financial crisis, which transpired in 2008.

And this was driven by the housing market. So it took the S&P 500 three and a half years to offset losses from a total return perspective during that period. And that's if you include dividends. In fact, from a price perspective, an all-equity investor needed five years to basically offset all of those losses, or essentially it took five years for the S&P to reach the levels that it had at the peak of the crisis in 2007. So there are a few lessons to be learned from that. So as bad as that period was, and as difficult as it was for investors, for those who are in the accumulation phase of their life cycle, there was just a tremendous wealth accumulation opportunity because if you think about your approach to investing, you actually will end up in a better place when there is volatility. So the market sells off, you're accumulating more shares if you have a disciplined savings program.

So volatility will end up or put you in a position where you have a greater net worth versus just a linear series of returns where the market is just gradually moving upward slowly and consistently. And if you continue to invest during that period of time, so the market bottomed out during the financial crisis in March of 2009, well, had you purchased stocks in 2009 in March, within 13 months, you would've had a 70% return. And again, I'm referring to the S&P. So there's only so many opportunities throughout the history of financial markets where you can accumulate wealth that quickly. Now, it took an amazing fortitude to have the willingness to do that, but it's an example of some of those opportunities that can be presented when we do have volatility. On the other hand, if you were a retired investor, it certainly didn't feel good to live through that, by any stretch of the imagination. So you didn't necessarily have time on your side.

However, if you had a properly allocated portfolio, here's what happened. And properly allocated, let's say a 60-40 split where you had 60% allocated to equities, 40% allocated to bonds. Well, bonds performed very, very well during that period of time. In fact, they had positive returns while stocks were selling off. So while it took equity investors at least three and a half years to make their money back, these bond investors or these investors with a 60-40 allocation basically made up all their losses in half that amount of time. And again, what they were able to do is as the

bonds appreciated, they were able to trim their bond holdings and use that to generate cash flow, buying themselves more time to allow those stocks to recover.

So the takeaway from this period in the financial crisis is you do want to make sure that you allocate your investments in a manner that aligns with your goals and your time horizon. So not everyone is comfortable with an all-equity approach. So with a moderate portfolio, you can survive some of those downturns. And as we enter into election season, it may be a good time for you to evaluate your risk tolerance.

David Mandell:

That's right, that's right. It's got to play into your long-term goals and diversified portfolio, whatever that means for your particular risk tolerance. And it gets into a lot of other individualized planning factors that go beyond what we're talking about today. But those are crucial, right? Because if those things don't change, then the question is how much do you really want to alter your investments, no matter what's going on in the markets? But that's for other talks that we've done and content we've created.

So now we've got the perspective of, okay, elections are a national event within a global framework of there's always reasons out there to be hesitant to invest because there's always risk out there. Now, let's hone in on US presidential elections. Let's get detailed on what we're talking about on today's topic. What does the data from the last 60 plus years tell us? We are thinking about, hey, what happens when there's a presidential election? And looking at it from the perspective of the US markets, what can we learn? What can you tell us from there?

Andrew Taylor:

Yeah, so let me touch on a couple examples of maybe more recent history leading up to presidential elections, and then we can get into maybe some raw data and some actual numbers. So when former President Barack Obama was running for his

second term, one of his primary agendas was he wanted to increase taxes. So this was again, in 2012 is when this had occurred. And so at this time, I was at a financial advisor conference. We were hearing from economists all over the country, and the belief was, so the tax increases would have a negative effect on the economy to the extent it would shave half a percent off of 'GDP' or gross domestic product. So as a country, we've averaged between 2 and 3% per year. So cutting anywhere from a half to 1% off of GDP is, obviously we're taking a fourth to 50% of production away in our country. So naturally not a good scenario for financial markets.

However, those economists were wrong. And for those of us viewing and looking at the chart, the S&P thrived during President Obama's second term and did very, very well. So the market was able to survive the threat of tax increases, and then we could apply the exact same scenario leading up to the events where former President Trump was elected, there were concerns about the protectionist policies, some of the tariffs that he had suggested he wanted to place on some of the countries with which we do business with, closing the borders. So the belief was, hey, these are all recessionary policies that'll drive the markets lower. And in fact, the S&P managed to do very, very well during President Trump's tenure as well. So we have real life examples of some of these potential policies. What does that mean in terms of the financial markets? And the market showed resiliency in both of those instances. So to take it a step further, what we'd like to share now is just some of the actual data between when a Republican is in office versus a Democrat.

David Mandell:

And before you explain this, let me just set it up for the people listening. The first slide was basically 44 years of showing the S&P and how it's grew, dipped and grew, dipped and grew with the overlay of current events. So that's, you can imagine, it's showing going from left to right, 1970 to 2024, and all these different events and how the markets did over that time. This now, the slide that we're looking at is basically a look at the S&P going back to, what is that 1960? Is that right?

Andrew Taylor:

Yes.

David Mandell:

And there's been 12 presidential administrations or basically six presidents on the Republican side and six presidents on the Democrat side. Some of them were two terms, some were one term. Okay? And it's basically showing left to right, 1960 to 2020-

Andrew Taylor:

Through the first quarter of 2024.

David Mandell:

For the first quarter of 2024. And it's showing the S&P. And basically, what they've done is have said, okay, what did the S&P do the whole time and what's that annualized return? And then they're showing what did it do during just Republican administrations with a red line, and what did it do just during democratic administrations with the blue line? And so I'll let Andy talk about the numbers.

Andrew Taylor:

Yeah. And actually what this chart's doing, it's making the assumption that you only invested while the party of your choice is in office. So basically what the analysis is demonstrating here for those of you who are watching is if you are a conservative and you're invested only when a Republican president is in office, and then you sell and you transition to cash when there's a Democratic president in office, and vice versa. And the takeaway here is there's just a tremendous amount of loss of compounding by doing that. Now the numbers are growth of the S&P, so they're exclusive of dividends. So these numbers are frankly a little understated because the S&P has averaged about 2% a year in dividends, but in terms of appreciation and growth, if you only invested while a Republican president was in office, your

annualized return less of dividends would've been 2.8%. If you only invested while a Democrat was in office, your returns would've been 5.11%. And then during all periods, the S&P offered an annualized return of 8.05%.

Now, where you really get some appreciation for the power of compounding is if you took $10,000 and invested in 1960 throughout that period of time, had you remained invested, that 10,000 would've resulted in $3.15 million, whereas had you only invested when a democratic president was in office, ti would've been $405,000 and a Republican president, 77,000, $78,000 essentially. So the attempt to time the market is what is very, very costly for investors in this scenario.

So, there's an opportunity to make money when both Republicans and Democrats are in office. And as David mentioned on the prior slide, this is admittedly a very small sample size with the number of presidents that we've had during this period of time. And we're going to dive a little deeper into the data because there is, I wouldn't even jump to any conclusion saying, well, because the numbers are more favorable for Democrats, that means they're better for the stock market because there is one outlying event which we'll dive into deeper that does have a pretty significant impact on the bottom line.

David Mandell:

That's right. Yeah, I think the lesson here isn't so much Democrats have significantly outperformed Republicans, although that may be true. I think the lesson is that staying invested is by far, especially on the raw compounding numbers, not just the annualized return, by far, the smarter strategy. And that gets to putting these things in perspective. And it also relates to the same thing really with what we just learned in the last slide about the market going up and down, but generally moving up to the right and doing better over full cycles regardless of some of these major events that come through.

So now we're not just going to be electing a president. Every time there's a president's election, there's also a bunch of Congress being elected. You got the house, which is two years, and you got the Senate, which is six years. And as we all know, the way things work in our country is it's hard to do a lot, even as a president, without the help of Congress. You can do some. But I think most Americans unfortunately don't have a good handle on this, they think the President can basically do and control everything from the price of gas to everything else, and that's not really how things work. So if you layer in Congress, which is our next slide, things get I think a little more interesting and a little more, I wouldn't say complex, but certainly maybe a little more accurate when you're looking at the whole picture. So Andy, why don't you describe what we're looking at in the next slide here?

Andrew Taylor:

Yeah. So we had some data that came from our partners at YCharts, who put this together for us. And we're looking at average annualized performance of the S&P from 1950 to 2023. We're not only looking at Democratic president versus Republican president, but we're also looking at the underlying mix within Congress. And if you're cheering for your balance sheet, what you want to root for this November is a divided Congress. So the best performance, regardless of which party is in office, is under a divided Congress.

So, a Republican president under a divided Congress averaged 12.2%, with a Republican Congress it was 11.7. Democratic Congress is only 1.04%.

A Democratic President - 15.7% with a divided Congress, with a Republican Congress it's 14 and a half, and then a Democratic Congress 8.72%.

So, the markets perform very well under each of these combinations. There's only one outlier, which again I'll touch on in a minute, but the overriding theme is a divided Congress tends to be optimal for performance.

And the reason why that is, the market just simply despises uncertainty. So when you have a divided Congress, there tends to be quite a bit of gridlock, and the market is basically able to do its thing. So what really truly matters under that environment are earnings and their companies' ability to grow revenue, and as a result, without a whole lot of drastic change, the market tends to perform very, very well.

Now, the one outlier that we want to speak of for a moment or two, that combination of a Republican president and a Democratic Congress, and it's really not fair to make any drastic conclusions out of that combination because it just so happened the financial crisis occurred towards the end of Bush's term when Democrats held both the House and the Senate. So the financial crisis was a result of a series of events that happened was 10 to 15, some could even argue 20 years in the making.

Bottom line is both parties certainly turned a blind eye to the events that were transpiring in the housing market, just everything from a lack of regulations, some overconfidence in the American housing market because essentially it had done nothing but go straight up, up until that point in 2007. So, when you had an S&P 500 that dropped 55%, most of which occurred at the end of Bush's presidency, it's just simply not fair, I think, to blame that combination. So, this is a case where we have small sample sizes, but the one takeaway from this is you can make money regardless of who's in office, and again, cheering for your balance sheet, you want to see a divided Congress.

David Mandell:

Yeah, that was interesting to me. I didn't know that. It makes sense if you come from the perspective, and I'm not saying I do, that politicians all don't know what they're doing, then the split means they can do less damage. So if you have that perspective, it makes sense and there may be some reasons to believe that that is true, but it's not always easy to do that. And there is some data that shows, especially around the election, Andy, that there is more volatility, there is more swing.

So can you talk about that and we'll get to our next slide about how things go down in October's?

Andrew Taylor:

Yeah, absolutely. I mean, the fact is October's been the most volatile month for the markets, and there's numerous articles, one of which we'll reference in the show notes that support that, where they've broken down volatility by month. So I'll try to keep this at a very high level, but standard deviation is essentially a measure of price volatility. So those who are watching online, we're showing the Vanguard S&P, VOO essentially tracks the S&P 500. And so the volatility of that ETF has ranged between 14 and 15% throughout history, and that's a pretty consistent number. By comparison, what does volatility look like in the bond market if I'm investing in different fixed-income vehicles? Well, we've used AGG, which is a benchmark for the AG or the aggregate bond index. The volatility of the AG is 4.66, so obviously it's a third essentially of the S&P.

And so that's again, all months. If we take a closer look at the month of October, volatility of the S&P is over 18%. So what does that tell you? Well, there's a lot of speculation in terms of what is going to be the impact of the election. And this isn't just simply presidential election, but also if there's a turnover in the House or the Senate, but particularly in election year, we see volatility pick up, so we want our investors and our listeners to be prepared for that increase in volatility. Now, it doesn't necessarily mean that the market's going to perform poorly. In fact, historically October has had positive returns. But you do need to prepare yourself for a lot of the speculation as everyone's trying to figure out what are these new policies going to be and how are they going to impact markets?

And the other comment that I'll make, and a lot of this has to do with the prior slide where I reference the gridlock in Congress. Some of the ideas and the proposals that are thrown out by candidates will never make it through Congress, or if they do, they're going to be modified and modified drastically. So if you hear concerns about

whether it's drastic tax increases or whether it's drastic tariffs, those are likely to be modified as they get through the house and the Senate and these negotiations take place. So point being, there's a lot of uncertainty upcoming, and we can certainly anticipate an increase in volatility and quite a bit of uncertainty around the election. However, we certainly don't want that to impact your long-term investment strategy.

David Mandell:

Very, very interesting stuff. And as we close here, Andy, just talk just a little bit about what goal-based investing is rather than, obviously this is the polar opposite, which is investing based on the news. I don't think anybody's recommending that, but what is goal-based investing and how do we look at that in terms of helping clients that way?

Andrew Taylor:

Yeah, and it's a great point, Dave, and it is just simply about having an investment strategy and a risk tolerance that matches your time horizon. And you want those two things to align. So certainly if you're retiring in the next two years and you need to access in the investments that you've accumulated, you certainly don't want to have an all-equity strategy. So you want to minimize that volatility. In the event that we do have some kind of market pullback or some kind of correction, you want to be able to withstand that because the last thing that you want to have happen is a repeat of whether it's the market sell-off that transpired in COVID at 2020, or let's hope we never see another financial crisis like we experienced in 2007. But you want to be able to protect yourself on the downside so that you're not forced to withdraw funds at an unfortunate time or at a market peak.

So the way you do that is you reduce risk as your need to access those investments become closer and closer. So if you're 30 years old and you plan on working for 25, 30 years, you can stand to be a very aggressive investor, and you don't necessarily need to be concerned with short-term volatility. However, if you're on the opposite end of that spectrum, whether you're approaching retirement or you're saving for

some other purchase, whether it be college education, purchasing a home, you want a portfolio that has a little more downside protection in it, and times like this when there's a pick-up in volatility and we have at election around the corner, you want to make sure that that investment strategy is consistent with the time horizon and make sure that that goals-based approach has an appropriate level of risk.

David Mandell:

Yes, absolutely. That's our philosophy and put in place for me personally and all of our clients. And with that approach, then these current events start to have less anxiety around them for our clients. That's the goal anyway. So, Andy, thanks so much for being on, really appreciate it. I thought this was great and really valuable. Thanks again.

Andrew Taylor:

Great. Thank you for having me.

David Mandell:

And to all the viewers and listeners, again, if you were listening, hopefully you got the big picture. If you want to dive into those slides that we've referenced, they'll certainly be in the show notes on our web page, on our website, and we have a page for each podcast episode. They'll be on the YouTube channel if you're watching it, and we're going to try to get those in the platforms, and some of them I think allow us to do that.

Hopefully you found this to be helpful. We've got a lot more resources. Andy's got a lot of good stuff on investments in the book and in the playbook and videos and all sorts of stuff on our website. And obviously he's available to consult with people if they want to chat and see if we might be helpful to them. So if you like this content, you like what's going on with the podcast, please subscribe. Please tell your colleagues, give us a five-star review, and in two more weeks we'll have another

episode that will be not based on current events, but more evergreen stuff, talking to experts, talking to physicians like we've been doing for five seasons now. Thanks again for being a part of it. Bye.