

# Perspectives

FOURTH QUARTER 2016

## Presidential Elections and the Stock Market

By Dimensional Fund Advisors LP

Americans will soon head to the polls to elect the next president of the United States.

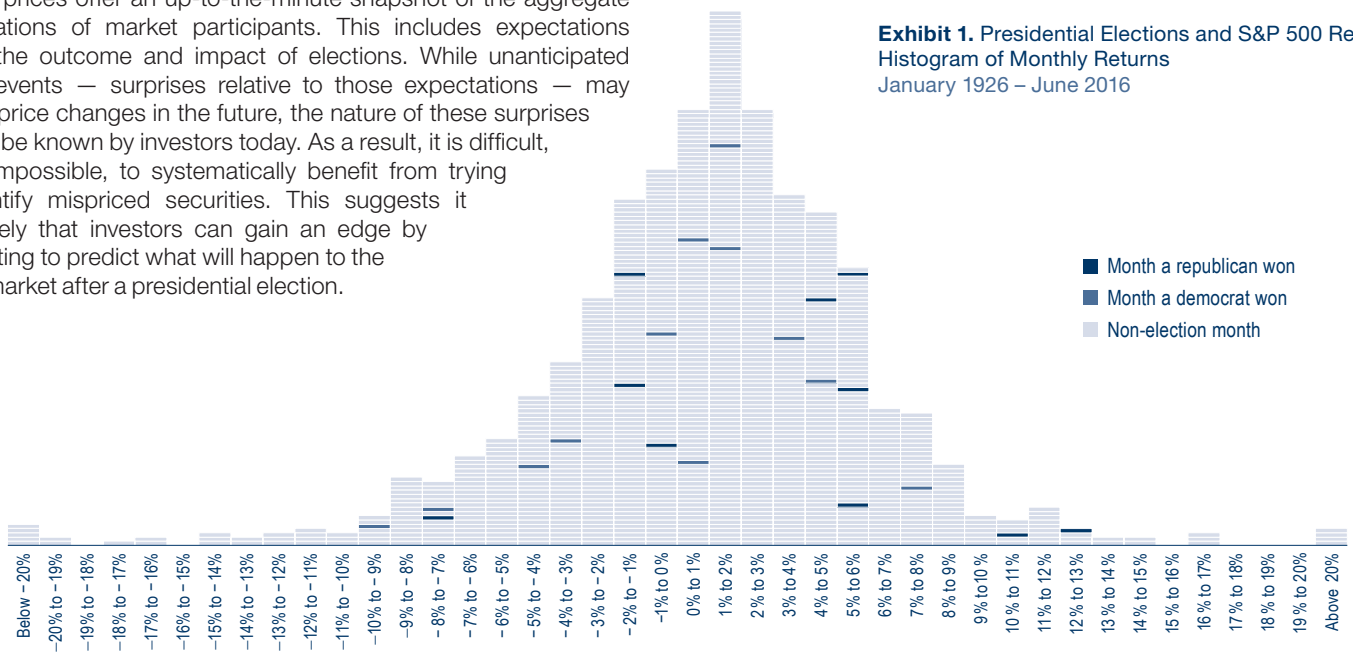
While the outcome is unknown, one thing is certain: There will be a steady stream of opinions from pundits and prognosticators about how the election will impact the stock market. As we explain below, investors would be well-served to avoid the temptation to make significant changes to long-term investment plans based upon these sorts of predictions.

### Short-Term Trading and Presidential Election Results

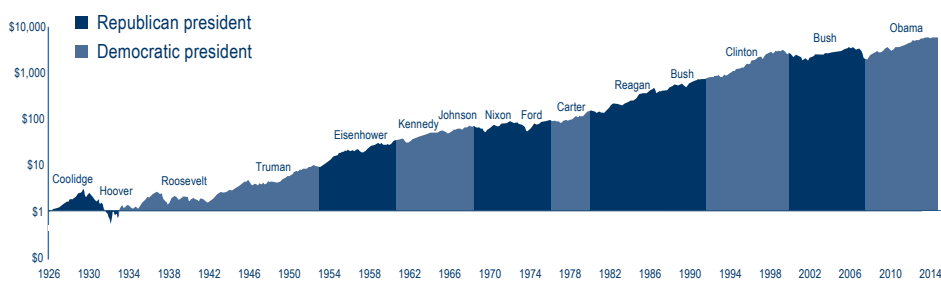
Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events — surprises relative to those expectations — may trigger price changes in the future, the nature of these surprises cannot be known by investors today. As a result, it is difficult, if not impossible, to systematically benefit from trying to identify mispriced securities. This suggests it is unlikely that investors can gain an edge by attempting to predict what will happen to the stock market after a presidential election.

**Exhibit 1** shows the frequency of monthly returns (expressed in 1-percent increments) for the S&P 500 Index from January 1926 to June 2016. Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1-percent range (e.g., the tallest bar shows all months in which returns were between 1 percent and 2 percent). The light blue and dark blue horizontal lines represent months during which a presidential election was held. Dark blue corresponds with a resulting win for the Republican Party, and light blue corresponds with a win for the Democratic Party. This graphic illustrates that election month returns were well within the typical range of returns, regardless of which party won the election.

**Exhibit 1. Presidential Elections and S&P 500 Returns Histogram of Monthly Returns**  
January 1926 – June 2016



**Exhibit 2. Growth of a Dollar Invested in the S&P 500**  
January 1926 – June 2016



### Long-Term Investing: Bulls and Bears ≠ Donkeys and Elephants

Predictions about presidential elections and the stock market often focus on which party or candidate will be “better for the market” over the long run. **Exhibit 2** shows the growth of one dollar invested in the S&P 500 Index over nine decades and 15 presidencies (from Coolidge to Obama). This data does not suggest an obvious pattern of long-term stock market performance based upon which party holds the Oval Office. The key takeaway here is that over the long run, the market has provided substantial returns, regardless of who controlled the executive branch.

continued ▶

## Presidential Elections and the Stock Market (continued)

### Conclusion

Equity markets can help investors grow their assets, but investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors. At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes. Accordingly, there is a strong case for investors to rely on patience and portfolio structure, rather than trying to outguess the market, in order to pursue investment returns.

*All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation or endorsement of any particular security, products or services.*

*Diversification does not eliminate the risk of market loss. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful.*

*Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group.*

## Retirement Doesn't Have to Be Scary

By Natalie Merrill

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While many individuals think about their retirements and carefully plan for their futures after they leave the workforce, there are still certain fears present when they think about life after employment.

The 2016 mid-year AICPA CPA Personal Financial Planning Trends Survey revealed that the biggest concern clients have regarding retirement is running out of money — 41 percent of survey respondents cited it as the top concern, while 70.4 percent identified it in their top three client concerns.<sup>1</sup> Individuals wonder if they have saved enough before retirement, whether they will be able to spend efficiently and afford the lifestyles they want, and if there's the chance they will outlive their money.

While the worry of not having enough money during retirement has been consistent for years, it has become more prevalent recently as more of the baby boomers — who hold the greatest amount of retirement assets — are supporting both their parents and children and having to concern themselves with the necessities of retirement at the same time.<sup>2</sup> This then combines with the possibility that future unexpected health issues on top of general living costs will exhaust all savings that are supposed to sustain an individual's lifestyle through retirement.

Healthcare can be expensive at any age, but it can certainly be a daunting factor to account for when thinking about retirement and having enough money to cover any health issues — whether minor or major — one may eventually face. We cannot definitively predict what the requirements for medical insurance and what out-of-pocket costs will be in the future, which means individuals need to

be financially prepared enough to be able to meet those costs during their retirement years.

Preparation also includes additional aspects unrelated to physical well-being, such as the state of the economy. Changing tax policies and inflation have the potential to produce unwanted fears within individuals thinking about retirement, as these unexpected factors can indeed play a key role in determining how far a person's funds will last when he or she is not living off the steady income the individual was accustomed to for the extent of his or her career.

There are many additional concerns individuals have regarding retirement that are more personal than financial (e.g., not having enough social interaction with others, going through a culture shock of no longer working, becoming bored with the extra time, etc.), but the underlying apprehension of not having the means to afford all one wants during retirement can be overwhelming and intimidating to an individual who doesn't feel as prepared as he or she may have originally thought.

The fear of running out of money during retirement doesn't have to become a reality, though. Properly planning and preparing for both the known and unknown facets of the future will not only help to ensure your retirement will be in line with what you've always hoped it would be, but it will also help in calming some of the anxieties you might have about not having enough money to cover all of the expenses — for both necessities and desires — that will be there during your years as a retiree.

<sup>1</sup> 2016 mid-year AICPA CPA Personal Financial Planning Trends Survey: Key Findings

<sup>2</sup> Lea Hart, "Americans' biggest retirement fear: running out of money." *Journal of Accountancy*, October 2016.



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