



PRATO CAPITAL

MID-TERM ELECTIONS

NOVEMBER 2018

Election Outcome

Will the Democrats take over the House of Representatives? Will the Republicans maintain a majority in the Senate? Everyone seems to have a different opinion. Even the polls are mixed on these political questions. And the track record of the political polls have not been very reliable recently anyway.

At Prato Capital Management, we do not predict election results. We look at the impact, if any, an election will have on the financial markets. Over the last 50 years the stock market data leading up to the midterm elections is not very conclusive but the US stock market indices have typically become more volatile approaching election day. After the elections, the US stock market returns have often increased. It is hard to determine if any of these short-term changes are due to political uncertainties or other factors such as economic changes or corporate earnings. Over a longer period of time, historical data and academic research of the stock markets (as represented by the S&P 500) show positive returns.

The major US stock indices have certainly seen many ups and downs this year with the volatility during October becoming more pronounced. This volatility is not out of character for what is historically the most volatile month of the year.

Impact of Different Presidential Administrations on the S&P 500

Figure 1 below shows that through most Presidential administrations, Republican or Democratic, the S&P 500 has increased. Although the increases shown by this chart are rarely smooth and steady it is probably the best evidence confirming over the long-term that stocks have increased in value through many different political changes.

Markets Have Rewarded Long-Term Investors under a Variety of Presidents

Growth of a Dollar Invested in the S&P 500: January 1926–December 2017

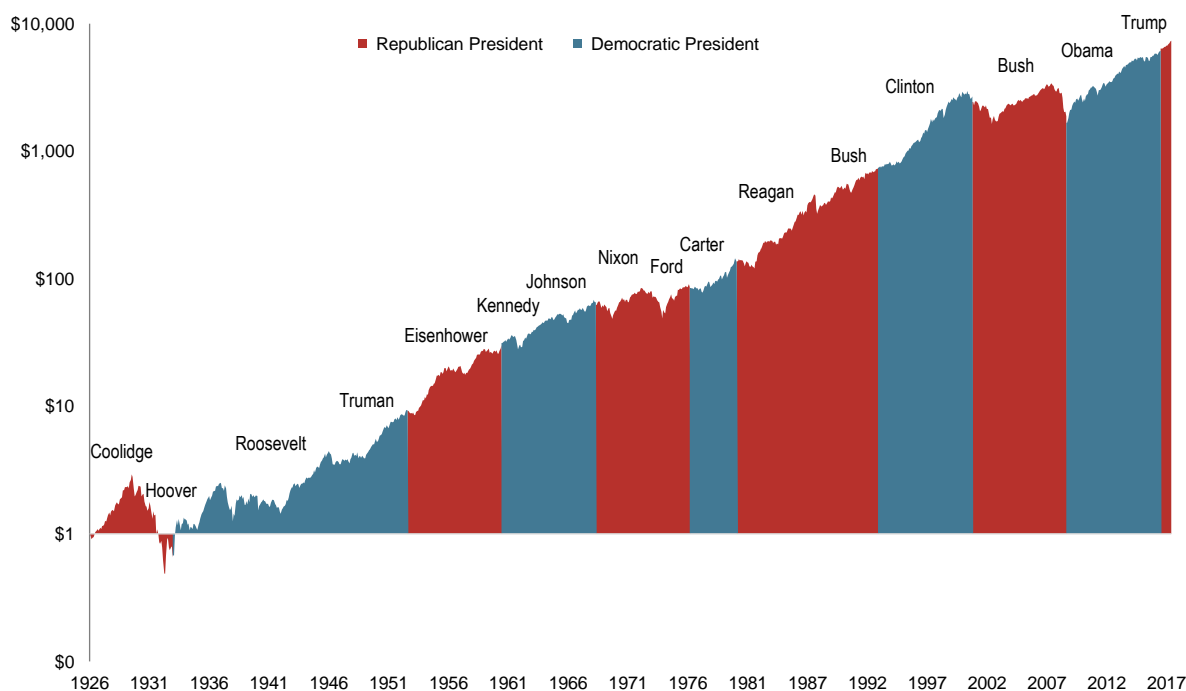


Figure 1

Impact of Major News Events on Global Stocks

At Prato Capital, we believe a well diversified portfolio should include some international stocks. Figure 2 below, shows some of the news headlines from 1970 with a chart of global stock performance. Although not always a steady climb, stocks have increased dramatically through both positive and negative news stories.

Markets Have Rewarded Discipline

Growth of a \$1,000 — MSCI World Index (net dividends), 1970–2017

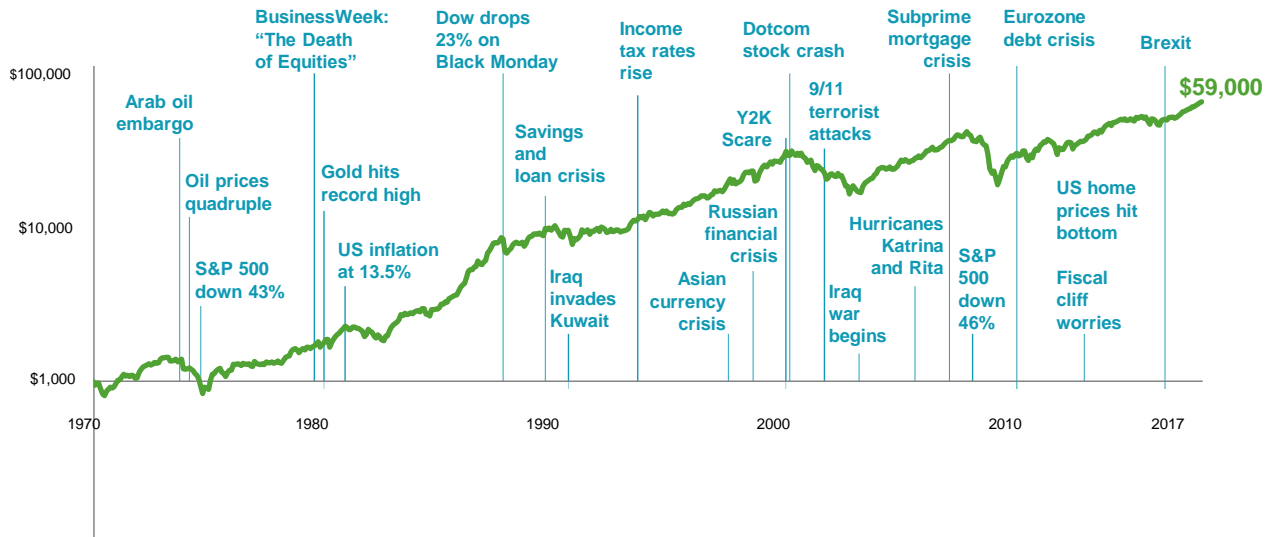


Figure 2

The Bottom Line

It is very difficult to predict anything in politics or the financial markets but there is no shortage of opinions in both areas. As we mentioned in our August Newsletter "Tuning Out the Noise", the best advice is to keep a long term view.

The French mathematician Benoit Mandelbrot is quoted saying, 'When the weather changes, nobody believes the laws of physics have changed. Similarly, I don't believe that when the stock market goes into a period of gyrations its rules have changed.'

Through all the gyrations of the stock market, we believe a well diversified portfolio is the best way to achieve the goals of your Financial Life Plan.