PRATO CAPITAL

The Impact of Mid-Term Elections

SEPTEMBER 2022

Emotions are running high before the mid-term elections this November and the noise about potential outcomes has become almost deafening from all media outlets, including those focused on financial news.

For our clients, and any investor focused on the long-term outlook of their portfolio, we strongly recommend tuning out the election noise coming from the media and spending the remainder of 2022 focused on their well-planned individual Financial Life Plan incorporating almost 100 years of historical data and backed by Nobel Prize winning research.

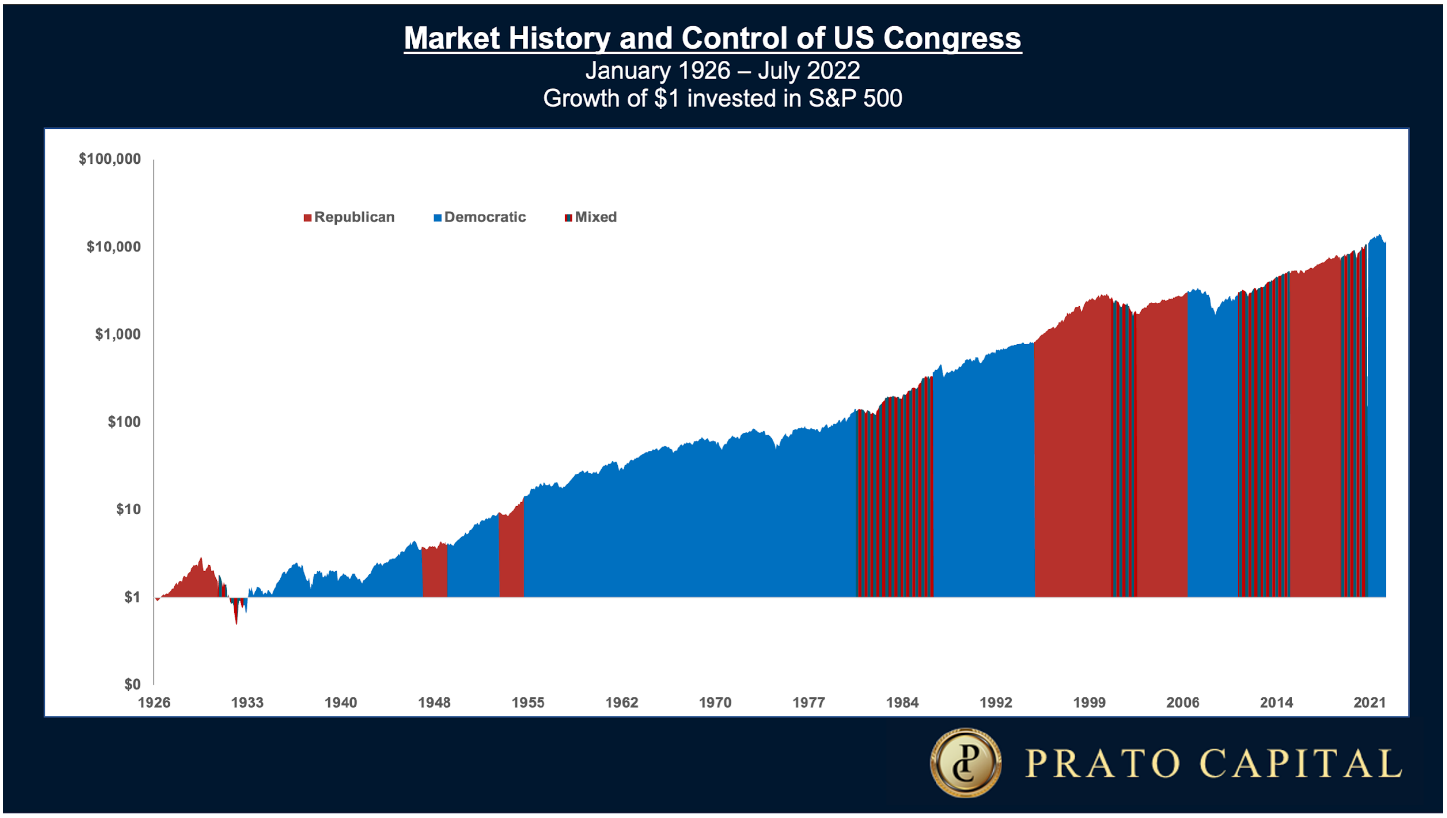
Using History as a Guide

With every election, there is much speculation (noise) about which candidate or candidates are better for the stock markets and an investor's portfolio. This year is no different. Many 'experts' are already lining up in front of the cameras to give their opinions about how the markets will go up if one candidate is elected versus another candidate. These opinions are just that – the so-called experts guessing or wishing for what the future may hold.

In our October 2020 newsletter, we discussed the minimal impact US Presidents have on long-term stock market returns. Many of the points from that newsletter are valid for any election, including the one this November. History has shown the impact on investors' portfolios by federal government policies has been temporary and minimal. Economic conditions, both domestic and global, matter much more than those who are in power. It is critical to separate the emotions of politics and your political views from your portfolio and financial plan.

When we look back at almost 100 years of stock market returns, we can see long-term growth regardless of which political party is in control of Congress. **Chart 1** below shows the growth of $1 invested in the S&P 500 since 1926. The blue shaded areas represent Democratic control of both houses of Congress and the red shaded areas show Republican control. When control is mixed it is shown by a blue and red stripe.

Chart 1: Growth of $1 invested in the S&P 500 since 1926



It may be natural for investors to feel there is a connection between the political party in charge and the returns generated by the stocks in their portfolio, but when we use history as a guide, we can see that the political party in control of Congress does not influence stock returns as many pundits would like investors to believe.

Our portfolios are invested in companies, not political parties and most companies are focused on growth and making a profit. Successful companies adapt to different and changing economic situations as needed to remain successful. This is what drives stock market returns over the long term.

Conclusion

Stock market returns have rewarded long-term investors no matter which political party is in control of Congress. What we hear from the political ads and the media outlets is the same as we have heard in the past – noise. These are the hunches, guesses, and wishes of those making the statements. Investors are best served by tuning out this noise and focusing on their personal financial goals that are included in their custom Financial Life Plan.

The real risk to an investor's portfolio, and more importantly their Financial Life Plan, is trying to predict the future direction of the stock market based on analyst hunches and by overreacting to the headlines and noise in the media.

"Do you really want to invest your hard-earned savings—the money you'll need for your kids' college or your own retirement—based on someone's hunch or wish?" —

David Booth, Executive Chairman and Founder, Dimensional Fund Advisors