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INVESTMENT - RETIREMENT - LEGACY PLANNING

Should A Controversial Commander in Chief Trump Your Current Investment Strategy?

A number of clients have come to us questioning our view on how the election of our often-controversial new President, Donald Trump, or the numerous volatile stories about our current political climate will affect the portfolio allocation strategies they are presently pursuing. Several clients have had a desire to completely move away from investments and sit in cash or bonds. Even if this isn't you, it's very important to be discussing major events you believe may impact your financial future and go over investment strategy with your advisors during these times. At the minimum, you will be able to get some peace of mind concerning an otherwise troubling issue. At most, you can make an educated determination on how/whether to take action to prepare for the effects a major event may have on your financial picture. This article will address this specific issue and hopefully provide some guidance and comfort when thinking about how the current political climate affects an inherently uncertain financial future.

First, we can look at two of the more prominent and recent Presidential scandals where impeachment actually occurred: Clinton-Lewinski and Nixon-Watergate. In these examples, it is difficult to find even a correlation between the scandal and the movement of the markets. On the days that the first reports of the scandals broke to the public, the S&P rose 0.8% after Nixon's scandal and fell 0.8% after Clinton's scandal. Then, on the day where the articles of impeachment were issued for Nixon, the S&P fell 1.7%. For Clinton, the S&P500 rose 1.25%. On its face, it does not look like these major political scandals had financial consequences that could be prepared for. There is not enough evidence out there to be 100% certain about what this means. But, it at least indicates that other forces and environments have an impact on the markets that can overcome the times when our leaders humiliate themselves publicly. These examples encompass actual impeachable offenses committed by past presidents and the public reaction to facts. While it is important to prepare for this possibility, that is not what we currently have going on right now.

These are the most recent events we have to base our expectations on for how an actionable presidential embarrassment should change our investment strategies, or not change them. But, there is nothing proven yet that could lead to President Trump's impeachment. So, all we can look at for now is how the feelings of uncertainty and unease held by many Americans since Trump became president has affected the actual market's performance. Since President Trump's inauguration on January 20, 2017, the Dow Jones Industrial Average has risen 2136.67 points (as of 8/1/2017). This increase equates to about a 10.8% increase over that period. The NASDAQ has seen greater growth, increasing by 14.5% or 807.61 points. Finally, the S&P500 has grown 204.99 points which is an increase of 9%. Those who bought into the fear, speculation, and emotion and took their money and assets out of play when Trump was elected have missed out on huge market gains. Nevertheless, what has taken place thus far does not demand that the markets continue to perform this way throughout the Trump Administration's term, scandal or not. It does show that an initial emotional reaction to a changing political climate could cost your long term strategies dearly if you do not do your homework about an event's potential financial consequences or have someone to whom you have entrusted that responsibility.

For the people who believe that at some point in the next 4-8 years the President will fail in his official duties severely enough to lead to impeachment or worse, those two examples provide some insight on keeping a cool head and not reacting emotionally. However, because public perception is one of the drivers of the markets, public feelings about politics cannot be dismissed from having an effect on the markets. But, it is likely that other factors play a larger role in driving finance than what goes on with the person in the Oval Office. During the Clinton scandal, the markets had been on a long bull run and the scandal didn't stop it. It was speculative investing and the tech bubble that caused a great decline in the markets just after the impeachment. In fact, the few dips the market took during this period could just as easily, if not more so, be attributed to the Russian financial crisis going on. During Watergate, the middle east had just entered into a major conflict and there was also an ongoing oil crisis. These events are not the only ones that are more likely to have an effect on your portfolio. Things like a company's profitability or new product release, interest rate projections, international market performance, and sector innovation all have known correlations to market performance. The government, as a whole, also does things that drive the markets such as fiscal and monetary policy, bailouts, subsidies and tariffs, and corporate regulation or deregulation. The policies the President and other branches of government pursue while in office are much more indicative of whether strategy changes may be necessary.

This article is not meant to give you insight on what specific actions to take now that Donald Trump is in office leading America. In fact, using that reason alone as a basis for making any changes to your strategy should now seem irrational. You must take into account all the evidence surrounding the president, governmental policy, and known ongoing financial influences before you make a decision to change your investment approach. As always, the future is fraught with uncertainty and it provides no guarantees. This article is intended to make you think before you act on your emotional feelings about how a sitting president's term will unfold. Acting before thinking can lead to some disastrous outcomes for you financial picture, most importantly in the effects on your long term strategy. You should also be very careful to determine the events that will actually have the greatest impact on your portfolio and adjust your strategies accordingly, if necessary. A potential presidential scandal, likely or not, has not historically been proven one way or the other to have a substantial impact on your financial picture.

Sources

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