"I'm Leaving The Country If Trump/Sanders/Clinton Wins"

SYNOPSIS

- The Presidential election is shaping up to be one of the most controversial and polarizing races in modern history.
- Fears over policy changes can certainly impact financial markets, but these effects only last for a brief time period.
- Emotions are viruses that threaten your financial future, and they provide no value when making investment decisions.

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It's Going To Be Interesting

It's difficult to recall a U.S. Presidential race dominated by more polarizing candidates in modern history. The fear of the unknown is beginning to weigh on the minds of investors as they try to assess the impact of a new presidency on their nest eggs.

The chart below shows just how much political forces can impact the short-term direction of stock prices:

Source: Yahoo! Finance

The red circle indicates the S&P 500 index close on November 6, 2012. The very next day, the market began a steep decline that sent the index down over 5.5% in a single week. That day, November 7, 2012, was the day that President Obama had secured his second term in office.

The market reaction seemed justified to those who followed the news and listened to

Republican rhetoric. These cohorts prophesized that Obama's policies towards big business and his half-baked scheme to fix healthcare were going to bankrupt America, so a drop in an index that depends on the future health of the American economy made a lot of sense.

However, emotions can only impact the world's largest stock market for so long, and the S&P 500 recovered within a month. It was as if all the harm that Obama could do magically disappeared. In fact, the market rose over 50% through 2015, and despite all the fear mongering throughout his time in office, the market has tripled.

The chart below tells a similar story of the impact of presidential policy on equity prices:

Source: Yahoo! Finance

Back in 2002, former President Bush enacted a myriad of incredibly unpopular policy decisions including tax cuts and exponentially increasing the deficit. He fought an unpopular war and was vilified for acting as the world's police at the expense of our tax dollars.

However, the S&P 500 did not seem to notice for too long. The red circle indicates the precise time when the Bush tax cuts were approved. From that point, the market almost doubled through the end of 2007 (approximately when the media shifted focus to the upcoming election).

Two different parties with opposing views, yet both times the stock market surged. How can that be? Were the Republicans wrong to think Obama was bad for business? Did the Democrats make false assumptions about the impact of Bush's foreign policy on the domestic economy?

The answer to these questions lies in the fact that a President has very little control over the future direction of the economy. In both instances, the U.S. was growing due to reasons that were not based on their respective policies and/or beliefs.

***NOTE**: Although a President cannot impact the broad economy, he or she can certainly benefit or destroy sectors within an economy. For example, take a look at coal stocks since 11/7/2012.*

Simply put, Presidents love to take credit for the booms, but given how long it takes policy decisions to work its way through the economy, it's more coincidence than causality.

It's Tough Being Human

Emotions are what distinguish us from machines. They are why we can love, laugh, and smile, and they also keep us safe from harm. For example, hearing a scary noise while walking down an alley at night causes the body's senses to heighten for survival.

As important as it is to embrace these powerful forces, emotions also represent dangerous viruses that often wreak havoc on our decisions. Recall the last time your emotions got the best of you and resulted in a decision void of all logic and reasoning. Was the outcome favorable?

This morning, I woke up in a hotel room and stubbed my toe on a poorly designed coffee table that could have easily doubled for an asteroid. I got so mad at this inanimate object that I slammed my fist down upon it to teach it a lesson. Now, my toe hurts and my wrist is swollen.

Had I only stopped for a moment to assess the situation, I would have realized that this coffee table was (1) not to blame and (2) probably not going to learn its lesson. My wrist would have been spared, and I would not be in pain each time I press a key on my laptop.

Few emotions are stronger and impact investor decisions more than political ones, and the two charts above show how politics often drive investors to make terrible mistakes. For example, had an investor who feared for the future of America sold into the panic after Obama won his reelection, think about the gains this investor would have missed.

In a year with so much political drama and uncertainty, the risk of emotionally-charged decisions has risen. Personally, I have lost count to the number of times I have overheard someone say, "I'm leaving the country if Trump/Sanders/Clinton wins!" Sure, they are likely empty threats, but the fact remains that voters are fired up.

Simply put, the real risk to investors is not a Democrat or Republican win, but rather how they will react to the outcome.

Implications for Investors

In the spirit of full disclosure, my political views are controversial. I despise both parties equally, but for different reasons, and I have never voted. I believe that our system of electing the most powerful leader in the world is comical, and democracy is nowhere close to a perfect system.

The structure of the presidency is also severely flawed. The first term seems to be nothing more than a four-year campaign to secure reelection. The second term is the only time for action, but due to the snail's pace movement in DC, it's never long enough to get anything done.

How would I fix it all? First, institute a voting system that tiers the value of a citizen's vote based on contribution to society (a freeloader's vote should not be equal to a police officer's). Next, eliminate the Electoral College because it hasn't been needed for over a century. Finally, change the Presidency to a six-year, one term structure to give him/her enough time to get stuff done by eliminating the possibility of reelection.

I do not expect many to agree with my disgruntled views on politics or my plan to fix everything. It's irrelevant anyway, since none of my ideas will ever get implemented. I also accept that public officials will continue to be elected that don't align with my political beliefs.

What I cannot allow, under any circumstances, is a scenario where my cynicism impacts my investments. Just as former Presidents were unable to control the direction of the market for more than a few days, future Presidents will also lack the power. Hence, politics has no place in my investment decisions, nor does it belong in yours.

Keep in mind that any market reaction to the winner in November, whether good or bad, will be short lived because emotions don't fuel economies. Over time, stock prices will go back to running on fundamentals because that's how it always works.

The bottom line is that investors do not get paid for their political beliefs, so keep them out of your investment portfolios. The Presidential election will have little impact to your long-term financial future, unless you let it.

Sincerely,

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