

## The Market, You and the Unknown

October 2020

Several of the folks here at Statherós are working their way through a very well thought out book authored by Morgan Housel called *The Psychology of Money*. It is an impactful yet simple read making Housel one of the best communicators of personal finance and the investor behavior. Probably one of the most striking points he makes is that when it comes to our finances, people should not think purely rationally about their assets as much as they should think reasonably. A quick example of what he means would be if you're sitting at a black jack table and every time you lose a bet you doubled the next bet to get back to where you started. If you lost twice in a row, you simply quadrupled your next bet... and so on. While this may make *rational* sense from a mathematical standpoint, it's not *reasonable* to actually do so, especially after losing six or seven straight hands.

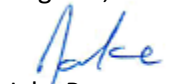
In addressing the markets, Housel notes that "the historical odds of making money in US Markets are 50/50 over one-day periods, 68% in one-year periods, 88% in 10-year periods, and (so far) 100% in 20-year periods. Anything that keeps you in the game has a quantifiable advantage." With this in mind, the rational decision might be to have your portfolio in 100% domestic stocks for at least 20 years – but this may not be a *reasonable* approach for many investors. Every investor is unique, with different goals, different life circumstances and a different behavioral approach to market volatility.

You see, true financial freedom is the ability to be flexible, to be able to live through the ups and downs of the markets as well as all other events that come to pass. The Presidential elections are no exception and investors are often looking for links between presidential winners and performance in the markets as every candidate has their own perspective on economic and fiscal policies. While it may be rational to expect election results to impact markets, it would be unreasonable to modify your investment behavior in anticipation of them. Considering elections against Housel's statistic quoted above, in every 20-year period where, so far investors have generally made and not lost money in the US Markets, there were at least 4 Presidential elections - there were typically 2 in every 10-year period and one every fourth one-year period. Changing our behavior at each election time could, and likely would, significantly undermine long-term investment strategy and performance. The attached graph from Dimensional shows how the markets have continued to trend upward despite election results.

This is why a financial plan is paramount. When it comes to reaching your financial goals, it's not necessarily what is in your investment portfolio that matters as much as identifying your goals and recognizing that your portfolio is simply a tool to help you reach them through your own behavior. Regardless of what is going on in the world, having a well-constructed and customized financial plan will help to provide focus for your behavior and thereby avoid unreasonable investment decisions through all events. As each person has their own set of goals, different comfort zones for safety, and personal tolerances for taking risk, it is imperative that your plan is built with your uniqueness in mind. While Presidential elections may have short-term impacts on the markets, they are just one of many factors that should be considered.

I personally do not put my market hopes in a single candidate, or in a single party even – but in the resiliency of the American people and the American businesses that these resilient people run. Through the many anxious moments of our US History, there have been trying times – and "we the people" have pulled through. This has been true since 1776 and I am confident it will remain regardless of what is to come.

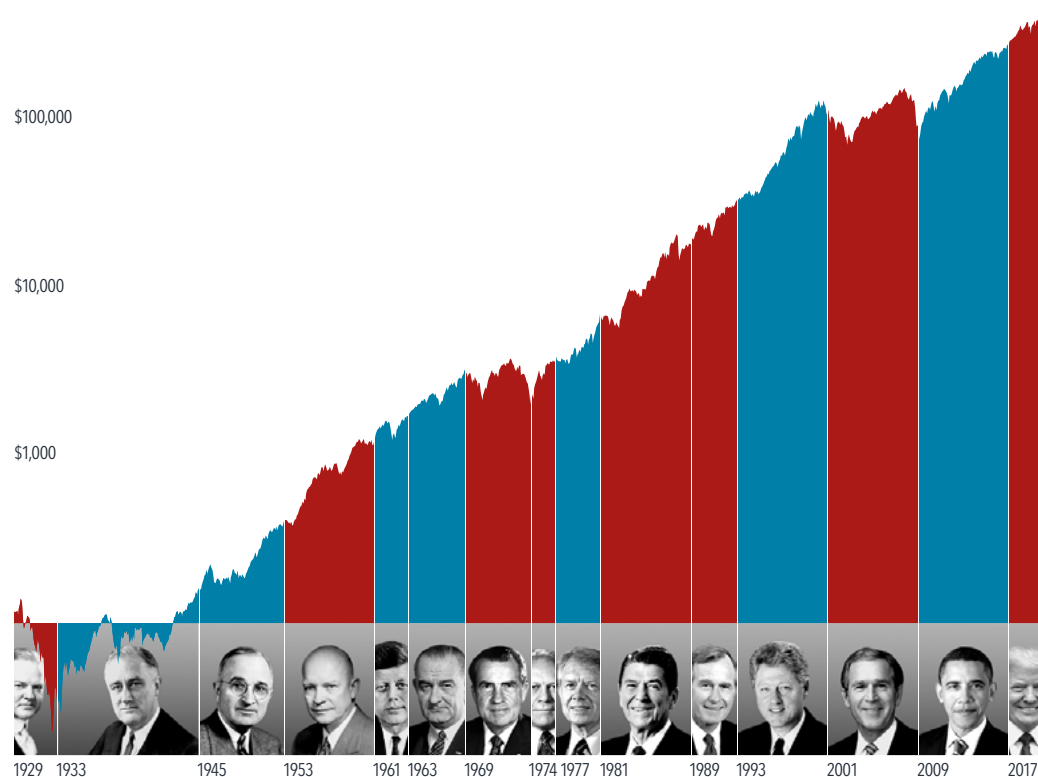
Regards,



Jake Parsons, CFP  
President and CE

# What History Tells Us About US Presidential Elections and the Market

GROWTH OF \$100  
 FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX  
 March 4, 1929–June 30, 2020



It's natural for investors to look for a connection between who wins the White House and which way stocks will go. But as nearly a century of returns shows, stocks have trended upward across administrations from both parties.

- Shareholders are investing in companies, not a political party. And companies focus on serving their customers and growing their businesses, regardless of who is in the White House.
- US presidents may have an impact on market returns, but so do hundreds, if not thousands, of other factors—the actions of foreign leaders, a global pandemic, interest rate changes, rising and falling oil prices, and technological advances, just to name a few.

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*Stocks have rewarded disciplined investors for decades, through Democratic and Republican presidencies. It's an important lesson on the benefits of a long-term investment approach.*

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**Past performance is not a guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.**

In US dollars. Growth of wealth shows the growth of a hypothetical investment of \$100 in the securities in the Fama/French US Total Market Research Index. The chart begins with the start of the first full presidential term (March 4, 1929) for which Fama/French Total US Market Research Index data is available and ends on June 30, 2020. Data presented in the growth of wealth chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment.

**Fama/French Total US Market Research Index:** This value-weighted US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American depository receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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