viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Election Roller Coaster

One of the benefits of being in business for over 30 years is that we have a lot of market history and experience to reflect upon. And, whenever we hear someone say "the market is different *this time* because of the election," we understand that while the situation may be different, the outcomes rarely are.

This election season certainly does seem a bit different so we looked back through our past newsletters to see what we said about elections and market activity. Surprisingly, while our Fall newsletters have included plenty of discussions about earnings, Federal Reserve activity, economic outlook, and even a banking meltdown, we never once mentioned the presidential elections. Since we've recently fielded a few client questions regarding the election's possible impact on the market, we thought we'd address the issue.

To be sure, the passions voiced for or against each candidate seem very strong this year. There are Clinton supporters who loathe Trump and Trump supporters who despise Clinton. And, of course, there is also a large contingent of voters who want neither, but feel a need to choose the "least worst" candidate. At the writing of this newsletter, no obvious frontrunner has emerged.

While voters seem divided on who is best suited for the Presidency, investors are united in questioning: "how will the outcome of the presidential election affect our portfolios and should we do anything differently at this time?"

We recognize that the timing, candidates, and situations are different. However, as with prior election years, we feel it is important to look beyond the election and focus on the two items that are going to affect our investment returns the most – the economy and earnings.

It may not feel like it, but the economy has been growing since the second quarter of 2009 and is projected to grow for several more years – regardless of who becomes president. After most recessions, the economy has a recovery period where we see 6-10% growth eventually settling into a range of 3-4%. During the recovery period of this economic rebound the economy grew at 4% and has now settled into a 1-3% range.

This slower growth rate has restrained corporate earnings as well as bond yields thus curtailing average investment returns. There is a good side to slower growth, however, as the Federal Reserve is raising rates at a slower pace than in previous economic cycles. This slow and methodical approach to managing rates has helped maintain our economic recovery and is expected to continue this approach for the foreseeable future. So, while low rates may seem bad for retirees receiving a fixed income, it is likely to be a very good thing for sustained economic growth.

Currently, most economic analysts are projecting economic grow at 2.5% for 2017 - a 1% uptick from the previous year. With economic growth projected to continue, so will earnings growth. The average company in the S&P 500 is fairly valued at 16 times earnings and their earnings are projected to grow over 8% next year. This is a faster rate of growth than we've seen in many years. In our opinion, no matter who wins the presidency, the current interest rate environment is likely to sustain continued economic growth.

It is important during this slow growth period to avoid letting emotions change our investment process or risk profile in an attempt to achieve higher investment returns. In these times, as we always do, the key is to identify good companies with growing earnings at a fair price. Then hold these companies until they become over valued or quit growing their earnings. This is a cornerstone of our investment selection process and will continue regardless of who is elected next month.

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