viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Fall 2020 newsletter

Election Time

In our 30 years of managing money we have strived to keep politics out of both our investment decisions and newsletters. That all changed in 2016 when – for the very first time – our fall newsletter mentioned the presidential election:

“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?”

Wow! Not much has changed with this election cycle except an even greater degree of passion and emotion. With fears of doom and gloom from both parties, we see more and more volatility in the financial markets as we near the election.

In early September, the S&P500 hit an all-time-high and then pulled back over 10%. As of the time of this writing, the market has rallied to recover nearly half of those loses. During that period, we saw over 3 billion withdrawn from equity mutual funds – the third highest amount ever withdrawn during a month. The market has also been more volatile than usual. On a daily basis the S&P500 has been either up or down over 1% more than half of the days in September. So, volatility seems to be the new normal.

This is hardly unusual in advance of a presidential election – particularly when you have a market that has gone up for 5 straight months. However, according to a study done by Vanguard – it does not matter what party the president comes from when it comes to equity returns. The study found that during the period from 1860-2018, when the president is a democrat the equity market is up an average of 8.4% per year and when the president is a republican, it’s up an average of 8.2% per year.

There are a few differences this presidential election year than the last. COVID-19, civil unrest, and historically low interest rates to name a few. These unique issues are likely to continue to influence the market going forward.

Interest rates will continue to stay near record lows if unemployment remains high and economic growth remains weak. The Federal Reserve has already said they will hold interest rate where they are at least until 2023. With interest rates low and the yield curve flat, long term bonds have little appeal. We will continue to keep our bond portfolios short to protect our clients’ buying power. Once the economy starts to grow again and interest rates rise, we will start to lengthen maturities.

COVID-19 and the economic shut down it has caused makes it hard for many companies to operate as usual. As you might expect, this has caused a large disparity in stock performance between individual companies. Companies that have been able to pivot or were already in areas that would do well during this period have flourished. In contrast, companies in industries that have had to shut down have been severely affected. The average company in the S&P 500 is down 10% for the year. (The S&P500 is up a little for the year, but only because of the way it is calculated.)

No matter who is elected president this disparity will continue while COVID-19 is still upon us. As we have stated in the past, it is earnings that drive stock prices. Companies who are able to grow their earnings are doing well while those who are not growing their earnings are down for the year. We will continue to focus on the companies that have been able to grow their earnings being careful not to pay too much for their earnings growth. If the market continues to pullback, we will spend some of the cash that has built up in our accounts to add positions to our portfolios.

Emotions and voting passion are running high. Both of which make investing difficult. The key to investing success is to stay long-term oriented and stick to your investment plan. That is exactly what we are doing in our portfolios.

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