

## A Presidential Election in the Year of The Covid

2020 vs. 20/20: How hindsight and foresight will see us through this year's election.

October 7, 2020

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By any standard, this presidential election year seems to be the worst on record in terms of the tone and tactics witnessed 24/7 across all media and social networks. Of course, the objectionable tone and tactics are only really felt or seen when directed at the candidate of our choice. We seem to be more aware of the “inbound” shenanigans than the “outbound.”

In the investment business we call this confirmation bias, which is the tendency to interpret new evidence as confirmation of one's existing beliefs. In short, it means people tend to only take in the data they agree with. Most people filter out, discard or discount data they do not agree with.

This nasty election cycle feels new, but history proves that elections have always been contentious. It feels new because the mind is wired to focus most of its attention on present circumstances as an ingrained survival tool. In reality, what is new is 24/7 access to opinions in fragmented bits and pieces, often out of context, and many times deliberately misconstrued. Only in modern times are we expected to understand a complex issue in the 30 seconds before the light turns green.

In 1800, when President John Adams ran against his own Vice President, Thomas Jefferson, the fireworks were just as explosive as what we witness today. Imagine close friends, who also worked on drafting our Declaration of Independence, now opposing each other as the sitting President and Vice President.

The historical record is replete with attacks, such as when Vice President Jefferson said President Adams was a “hideous hermaphroditical character, which neither has the force and firmness of a man, nor the gentleness and sensibility of a woman.” President Adams responded with, “Are you prepared to see your dwelling in flames, female chastity violated, with children writhing on the pike?”

It is safe to say those comments would trend around the world on Twitter today in less time than it would take Paul Revere to bridle his horse.

In the election of 1828, sitting President John Quincy Adams was campaigning against Andrew Jackson and stated, “General Jackson's mother was a common prostitute brought to this country by the British soldiers.” The attacks were even worse on Jackson's wife and many historians believe this led to her death just days before the election.

In 1964, the campaign of sitting President Lyndon Baynes Johnson published coloring books of his opponent, Barry Goldwater, wearing a KKK outfit. They also ran a commercial referred to as the “Daisy” ad, which

depicted a small girl being blown up by a nuclear weapon because of Goldwater.

I bet most of you remember Nixon and Watergate. (As an aside, the actor Chevy Chase likely would not have become as famous if Gerald Ford did not assume office and get impersonated by Chase on Saturday Night Live.)

History teaches us – or reminds us – of how passionate opponents treat each other when the presidency is up for grabs. Our modern communication methods make it feel new – but that is also exactly how the citizenry felt during each of the above examples.

So how do we invest during these challenging times of insults, accusations, and smear tactics? We focus on the major trends in society and invest in them until they fundamentally change.

To step back a moment, when Covid-19 reared its ugly head in March of this year, our Investment Planning Committee met daily, seemingly hourly, and talked through the weekends. We quickly arrived at a foundational theme to insulate client portfolios: Cloud-based technologies. With that theme as our guide, we invested more funds into the cloud-based technologies already present in our client portfolios.

From Amazon to Microsoft, from Google to Apple and from Visa to Facebook, we continued to pour more funds into our favorite cloud-based companies as the stock market dropped through March and these companies became less expensive. We only added one new cloud-based company, Zoom, during this period.

Fortunately, our thesis proved accurate. The *Wall Street Journal* reported on August 15<sup>th</sup> that internet usage soared over 25% within just a few days of the pandemic taking hold in March.

When times are uncertain, a common instinct for any human is to feel they must do something different. We are not immune to this emotion. At Cal Cap, our training leads us away from this instinct and forces us to find a quiet corner and observe the world as logically as we can. In this case, our investment process, squarely based on logic and not emotion, compelled us to do more of what we already believed in. Thus, we invested more funds into cloud-based technology.

We also believe this is the most effective strategy to get us past this presidential election cycle and well into the future.

For example, we do not envision a Trump or Biden victory fundamentally impacting the online shopping experience for people who enjoy the convenience of ordering on Amazon. Are we going to use Google less if Biden wins? Are we going to use Visa less if Trump wins? Bottom line, we do not see the winning candidate greatly impacting any of our cloud-based companies in a material way.

Regardless of which candidate wins, we can also rely on other forces helping to propel investments forward.

First, interest rates are at an all-time low and just last week the Federal Reserve indicated that rates will likely not be raised until well into 2023. Low rates are the fuel that allows people to borrow and invest more, which usually leads to economic expansion.

Second, our country has only “invested” or “spent” about half of the three trillion (\$3,000,000,000,000.00) it already approved in stimulus money earlier in the year. Think about that amount of money another way: If you stacked one-hundred-dollar bills on top of each other it would reach 631 miles high for every trillion dollars.

Simply put, we have about another 1,000 miles of stimulus money ready to be spent or invested, which is additional fuel for our economy.

Third, pent up demand. This is the general public's return to consumerism following a period of decreased spending. In my family, we want to travel and entertain more often, which will require us to spend a few bucks. What are you waiting to do? Millions and millions of people are just waiting for their version of the "all clear" sign to begin doing all the things they placed on the back burner.

In closing, our primary responsibility is to manage your assets to the best of our ability regardless of who wins the election. This requires us to separate the wheat from the chaff. In this case, it means we will likely adjust our portfolios based on the next president's actual policies, but we will not do so prematurely based on their campaign platforms or rhetoric emanating currently from Washington.

Just as important, our own money is invested alongside our clients'. This means we manage your funds with the same concern, care and diligence as we manage our own.

