

2020 Election - Should we expect higher than normal volatility during election season?

October 2020

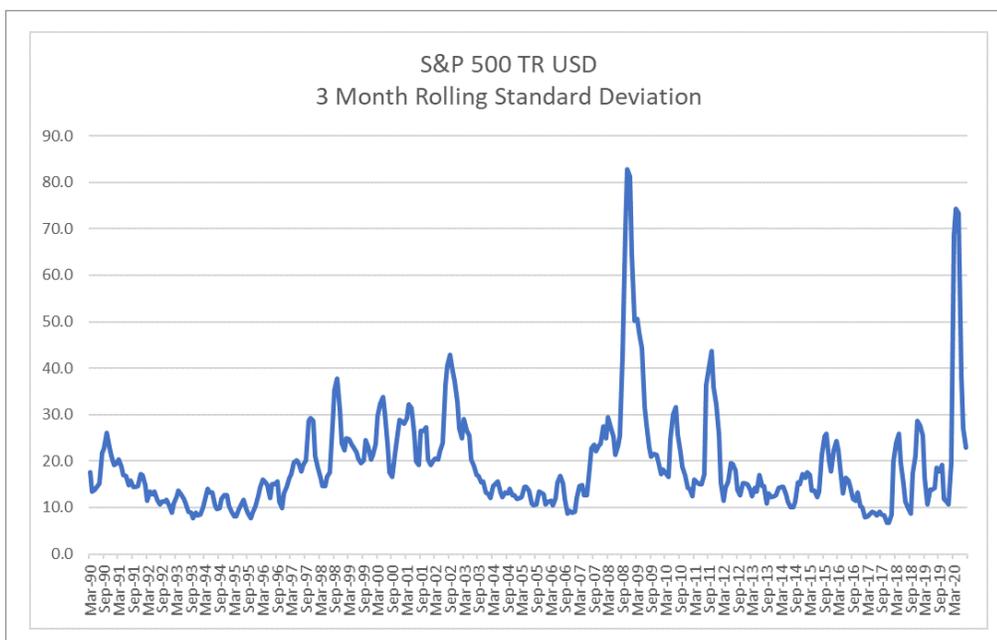
TPFG Portfolio Management Team

There is no shortage of headlines this election season that may cause investors to question their risk appetite. Each election raises questions about future policy changes that could impact a wide range of items such as taxes, regulations, or social programs. Many pundits have commented that these questions could push volatility higher as we get closer to the election. We thought it would be a useful exercise to analyze volatility in periods leading up to election day to see if there is data to support this possibility.

Key Points

- Election headlines are everywhere.
- Historically, volatility does not increase pre-election.
- Stay focused on long term goals and plan.

We examined the 3-month rolling standard deviation of the S&P 500 Index from January 1990 through August 2020. We compared the entire dataset against the three months (August, September & October) leading up to November in election years. We found no measurable difference in those periods, the average and median are statistically equal. We also analyzed various other measures, such as range, skewness, and kurtosis. These showed slightly less variability in the pre-election periods.



	All Periods	Pre-Election
Average	19.1	19.8
Median	15.7	15.3



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Our behavioral biases cause us to put a greater emphasis on what has happened most recently. It is important to step back and focus on longer-term history. Over the last 30 years, we have seen periods where one political party control Congress and the White House and periods where control is split. We have also seen many changes to public policy. Over that time the S&P 500 has averaged an annual return of just over 10%.

History indicates that volatility has remained within its normal range in the months leading up to an election. We encourage investors to keep that in mind and remain focused on their long-term goals and financial plan.

Sources: Morningstar

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