

“The Significance of a Presidential Election”

By Tommy Williams, CFP®

In case you haven't noticed, it's an election year! The influence of elections on markets, investors, and economies has been examined and re-examined over time. Theories have been developed. Ideas have been promoted. While some may be accurate; some may not be. Here are a few things to keep in mind, especially if markets get volatile before the election:



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- **Stock markets don't care who is elected:** You may have read markets perform best when Democrats win, or you may have read markets outperform when Republicans are elected. The

numbers just don't prove out either way, according to *BlackRock*:

“...while many investors connect political alignment with equity market returns, very few of these patterns hold up to scrutiny. Historically, whether a Republican or Democrat occupies the White House has had no statistically significant impact on U.S. equity markets.”

- **Change tends to happen slowly, especially with divided government:** In general, policy changes have been relatively small. *Morgan Stanley* concluded, *“Hence, election outcomes where one party controls both the White House and Congress are most conducive to expeditiously putting transformative policies into practice.”*

- **The strength of the economy influences voters.** According to *Oppenheimer Funds*:

“Decades of history prove that the state of the economy determines the president. In fact, the economy's impact on elections can be stated in a fairly simple equation: Strong economy (declining [un]employment and inflation) = a win for the incumbent party candidate.”

If the political party of the elected President has no statistically significant impact on stock markets, does it really matter who you vote for? Does it matter if you even vote at all? Katherine Mangu-Ward, Editor in Chief of *Reason* argues that not only does it not matter, it's actually irrational to exercise your right to vote:

“In a 2012 Economic Inquiry article...poll results from the 2008 election cycle [were used] to calculate that

the chance of a randomly selected vote determining the outcome of a presidential election is about one in 60 million.”

If her argument doesn't make your vote feel insignificant, I don't know what will.

However, *Economist* contributor S.M. (all *Economist* writers are kept anonymous) emphatically disagrees, and confronted Mangu-Ward's article head-on:

“First off, your vote could make a big difference, if you live in a swing state. Two of the authors of the Economic Inquiry article cited by Ms. Mangu-Ward make the case [in another article] for the rationality of voting. The mathematics [of their argument] are convoluted, but the message is simple: even with a one in 10 million chance of casting the decisive vote, the stakes are high. In fact, the lower the odds are of influencing the vote, the higher the stakes. This is because...more people will bear the brunt – or enjoy the benefits – of a country led by candidate X rather than candidate Y.”

No matter the passionate opinions held by two political journalists, only you can decide whether or not to vote, and the candidate for whom you choose to vote. Either way, the time you'll spend heading to your local voting center, voting, or moving on with your day is probably fairly insignificant compared to the time spent generating arguments for and against the voting rationale. If the debate is left to me personally, I contend that you must vote to honor all the sacrifices made in order to provide you that privilege. Most of the world's population has not been granted such a gift.

Steve Jobs once said, *“It's really clear that the most precious resource we all have is time.”* In that case, let's be sure to use that resource wisely in November!

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