

# THOUGHTS FROM THE INVESTMENT COMMITTEE

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**OUR CORE PURPOSE:**  
To bring clarity and confidence to our clients about all aspects of their financial lives, and to help them achieve and maintain a secure financial future.

## Presidential Elections and the Stock Market

In light of today's election, we thought you'd enjoy the commentary attached below from our partners at Dimensional Fund Advisors. As always, please give us a call or send us an email with any questions you have or if you'd like to talk about your investments.

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[Today] Americans head to the polls to elect the next president of the United States. While the outcome is unknown, one thing is for certain: There will be a steady stream of opinions from pundits and prognosticators about how the election will impact the stock market.

As we explain below, investors would be well-served to avoid the temptation to make significant changes to a long-term investment plan based upon these sorts of predictions.

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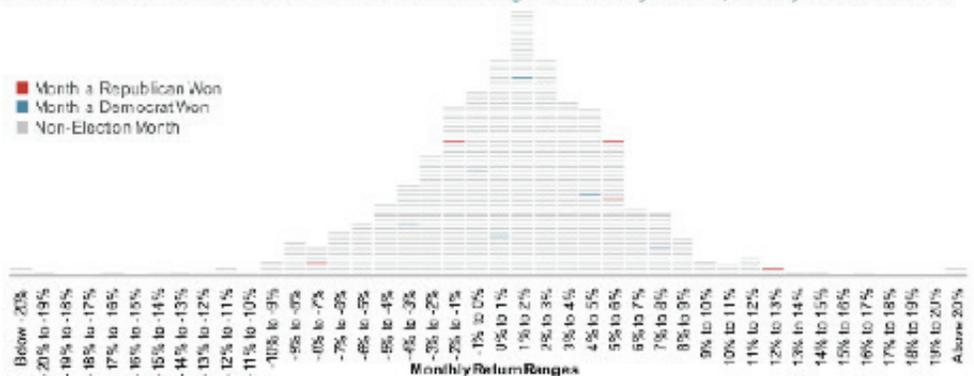
## Short-Term Trading and Presidential Election Results

Trying to outguess the market is often a losing game. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of market participants. This includes expectations about the outcome and impact of elections. While unanticipated future events—surprises relative to those expectations—may trigger price changes in the future, the nature of these surprises cannot be known by investors today. As a result, it is difficult, if not impossible, to systematically benefit from trying to identify mispriced securities.

This suggests it is unlikely that investors can gain an edge by attempting to predict what will happen to the stock market after a presidential election.

Exhibit 1 shows the frequency of monthly returns (expressed in 1% increments) for the S&P 500 Index from January 1926 to June 2016.

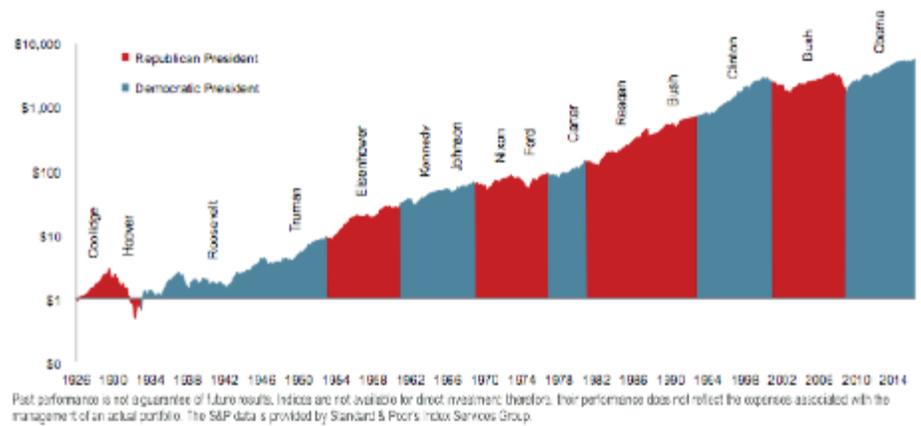
Exhibit 1. Presidential Elections and S&P 500 Returns Histogram of Monthly Returns, January 1926–June 2016



Best performance is not a guarantee of future results. Indices are not available for direct investment. Therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group.

Each horizontal dash represents one month, and each vertical bar shows the cumulative number of months for which returns were within a given 1% range (e.g., the tallest bar shows all months where returns were between 1% and 2%). The blue and red horizontal lines represent months during which a presidential election was held. Red corresponds with a resulting win for the Republican Party and blue with a win for the Democratic Party. This graphic illustrates that election month returns were well within the typical range of returns, regardless of which party won the election.

Exhibit 2. Growth of a Dollar Invested in the S&P 500, January 1926–June 2016



long run, the market has provided substantial returns regardless of who controlled the executive branch.

### Conclusion

Equity markets can help investors grow their assets, but investing is a long-term endeavor. Trying to make investment decisions based upon the outcome of presidential elections is unlikely to result in reliable excess returns for investors. At best, any positive outcome based on such a strategy will likely be the result of random luck. At worst, it can lead to costly mistakes. Accordingly, there is a strong case for investors to rely on patience and portfolio structure, rather than trying to outguess the market, in order to pursue investment returns.

Source: Dimensional Fund Advisors LP.

For those interested in further reading, please see the links below for additional commentary from our research partners at LPL Research:

[What Happens Historically After Elections? \(LPL Research\)](#)

[Could There Be A Big Sell-Off After The Election? \(LPL Research\)](#)

Thank you for your time and please reach out if you have any questions or would like to talk in more detail,

**Kathmere Capital  
Management Investment  
Committee**

### Long-Term Investing: Bulls & Bears ≠ Donkeys & Elephants

Predictions about presidential elections and the stock market often focus on which party or candidate will be “better for the market” over the long run. Exhibit 2 shows the growth of one dollar invested in the S&P 500 Index over nine decades and 15 presidencies (from Coolidge to Obama). This data does not suggest an obvious pattern of long-term stock market performance based upon which party holds the Oval Office. The key takeaway here is that over the

#### IMPORTANT DISCLOSURES

The S&P data is provided by Standard & Poor's Index Services Group.

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Stock investing involves risk including loss of principal.

The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation do not protect against market risk.

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