



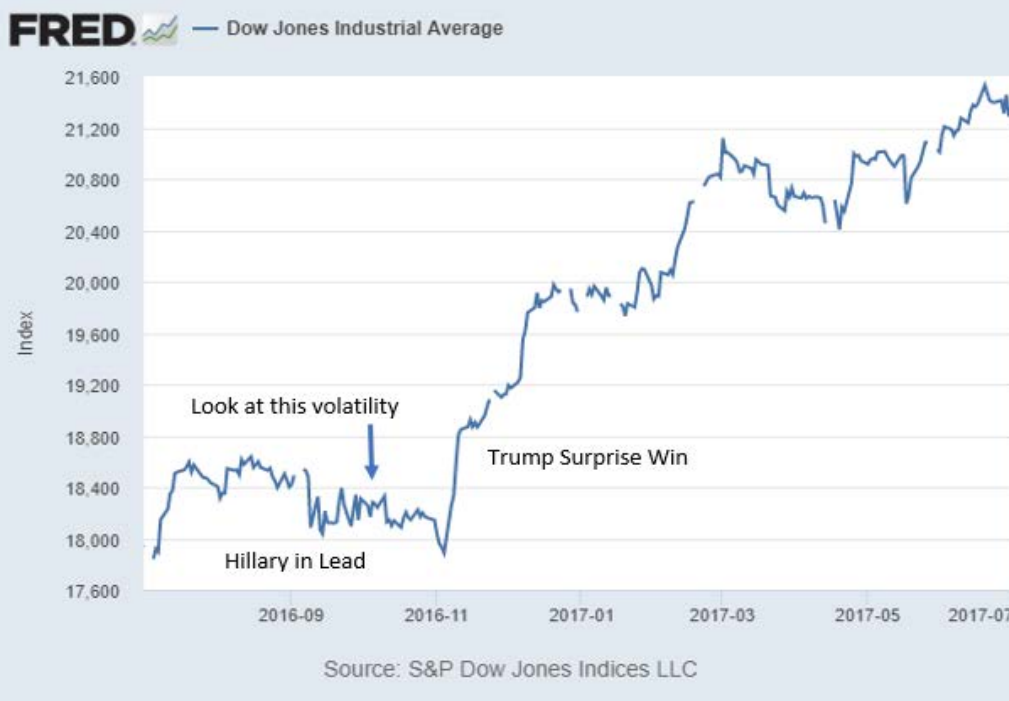
## The Election 2020 – Here We Go Again?

-J. Kevin Meaders, J.D. \*, CFP®, ChFC, CLU

**October 2020** – I trust this letter finds you well. It has been a difficult year for so many of us. Tragically, this year we lost seven of the most wonderful people God ever put on the planet: JoAnn Dixon, Susan Garnett, Cathryn Maxwell, Vikki Harris, Gene McLeod, June Parks, and my own mother, Janice Meaders. They each struggled with a terrible illness and are now finally at peace. We will miss them greatly, and our thoughts and prayers go out to their families. They will always remain in our hearts and minds. We are honored to have known them.

We also had some Covid-19 infections in the larger Magellan Family, but I'm relieved to report that everyone is fully recovered and doing well. Our office staff is fully functional, and we are operating better than ever. We are expanding our office space this winter for the tax division and plan to put in a coffee bar in the enlarged reception area, for your gastronomic pleasure.

Beyond all of this, the purpose of my letter today is a succinct one: beware of coming market volatility. Here is a chart of what happened last election. Could we be in for a similar ride?

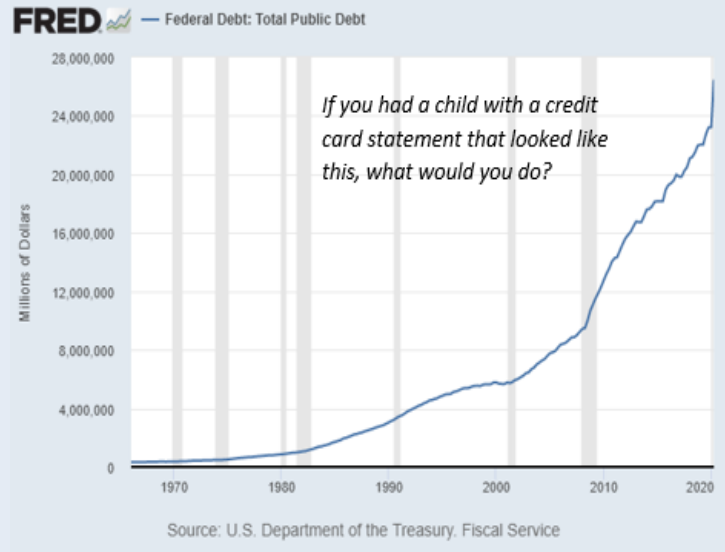


I'm neither Republican nor Democrat. (See my letter, [Good Grandma, Bad Grandma.](#))

I am merely a fiscal person, which means that there should be more coming in than going out. Simple.

So, from my perspective, both parties have failed us miserably. We have over \$26 trillion in debt - that's just beyond ridiculous.

We used to talk about pawning off our children's and grandchildren's future, but now no one even talks about it anymore.



To me it seems like this should be national conversation number 1, but no one even mentioned it in the embarrassing debacle that was the first presidential debate.

Nonetheless, there is no denying that the stock market favors Trump, mainly for his stance on corporate taxes. And that makes perfect sense; taxes generally make up the single largest expenditure for any corporation, so higher taxes translate directly into lower earnings. Lower earnings, lower stock price. Usually.

Take a look again at the chart on the first page. You can see the downward trend as it began to look more and more like Hillary would win. Locker room talk. Remember that? We were all right there in the middle of it – you couldn't escape it! And look at all the volatility prior to the election as news and polls swayed back and forth.

Finally, as election results came in, I stayed up all night watching the international markets. Tokyo opened sharply down, then Shanghai also down, then Hong Kong, then Dubai. It looked like it would be a global rout.

But then, in the small hours, Germany began to turn positive. Then, London opened positive. Finally, by the time New York opened, the international markets had clearly shaken off the shock, and the race for new highs was on.

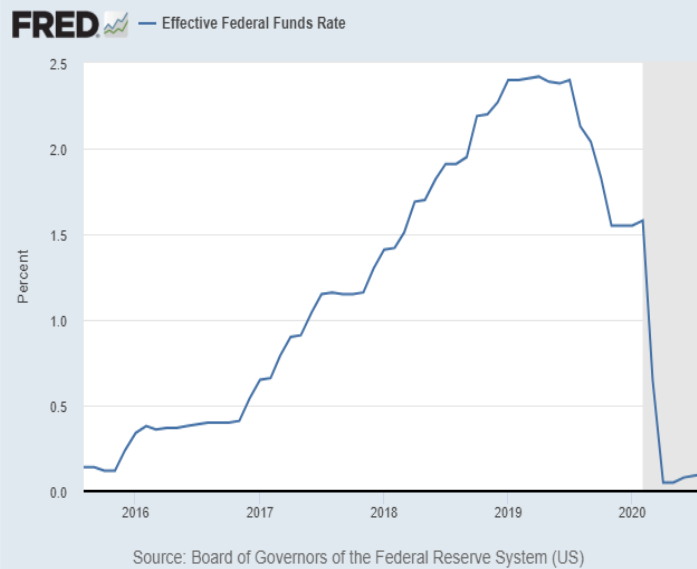
Recently, we've seen new market highs in a year when it just simply does not make sense. Even before the pandemic, price/earnings ratios and other financial data were all pointing to a downturn. (See my letter from December 2019, [Preparing for a Correction, Part VII.](#)) And yet here we are not far from those all-time highs. What has been propping up the market?

In short, the Fed.

First off, you can see here from the chart that they dropped rates back down to near zero.

This follows the Fed's typical policy of raising rates until the market crashes and then dramatically dropping them back down after the crash has occurred.

They would like to blame the virus, and of course that was the impetus that sparked the sell off, but the groundwork had been laid all the way back in 2008, when the Fed instituted near zero rates in response to their earlier crisis management of 2000-2002.

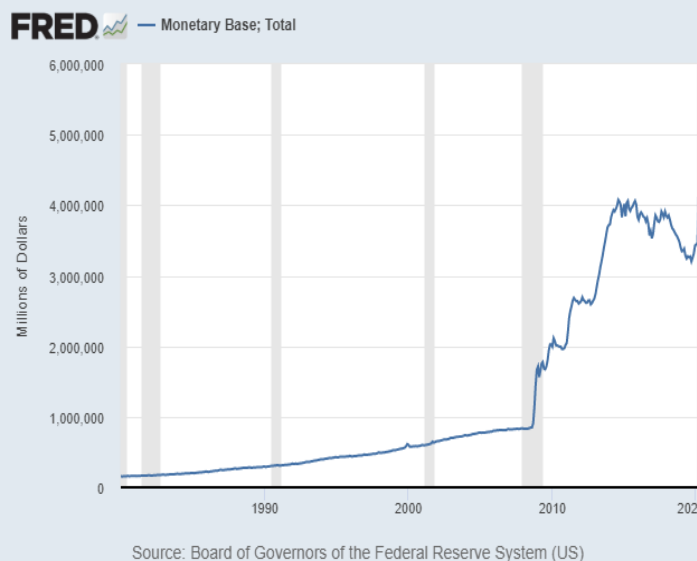


We are caught in this endless cycle of boom and bust. I can't help but hear Professor Ludwig von Mises' words clear as a bell in my head:

*The wavelike movement affecting the economic system, the recurrence of periods of boom which are followed by periods of depression is the unavoidable outcome of the attempts, repeated again and again, to lower the gross market rate of interest by means of credit expansion. True, governments can reduce the rate of interest in the short run. They can issue additional paper money. They can open the way to credit expansion by the banks. They can thus create an artificial boom and the appearance of prosperity. But such a boom is bound to collapse soon or late and to bring about a depression.*

Here is the "additional paper money" Mises was referring to, except today it's mostly in electronic form.

Before the "Great Recession" of 2008, our monetary base was about \$900 billion. Since then, we have created an additional \$4 trillion. This additional money has the effect of "raising all boats" like a flood of money. But it does not create anything new, it doesn't add real value. Just inflation.



These factors are almost certainly to remain in place regardless of who wins the election. The other factor is the tax code, and we already know where the market stands on that. Thus, therefore, and consequently, we are in a holding pattern. Our clients' accounts are at least ten percent more conservative than normal, with the expectation of another dip occurring. This could be just before the election if it appears Biden will win, or it could be after the election if Biden actually wins. If Trump wins it is no matter.

In any event, a sharp dip will likely bring some opportunities, and we plan to shift our portfolios back to full investment when and if the situation warrants. No matter the outcome, life will go on, and stocks will eventually rally again as we ride another one of the Fed's waves. The Fed has convinced me that they will do whatever it takes to keep this market afloat, traditional constraints be damned. Remember the old adage: "you can't fight the Fed."

You have had enough of this thing called life to know that nothing is certain; 2020 served to prove that, if nothing else. I know you are sick of staying at home and wearing masks when you dare go anywhere. And I know you are stuck there watching the news which can only serve to exacerbate the general level of stress and anxiety you are only naturally feeling. I ask that you NOT watch the news daily – but maybe once/twice a week? Is that possible? Watch anything but news if you can do it. I promise you will feel better after a few days. I read my news instead, mainly because I have to, and that simple change has helped significantly. But you don't have to. So, don't.

If anything is concerning you, please reach out to me at [kevin@magellanplanning.com](mailto:kevin@magellanplanning.com). We are all in this together, and please know that we are here for you even if we can't reach out and hug you. Consider yourself hugged anyway.

My very best to you and yours; Stay Safe, Stay Healthy, Stay Happy!

J. Kevin Meaders, J.D. CFP, ChFC, CLU

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## About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC).

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- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. ([www.magellantax.com](http://www.magellantax.com))

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