October 2020

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Notices

Mallard E-Mail Update
We strongly encourage all clients to read our E-Mail Updates (which are different from this quarterly newsletter). They may contain important information that is relevant to your situation. It is always best to call us if you think something may apply to you so that we can discuss it.

If you are not receiving our E-Mail Updates, let us know by sending us an e-mail requesting to be added to our list.

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MALLARD ADVISORS LLC

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

Politics & Portfolios

William D. Starnes

This year's presidential race seems more important to most people than ever before. This is due not only to the candidates themselves, but also because it is occurring during a global pandemic that has serious health and economic consequences. Add social unrest and violence on top of this and the election generates a very high level of emotion and anxiety over the future of our country. Worse, this emotion has been amplified by our reliance upon social media as a news source. This only feeds our biases and emotions, rather than focusing on facts and data.

This high level of emotion and anxiety results in questions. How will the outcome of this election impact the economy and your portfolio? Is the outcome of this election already reflected in stock prices? Would knowing the outcome of the election in advance allow you to sidestep a market downturn or jump in to participate in a bull market? These are some of the questions I will touch on in this quarter's article.

Anticipating Election Outcomes

If you are honest, you have probably said to yourself, "If (the wrong person) wins the election, we are sunk!" The implication being that your portfolio will get hammered and will stay down until the right

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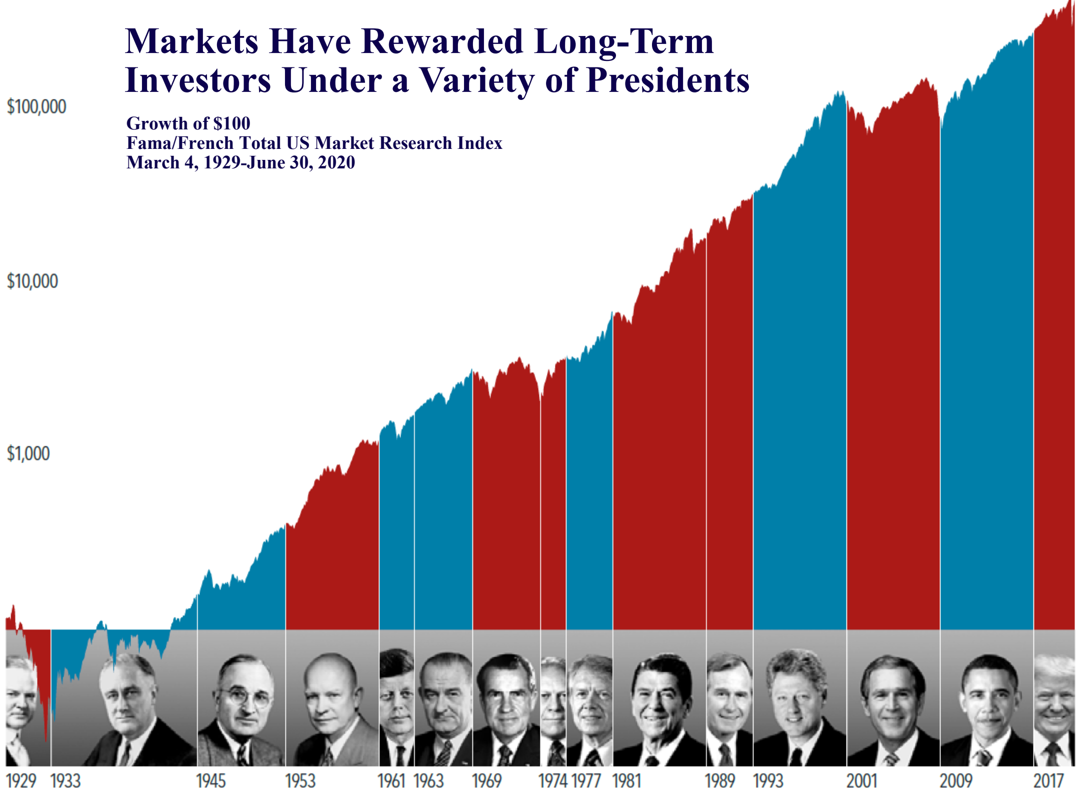

person wins four years later. This type of thinking may further lead you to abandon your long-term investment plan. In other words, you may be very tempted to "get out" of your well-designed, long-term portfolio if the "wrong" person is elected. However, is the election outcome a prudent investment strategy?

It is important to keep in mind the election, and its potential outcome, is just one of the many variables that is always reflected in stock prices. Stock prices reflect the betting odds of the election outcome. Current market prices offer an up-to-the-minute snapshot of the aggregate expectations of all market participants and this includes expectations about the outcome and impact of elections. Therefore, even if you think it is a great idea to "get out" of the market until this election blows over, you would be too late—the market will adjust before you can make a successful move.

Even if elections could be predicted with complete accuracy, it would be unlikely that this information could be used to make reliable predictions of future stock returns. 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. While you may want to "get out" just this one time, or just because of this one candidate, be honest about what you would be doing. You would be speculating, not investing, and that is not a long-term winning strategy.

The Stock Market Doesn't Care if You Dislike the Next President

While everyone attempts to link politics to the stock market as some valid measure of the effectiveness of party policies, the data has never supported this thesis. The fact is the stock market has performed well under both parties.

I have had clients contact me prior to an election to say, "If Obama is elected, sell everything". If the client did that, they would have missed out on an annualized return (from the S&P 500) of 14.3% during his two terms. Shark Tank investor Mark Cuban famously said on the Neil Cavuto Show, "*In the event Donald wins, I have no doubt in my mind the market tanks.*" If you had followed his lead, you would have missed out on an annualized return of 15.3% (from the S&P 500) during his term thus far. In both cases, both investors would have lost out on tremendous stock returns. Making an investment plan out of presidential outcomes is akin to administering a self-inflicted wound.

Invesco recently released a report titled, ***10 Truths No Matter Who Wins*** that showed if you stayed invested regardless of which party held the presidency since 1900, a $10,000 investment would have grown to about $5.5 million today. However, if you invested ONLY during your chosen party (regardless of which one), you would have had less than $500,000**.** **In other words**, you are much better off staying fully invested.

Ben Carlson once researched these differences and reported on his blog ***A Wealth of Common Sense,*** "If you look at the stock market performance under both Republicans and Democrats going back to 1853, two full presidential terms before Lincoln took office, the performance is fairly similar. Total returns under Democrats were 1,340 percent, and the total returns under Republicans were 1,270 percent."

If you want further evidence of this opinion, I call Warren Buffett to testify by way of the first 33 seconds of this ***video*** (after the initial advertisements) who says something like the following (not an exact quote): *people who mix their politics up with their investment activities are making a mistake.* ***Half of my adult life, I have had a President I did not vote for, but that has never taken me out of stocks.***

As proof that the markets don't care if you dislike the President, some of the best returns in the market came when the presidential approval rating was low. Invesco looked at Gallup poll presidential approval ratings and stock market growth and found that some of the best returns came during periods where more than half of the country didn't approve of the job the current administration was doing!

What Impacts Stock Market Returns

Stephen Dubner, author of the book ***Freakonomics,*** once said, "Just once I'd love a Presidential candidate to get up there on the stump and say: '*My fellow Americans, I can't control the U.S. economy. I've got a little bit of influence but mostly it does what it does. If it gets worse on my watch, you shouldn't blame me -- and if it happens to get better, you probably shouldn't give me too much credit either.*' "

Politics & Portfolios...continued

The President doesn't work in a vacuum. Congress is the other half of the equation, and the parties in control of the House and Senate are arguably just as relevant as who controls the White House. While policies have an impact, there is a large lag effect, and these incentives can take years to have an impact (if at all) - and the impact is very hard to measure within our global economy. **Attempts by elected officials to steer the U.S. economy can be likened to attempts of those with paddles trying to steer a cruise ship**. In fact, even if bad policies are enacted, the economy can still grow, and the stock market can still go up. Why? Because a desire for a better life drives each of us (some like to call this desire for a better life, self-interest, or greed). Our desire for a better life drives our willingness to work, grow, contribute, help others, make money, innovate, and create businesses.

Further, regardless of who is elected, companies will continue to launch, grow, create jobs, and work towards the good of their customers and shareholders.

Logically, each president presides over a time period that can be favorable to them or unfavorable. For instance, both Reagan and Clinton benefited from consistently falling interest rates. A terrorist attack occurred on Bush's watch, and Obama's term started near the stock market bottom of the financial crisis.

Interest rates, the economic cycle, market valuations, budget deficits, demographic trends, and factors such as wars, pandemics, oil shocks, foreign and domestic financial crises seem to have far more influence on the economy and the prices of financial assets than who is in the White House. These factors are unpredictable.

Regardless of who wins the election in November, investors should prepare for a bear market, not because the "wrong" person wins, but because that is just how the stock market works. On average, markets decline at least 20% every 4 to 6 years.

Considering the bitterly divided partisan politics at this time, and at times the extreme policy pronouncements from both sides, business ingenuity and the stock prices that reflect them seem to be the last piece of long-term rationality in a world lacking rationality.

In other words, leave your politics out of your portfolio.

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The TD Ameritrade Asset Projection Guarantee

Being engaged with your financial affairs is not only important from a personal standpoint, it is also critical in protecting your assets from criminals who would like to get their hands on your money. Further, it ensures you get some outside asset protection.

TD Ameritrade has an "asset protection guarantee" that provides reimbursement of your securities and cash if there is unauthorized activity that occurs and is no fault of your own. This does not include activities that result in loss due to the activities of anyone you have allowed access to your account or account information.

They will only honor this guarantee if you are a good steward of your own accounts. They expect you to do things like:

- Keep your account information private. This includes your username and password.
- Keep your contact information up to date with TD Ameritrade so they can contact you easily in the event they notice fraud.
- Review your account frequently which includes opening statements and confirmations, and logging into your online TD Ameritrade account.
- Promptly report any suspicious or unauthorized activity to us at Mallard so we can notify TD Ameritrade. This allows them to place the needed red flags and restrictions on your account(s) to protect you from fraudulent transfers.
- If you ever suspect you have been the victim of theft or unauthorized account access, also notify us immediately so we can notify TD Ameritrade.

I hope this helps as a reminder of why it is so important to review your accounts and report any concerns right away.

Market Commentary

The coronavirus is still very much with us, as is much of the economic dislocation resulting from the lockdowns and fear. You may be feeling out of sorts these days, but you should know that a lot of us are experiencing a nagging sense of disorientation about ourselves and the world around us. 2020 continues to be an unsettling year. Most of us are beyond tired of social distancing, foregone vacations, and not spending time physically interacting with our friends, children, grandchildren, brothers, and sisters.

Granted, we are evidently closing in rapidly on a vaccine—or even a number of potential vaccines. However, it may be quite some time before most of us will have access, and frustration (and more fear) will abound. Worse, in the coming weeks we will have to continue to go through a hyperpartisan presidential election, with a variety of voting issues we've never had to deal with before (making the "hanging chad" a minor issue in comparison). Politics create an additional burden of mental uncertainty.

So before we are further engulfed by these multiple unknowns, I want to re-emphasize a few lessons since the pandemic began. As I have reviewed previously, the overarching lesson of this year's swift decline and rapid recovery is that the market cannot be timed. This lesson still applies to future events including the election. The other lesson is more of a confirmation of the four principals to investment success including:

1. **Faith in the Future**—To be an investor, you have to believe the world is getting better—even in the face of ugliness in this world. Thankfully, history supports this faith.
2. **Patience**—We must have the ability to wait for positive returns to unfold.
3. **A Strong Investment Philosophy**—We must have the convictions that make us steadfast and unswayed by outside forces hell-bent on getting us to "act" (i.e., sell out of our portfolio).
4. **Discipline**—We are committed NOT to change our strategy in the face of surprise events.

We have been following these principals for many years, and if anything, it has been our experience this year that has validated these principals even further.

As always, we are here if you would like to talk about anything at all. Thank you, as always, for being our clients. It is a privilege to serve you.

Summary of Asset Class Total Returns *(as of 09/30/2020)*

Asset Class*	Ticker	Sept	Three Months	YTD	12 Months	*Annualized* 3 Year	*Annualized* 5 Year	*Annualized* 10 Year
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**								
60% Equity / 40% Bond	DGSIX	(1.8%)	4.9%	0.6%	6.2%	5.0%	7.2%	6.8%
STOCKS								
Larger-Cap	VFINX	(3.8%)	8.9%	5.5%	15.0%	12.1%	14.0%	13.6%
Smaller-Cap	NAESX	(2.7%)	5.8%	(6.4%)	1.2%	4.3%	8.8%	10.8%
International - Developed Mkts	VGTSX	(2.0%)	6.5%	(4.9%)	3.7%	1.2%	6.2%	4.1%
International - Emerging Mkts	VWO	(1.6%)	9.1%	(1.4%)	9.8%	2.6%	8.2%	2.3%
Real Estate	VGSLX	(2.6%)	1.3%	(12.7%)	(12.2%)	2.4%	5.2%	8.5%
Inflation Hedges	*	(2.9%)	8.9%	(6.5%)	1.4%	(1.7%)	5.9%	1.4%
BONDS								
U.S. Investment Grade Bonds	VBMFX	0.1%	0.6%	6.9%	6.9%	5.2%	4.1%	3.5%
Global Bonds	VTABX	0.8%	1.1%	3.5%	2.2%	5.1%	4.4%	-

** Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for **"Natural Resources"** is used. All data is provided by Morningstar and includes reinvested dividends.*

** All returns are net of (i.e., after) fund fees, and include reinvested dividends.*

** Past performance is not indicative of future results.*

*** This portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond) - DGSIX*