Your Retirement Plans and the Elections: Gridlock, Taxes, Social Security

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Robert Powell November 12, 2018

What do the midterm election results mean for your retirement?

Retirees and those saving for retirement should expect two years of gridlock and should not expect additional tax cuts. They should also expect that lawmakers in Washington, D.C. won't cut -- nor take steps to shore up -- Social Security or Medicare.

That's the assessment of two financial experts -- Richard Rosso, director of financial planning at Clarity Financial and Bob Frick, an economist at Navy Federal Credit Union -- who discussed the outlook for retirement investing during a recent podcast for TheStreet.

Frick and Rosso expect to see the status quo, with the possible exception of bipartisan agreement on infrastructure spending. "That's something that would really help middle- and lower-middle-class Americans to a great degree," said Frick.

Frick also urged lawmakers and the Fed to let the expansion play out and not to tinker with it. "For the economy at large, for workers at large, our primary goal is to make sure that more people enjoy the fruits of this expansion" he said

If lawmakers and the Federal Reserve do too much to affect the natural business cycle, they may cut off the expansion, said Frick, noting that the unemployment rate is low and corporations are hiring and training employees. "Things are going really well right now," he said. "Let's not upset the apple cart."

Listen to the entire podcast.

As for actionable advice, Frick urged investors not to focus on the here and now. "We as human beings get caught up in the fire and we rarely recognize the big picture," he said. "It's a $20 trillion economy. The economy goes on. The market does great over time. Which political party is in power has very little do with how our massive capitalist engine will do. So, look long-term. Don't panic. If your party didn't win or you think your party lost, it's just not worth changing your plans."

What's more important, Frick said, are the things that you *can* control: how much you contribute to your retirement accounts; you can adjust the risk of your portfolio; you can reduce the costs; and you can work on your behavior "so you don't freak out when things happen."

Said Frick: "I think the political message is an apolitical message. When it comes to the markets, don't worry politics so much."

Rosso agreed with Frick's point of view. "We get very emotional over politics," he said. "And that leads right over into our money decisions. There's no boundary, no gate. We go right in."

Rosso recalled, for instance, that people shied away from investing when Barack Obama became president -- even though valuations were much more reasonable than today -- and ultimately failed to participate in a bull market that began in 2009. "People have missed out on one of the greatest bull markets in history because of politics," he said.

Now, said Rosso, investors want to invest because Donald Trump is president. "And now we are in a late-stage bull cycle and markets are at 30 times earnings and, if you are close to retirement, you can't afford to take a big loss. So, don't get so bold here because of your politics. Follow your plan."

Rosso and Frick suggested putting in place (if you don't have one already) an investment/financial plan. That's far better, they said, than reacting to the midterm elections. "Figure out what is the rate of return that I need to hit my financial benchmarks," said Rosso. "And don't deviate."

And don't try to time the market. "You're just going to blow up your plan," said Rosso. "You've got to take the emotions out of it."

Rosso did predict that a recession will likely occur during President Trump's next two years in office, but he said the bigger risk for the market right now are interest rates. "They are at the heart of every cyclical recovery and decline," he said.

According to Rosso, those who are five years away from retirement or five years into retirement have to worry about what will "take them off the path to hit the goal" and "get the politics out of it."

For his part, Frick said interest rates are a factor right now, but not as big a factor as some might suggest. Yes, the Federal Reserve is increasing short-term interest rates, and some are worried about an inverted yield curve. But Frick doesn't think fixed-income investors should be making tactical adjustments to their portfolio with respect to duration and bond quality. "You're not going to see huge changes in the yield curve," he said. "The bond part, which is a key part, especially as you're approaching retirement, of your portfolio is pretty stable for now."

Frick also said a recession is coming, though it may be as much as five years out. Still, he said an investor's portfolio should be prepared for that.

Rosso is also of the opinion that interest rates might be topping out at the moment, given recent weakness in housing and auto sales. That's "a casualty of higher rates," he said. "And it won't be long be long before it filters through the rest of the economy."

Given that, Rosso said investors should stick to short-duration, investment-grade individual bonds. One reason: The quality of corporate debt, in general, "is not as good as everybody thinks," he said. "Your bond portfolio should not be exciting. It should be the most boring, sleep-well-at-night part of your portfolio." He suggested that investors might want to ladder their bond portfolio over 2 to 8 years. "That way, you'll have flexibility if rates do go higher and, if there's a recession money will flow into bonds and investors may receive some capital appreciation."

Rosso also suggested that it's difficult for investors to make tactical changes to their stock portfolio. That's because "sector rotations today are violent," he said.

So, if you're a retiree or near-retiree, consider, said Rosso, lowering your risk, your exposure to stocks instead of trying to make tactical changes. And if valuations get better, you can increase your exposure to risky assets. "When we look at our economic numbers, they look like they are all peaking to us," he said. "It doesn't look like the start of something new, this looks like the end of something."

Rosso did suggest that investors might consider stocks that grow their dividends over time. One ETF that invests in such stocks is the Vanguard High Dividend Yield (VYM) .

And for investors who are saving for retirement and don't want to get into the minutiae of duration and bond quality, Frick recommends target-date funds.

Meanwhile, here's what other advisers had to say about the midterm election results and what it means for retirees and those saving for retirement:

"The midterms are behind us, and the results aren't a big surprise," said Charles Sherry, a principal with Financial Jumble. "Retirees and those saving for retirement should look past the political distractions and adhere to their long-term investment plan."

Sherry said investors should expect short-term uncertainty. "Noise can create volatility, but longer term, stocks take their cues from the economic fundamentals - the economy, profit growth, the level of interest rates, inflation," Sherry said. "A well-crafted, well-diversified plan, grounded in key principles that have historically driven returns, continues to be, in my view, the best path to achieving your financial goals. Adhering to such a plan helps remove the emotional component, which can plague decision making and get us into trouble."

Sherry also noted something once Warren Buffet once said: "'If you mix your politics with your investment decisions, you're making a big mistake.'"

Others share that point of view. "I would not do anything," said Steven Podnos, a principal with Wealth Care. Podnos predicted that a Democratic House will now pester Trump but be ineffective in advancing legislation. "This was the reverse case when we had a Republican House and Democratic Senate before 2016. Harry Reid in the Senate could block everything the House sent up," he said.

On the other hand, Podnos said, a Republican Senate will continue to ratify President Trump's judicial nominations; block Democratic legislation from the House; and prevent any chance of impeachment.

As for the markets, he said the midterms election results are "overall neutral to positive."

As for steps investors can take now, Don Grant, an investment adviser at CTHB/DGrant Financial, recommends that "close-to" and "already" retirees stress-test their portfolio for a stock market hit. "Have some cash on the sidelines to dribble back in as markets correct, take advantage of higher-interest investments, but keep some shorter-term to mitigate some interest-rate risk," he said. "Don't panic. If one has low-interest debt don't be in a rush to pay those off. Enjoy the nearly 'free' money you're using."

Meanwhile, another adviser, Nate Wenner, a principal and regional director with Wipfli Financial Advisors, said the midterm election results probably mean not much will change for those in or planning for retirement -- in terms of the structure of retirement plans and limits.

One expert, however, noted that a bipartisan bill was introduced in the Senate in March which could make it easier for defined contribution providers to allow lifetime income products, such as annuities. Michael Guillemette, an assistant professor at Texas Tech University, noted that the bill included a repeal of the maximum age (70½) for traditional IRA contributions.

Finally, Guillemette said, the bill proposed to revise the required distribution rules for pension plans -- this would likely entail lowering the required minimum distribution or RMD requirement. "Some of these proposals would likely receive support from both sides of the aisle," he said. "The bill, if taken up, will almost certainly change once the U.S. Congress reconvenes next year."

For her part, Lynn Ballou, a regional director of EP Wealth Advisors, is (in the wake of the midterm elections) hoping for clarity. "There's been so much noise, so much misdirection of focusing on what matters most, that measurable goals-based planning has taken an unfortunate back seat," she said. "For those who need to make decisions about investing, retirement planning needs and opportunities, the whiplash effects of the past months has taken a big toll by disheartening many from feeling they have any control at all over their futures."

Ballou said we need all our citizenry to feel that they have a solid, stable backdrop of fairness, laws and regulations that support them in the hard work they need to do to plan for a comfortable and secure future.

"What government sometimes fails to understand is how important that simple notion becomes to a secure future for the whole country," she said. 'If you disenfranchise a whole generation of taking care of their future selves, then you doom the government to needing to do so for them thus creating an even deeper society economic debt and perhaps a never-ending circle of co-dependency. People want to be independent, they want to stand on their own resources but they cannot do so in an environment of chaos and nonsense."

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