FORT VANCOUVER
INVESTMENT MANAGEMENT

Trump or Clinton; Does it Matter?

In a few short weeks we will know, finally, which candidate will occupy the Oval Office for the foreseeable future. To say that it's been a crazy election year would be a vast understatement. Yet, like many other events around the world over time, the pundits and speculators are out in full force with the question … What will the market do as a result of the election, and beyond?

As you already know, we believe speculation in events beyond our control is not only unhelpful, but likely causes more harm than good. Like many other unforeseeable events throughout the history of the modern economic world, the outcome of the market's response to the upcoming election is equally impossible to predict. But it begs the question … Does it matter?

We have included a short illustration, thanks to our friends at Dimensional Fund Advisors, titled *Presidential Elections and the Stock Market*. When you observe presidential election monthly returns since January of 1926 (and there have been 22 of them), whether Republican or Democrat, there is no apparent correlation between the months either were elected and subsequent market returns. In fact, there is no observable pattern that would lend one to think the market reacted more favorably for one or the other. Also, no matter which side of the aisle you may be on, one can observe that markets have been favorable for the long-term equity investor.

Some have been comparing the U.S. election to the Brexit vote that occurred which ushered Great Britain from the European Union last summer. Will there be a surprise result this November, or will the markets respond favorably to an expected outcome? Regardless, the markets do tend to favor certainty over uncertainty. The market in Great Britain (and the U.S.) declined temporarily after the Brexit vote, and yet as we write, they have each posted positive returns year to date. It is very possible that markets could respond favorably, regardless of who is elected.

While short-term market fluctuations are random, longer-term trends tend to provide a more reliable perspective. For all of the hype in the financial press regarding the election, and whether or not a recession is around the corner, the market appears to be fundamentally fairly valued.

> *"Despite being one of the longest and strongest bull markets of the post-war era … the U.S. stock market is still at worst fairly priced and even cheap relative to its post-war trend line. By comparison, the other two major bull markets since WWII (i.e. during the 1950s-60s and again in the 1980s-90s) both ended only after U.S. stocks rose significantly above trend for several years … Indeed, the U.S. stock market is currently priced comparable to the early 1950s or the early 1980s. Perhaps equally important, even the popular S&P Index is not nearly as richly priced today as it was in the 1960s or 1990s."*
>
> *Jim Paulsen, "Is the Trend a Friend?" August 31, 2016*

Historical data suggests that favorable outcomes are on the side of the long-term investor, while it remains a gamble for short-term speculators. Will there be volatility? Most likely yes, but as you are well aware, the only way volatility can harm us as long-term investors is if we react to it rather than plan for it, which we have already done.

We would also like to take this opportunity to introduce the newest member of our team, Matt Ebeling. Matt has more than 15 years of experience in wealth management. He began his career with a local Vancouver community bank trust department, where he held multiple positions including securities specialist and portfolio manager. Most recently, Matt spent nine years working for a private Registered Investment Advisor firm that manages over 60 billion dollars worldwide. There, he was an investment counselor for high-net-worth individuals and families across the U.S. Matt was drawn to our firm because of our shared principles, dedication to a fiduciary standard and our clients. We are very excited to have Matt as a member of our team.

As always, please reach out to us for any financial issues or concerns.

Fort Vancouver Investment Management, LLC

Dimensional

Presidential Elections and the Stock Market

October 2016

Next month, Americans will 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.

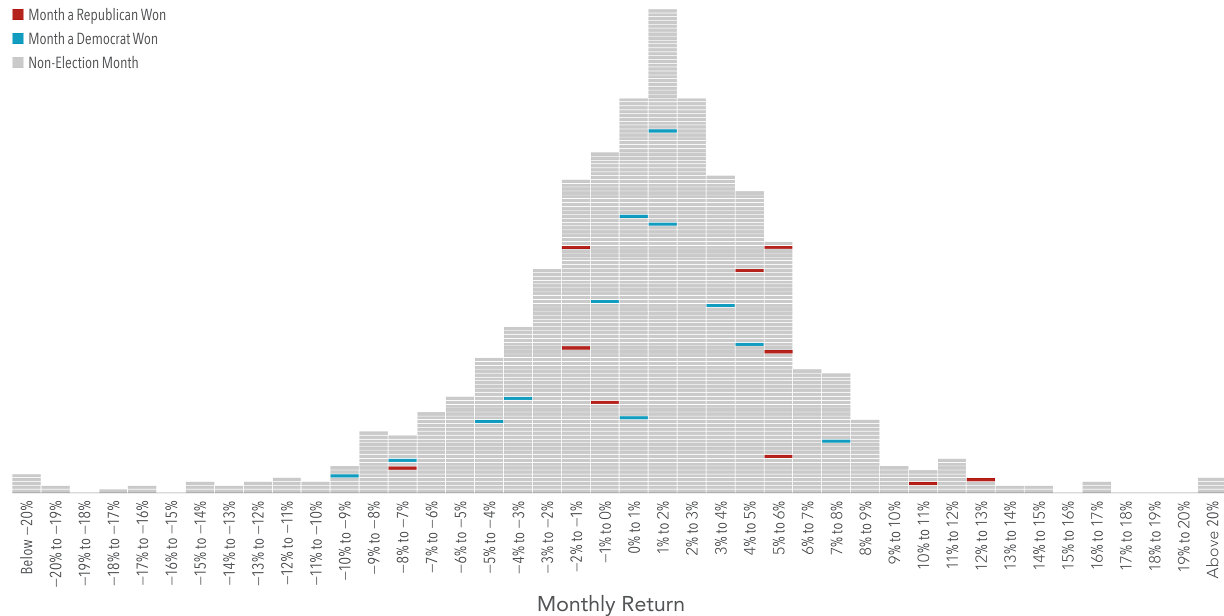
Over the long run, the market has provided substantial returns regardless of who controlled the executive branch.

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



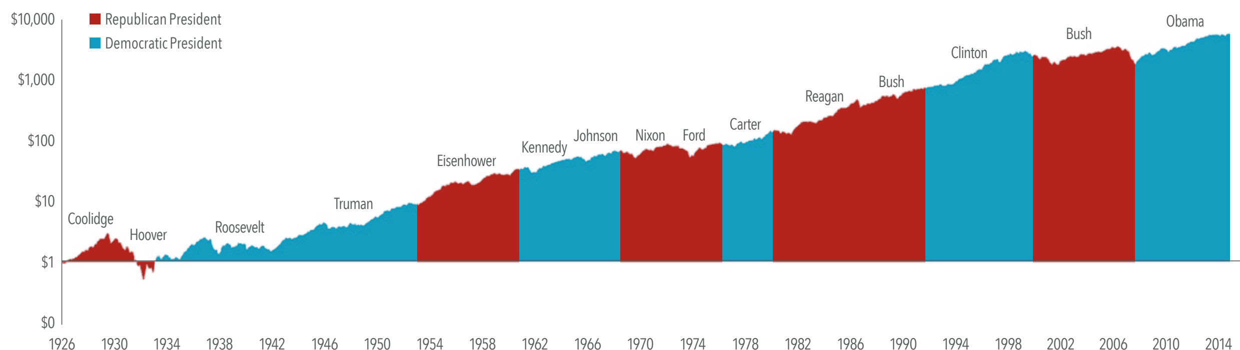
Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group.

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

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



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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.

All expressions of opinion are subject to change. This article is distributed for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

Diversification does not eliminate the risk of market loss. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful.

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Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

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