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Don't Vote With Your Portfolio

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As we inch closer to the election, Joe Biden has finally come out of his bunker to announce his running mate, Senator Kamala Harris. Markets have rightfully been focused on the economy's healing post wave one of the pandemic, with attention focused on vaccine trials, global economic data, earnings, and hints from the Fed.

Soon all eyes will turn to the election as the media ramps up coverage and analysis to stir the pot. At the sake of sounding cliché and stating the obvious, this nation now seems as polarized as it has been during our lifetimes. Elections bring forth an added dimension of uncertainty, and this year's edition comes when emotions are running hot, but political beliefs have little room in the management of a portfolio, and the election is not a reason to significantly alter an allocation. Making a dramatic allocation shift might make some feel like they controlled something in a very uncertain world, but in reality it is an emotional decision that is not likely to pay off well down the road.

Our client base, like the country as a whole, has individuals that represent the entire spectrum of political beliefs, and the conversations that I have had, and am prepared to have over the coming three months, vary widely. I have spoken with clients who are concerned about the prospects of Biden winning and the potential for a Blue Wave, with the Democrats taking control of both houses of Congress as well ushering in a new era of higher taxes and spending. I have had clients worried that the elections are rigged (and I have heard both sides being the perpetrators, depending on the conversation). I have spoken to people who are incredibly concerned about what a second term for Trump looks like, as he will be able to impose his will with executive orders and war with China, among other things.

There is no good evidence that markets behave better with Republican leadership than Democrats (in fact I have seen plenty research argue the opposite), and anybody who wanted to sell because of Trump winning the election last time (there were some) would have missed out on a 59% gain for the S&P 500. There is a lot to worry about right now and the concerns stated above all hold some water, but contemplating the future of the country is very different than directing a shift in a long term investment portfolio because of these concerns. The future is unpredictable. Even if you knew the outcome of certain events, they are but one factor in a highly complex system. The COVID-19 pandemic is a great example. If I told you that a global pandemic would shut the world economy and slash our GDP by an inconceivable 32.9%, with a 16% unemployment rate here in the U.S., then you would probably hide in some remote shelter living off canned foods. The natural response would not be to go out and buy Tesla stock in a Robinhood.com account, but in

hindsight that would have worked well. You certainly would not expect the market to be nearly even for the year by mid-summer. In reality, the pandemic is one very large factor that precipitated another even larger (for now) factor, with the stimulus response from the Fed and central government. I think we are all surprised by how everything evolved to this point.

We build diversified investment portfolios for the long run. We do not predict the future, ever. Instead we measure and react to what is happening. We manage risk in different ways across various strategies, and in tactical portfolios we will reduce risk in response to measurable statistics, not due to a guess about the future. It is a natural response to want to take chips off the table and wait to buy at lower levels, but in reality this is impossible. Odds are that the buying opportunity never comes, and even if it does, buying during times of distress is not an easy thing to do. In the long run it is “time in the market” not “timing the market.” Let us manage your risk and position the portfolio. We are worrying about all these things every day so you do not have to.

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