Wealth Matters Newsletter

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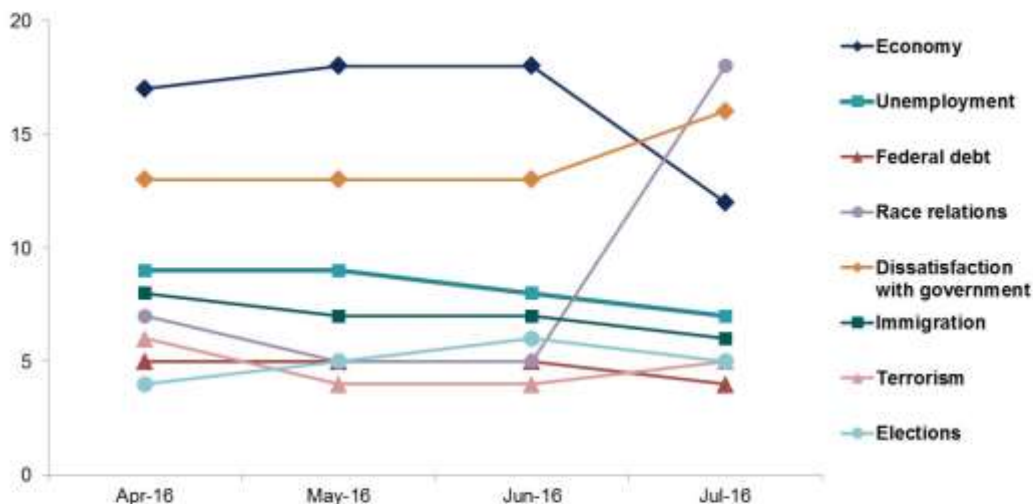
The 2016 Election and Your Investments

Every four years, investors have to grapple with the volatility and uncertainty that comes with a presidential election. Sure-bets drop out, long-shot candidates surge to the front. Every election comes with plenty of surprises and uncertainty and the 2016 election is no different. As financial professionals, we field a lot of questions from our clients and friends about how politics and elections affect financial markets so we are going to address some of these common questions and concerns:

- How do investors feel about the 2016 election?
- What does history teach us about elections and markets?
- Does it matter who wins?
- What can investors do about uncertainty?

How do investors feel about the 2016 election?

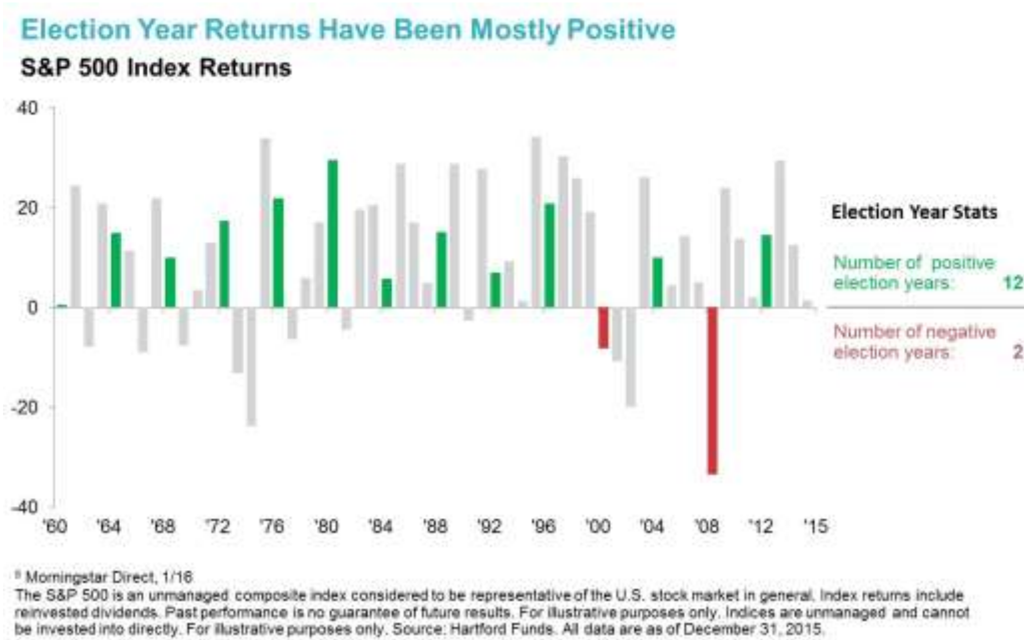
Gallup, the research company, polls Americans on a variety of issues every month. This chart shows what Americans think is the biggest problem facing the country today. As you can see, the economy is on the top of many people's minds, followed by dissatisfaction with the US government. You can also see that concern over different issues has ebbed and flowed this year. Do these reflect your concerns and issues you worry about?



Hartford Funds surveyed a group of affluent investors about the 2016 election and found that the vast majority (61%) worry the election will cause volatility in financial markets. These fears are perfectly natural. Markets hate uncertainty and the presidential election thus far has been a roller coaster.

What does history teach us about elections and markets?
Now let's talk about whether these fears are founded. Though the past doesn't predict the future, we can learn valuable lessons from how markets have behaved around elections in the past.

Despite some volatility, election years have historically been positive for stock markets.



This chart shows annual S&P 500 performance since 1960. We can see election years highlighted in green and red. In 12 of those 14 presidential election years, the S&P 500 has ended the year positive. In just two of those years, 2000 and 2008, stocks have ended negative. Most of you probably remember those years. In 2000, stock markets faced the dot-com crash. In 2008, we had the financial crisis and the beginning of a recession. Neither of those precipitating factors had anything to do with a presidential election.

There are a lot of ways to call the presidential horse race. Polls, statistical analysis, tea leaves… you name it, it's out there. What about the stock market? Can the stock market predict presidential election results?

Since 1928, the market has called 19 out of 22 presidential elections. When stocks are higher the months before the election, the incumbent party has won 86 percent of elections. Why could that be? Well, there are a lot of possible theories. Maybe Americans tend to vote for the party in power when they're feeling good about their financial prospects. Maybe they tend to want change when things are going badly. Let's take a look at the chart.

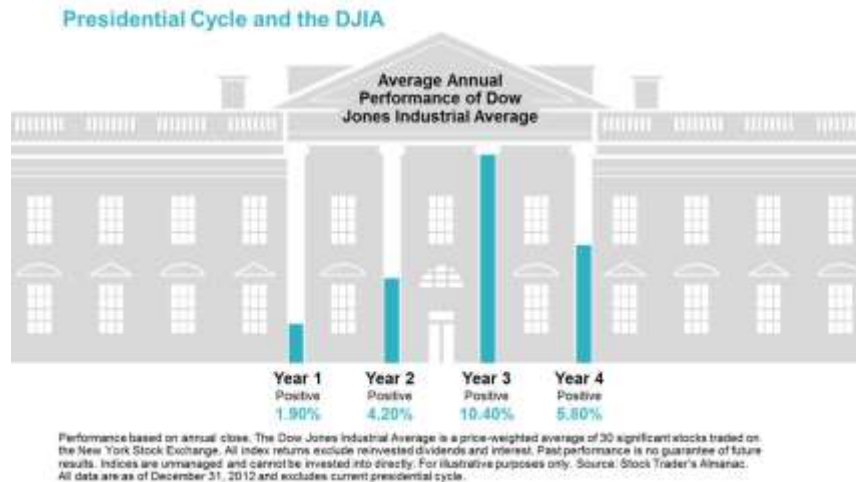
The stock market has correctly called 19 of the last 22 presidential elections.

Election Year	S&P 500 Return	Incumbent Party
'76	-0.1 ▼	Lost
'80	6.7 ▲	Lost
'84	4.8 ▲	Won
'88	1.9 ▲	Won
'92	-1.2 ▼	Lost
'96	8.2 ▲	Won
'00	-3.2 ▼	Lost
'04	2.2 ▲	Won
'08	-19.5 ▼	Lost
'12	2.5 ▲	Won

S&P 500 performance based on three-month return prior to election day. The S&P 500 is an unmanaged composite index considered to be representative of the U.S. stock market in general. All index returns exclude reinvested dividends and interest. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. For illustrative purposes only. Source: Strategas Research and Bloomberg.

Now, is this to say that what happens in the stock market this year will predict election results? Certainly not, but it's interesting to look back and see the results. Maybe down markets spur investors into voting for the other party. Maybe it all depends on who investors think will do a better job. We'll certainly see if it follows the trend this year.

You may have heard of the so-called presidential cycle, which attempts to predict market activity based on the year of the presidential term. Analysts at the Stock Trader's Almanac took a look at 45 complete four-year presidential cycles, excluding the current one, and calculated the Dow's average performance during each year of a presidential cycle.



Performance based on annual close. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange. All index returns exclude reinvested dividends and interest. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. For illustrative purposes only. Source: Stock Trader's Almanac. All data are as of December 31, 2012 and excludes current presidential cycle.

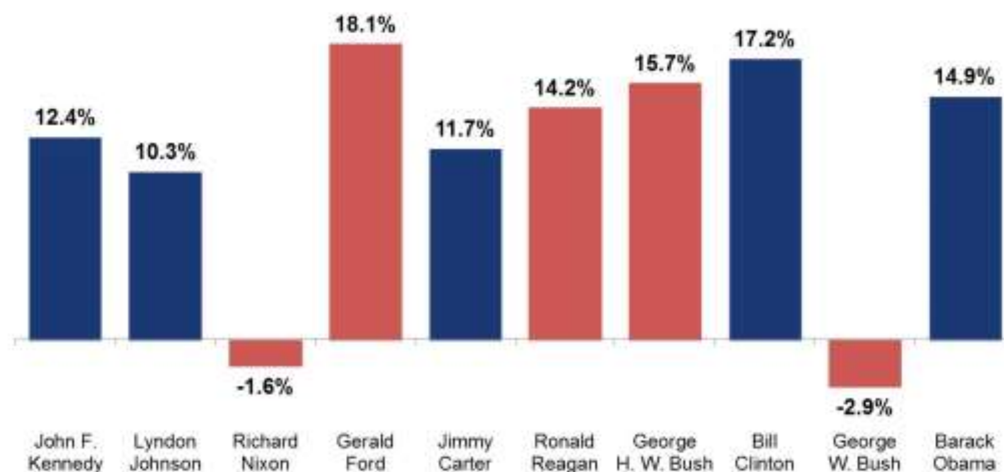
Let's keep in mind that these are simply statistics and can't predict future activity. Markets pull back for a variety of reasons and we often don't see it coming. Election years often see an uptick in volatility as investors digest the uncertainty around an unknown candidate. We'll likely see additional volatility this year as we approach the election.

Does it matter who wins?

Whether or not your feelings are evidence based, there are many people who think markets do better with a Democrat in the White House and many who think the markets do better with a Republican. A national poll from Hartford Funds found that 43% believe a Republican president will be better for their investments, 24% believe a Democratic president will be better and 32% feel that it doesn't matter which party is in office.

Has that been historically true? Here's the reality. On average the S&P 500 returned 8.71 percent each year under Republican presidents and 13.29 percent under Democratic presidents.
Are you surprised at this result? It's a little counterintuitive, isn't it? Many Americans see the Republican party as more pro-business and therefore more likely to boost the stock market when in the White House. However, that's not historically the case.

Here's another interesting fact: Since 1901, the Dow Jones Industrial Average has risen an average of 13 percent the year before a Republican was elected to the White House, but just 2.1% the year before a Democrat won. Can we draw conclusions from these averages? Probably not. Let's take a look at individual presidencies and see what that shows.



This shows us how the S&P 500 fared under each presidential term since 1961, starting with JFK's presidency. Although the S&P 500 has done better under Democratic presidents, there's more to that story. The best performance was under President Gerald Ford, a Republican. However, the worst performance happened on George W. Bush's watch, another Republican president. Under President Ford, the U.S. pulled out of the Vietnam war and experienced periods of high inflation. However, markets still performed well. Under President Clinton, the world faced down global economic turmoil and the Y2K crisis. However, the 90s are remembered as halcyon days for the stock market.

There's a lot more going on in the stock market than who is in office. Presidents don't operate in a vacuum. The policies of their predecessors, economic realities, political realities and many other factors influence what they do. These are also just statistics. The past can't predict the future and unforeseen events can and will impact markets in ways we can't foresee.

If the party in power doesn't drive stock market performance, what does? Well, many factors, as
today's financial markets are highly complex and interconnected in ways that are not always easy to identify. Any simple explanation is going to leave out a lot of detail. However, markets are driven by four main categories of factors:

#1: Corporate profitability. The stock market is made up of the individual stocks of thousands of companies. Their financial situation and business prospects drive a lot of market activity. That's why quarterly earnings season is so important to the market.

#2: Interest rates. Low interest rates are helping to boost economic growth and making stocks look attractive compared to bonds or savings accounts that pay low rates. As rates move higher, we may see an impact on markets.

#3: Investor confidence in markets and their expectations of future performance. You've probably heard about investor sentiment. When investors feel afraid or worried, they tend to sell, pushing prices down. When they feel confident or greedy, they tend to buy, pushing prices higher. In the short-term, these competing emotions can drive a lot of market movements.

To illustrate the importance of investor sentiment, take a look at CNN's Fear & Greed Index, which measures investor emotions using a variety of financial indicators. As of mid-August 2016, the index showed that investor sentiment is riding high and pushing into greedy territory. However, a year ago, it was swung all the way into Extreme Fear territory.

The CNN Fear & Greed Index is a composite index of seven equally-weighted indicators designed to illustrate investor emotion. Past performance is no guarantee of future results. For illustrative purposes only. Source: CNN Money. All data are as of August 12, 2016.

What happened last August? Markets experienced a major selloff triggered by China's sudden depreciation of its currency.

#4: Global markets. The U.S. stock market can look more or less attractive to investors depending on the global environment. The interconnected nature of today's financial world also means that what happens abroad affects investors at home. We have seen that play out repeatedly with China and Europe.

Ultimately, market performance is based on a lot of complex variables, but it tends to mirror the economy over the long term. This image illustrates a possible relationship between the stock market and economy.

For illustrative purposes only. Illustration is not intended to represent the performance of any specific investment. Past performance is no guarantee of future results. For illustrative purposes only. Source: Moody's Investor Service.

Since the stock market is a forward-looking indicator, it can sometimes show us what will happen in the economy over the next few months. However, the relationship is not as simple as is shown here. We can't perfectly predict what could be coming down the road for the economy based on the stock market as a single indicator.

Does who is in the White House affect markets at all? Indirectly, it can; however, the release of a new iPhone by Apple may have a greater effect on overall S&P 500 performance than the president. Why? Apple is the largest company in the S&P 500 by market capitalization, and the iPhone is its most important product. Back in 2014, Apple and sales of the iPhone drove 18 percent of the S&P 500's performance that year. Products, innovation and other factors have a much more powerful effect on market movements.

Though presidents might not directly control markets, they do hold a lot of power in terms of legislation, politics, and getting things done in Washington. Each candidate has a platform, and the decisions that president makes in office could have a big impact on your financial bottom line. However, there's a big difference between what a presidential candidate says during the election and what actually makes it through the legislative process.

We always emphasize that markets hate uncertainty, and the election this year might very well cause some volatility. Depending on which party ends up controlling the White House and Congress, a lot could happen (or not happen) legislatively that could affect certain sectors and markets overall.

Though elections seem to historically have a negligible effect on markets, politics and policies can be major factors in market movements. If you recall the Fiscal Cliff of late 2012, markets reacted very badly to the political standoff in Washington. The next president will have a lot of issues to deal with, including growing national debt, a potential recession, geopolitical threats and many other challenges. Total national debt to GDP has skyrocketed over the past decades. The next president is going to have to deal with that debt overhang.

The takeaway is this: There are a lot of political footballs in every election, and the 2016 presidential election is no different. While we don't think the election will have too much of an effect on the overall market, there are some issues that could affect certain sectors and certain companies depending on how the presidential and Congressional elections play out.

For example, there are some healthcare bills on drug pricing that may affect pharmaceuticals. There will be a lot of talk about energy policy that could affect utilities and energy companies – particularly coal companies. The largest

impact might be felt if a single party gains the White House and control of Congress since that would give them the support needed to pass major legislation.

What can investors do about uncertainty?

The most important thing we can do is this: ignore media headlines. Here are a few headlines we pulled from the last six months: "Trump and Cruz President Stock Market Crash," "GOP Donor Paul Singer Says Trump Would Cause a Depression," "Should Investors Fear President Trump or Clinton?"

How can you keep your cool when you read that in the morning paper? There are always going to be headlines telling you to panic. News outlets need headlines to pull in viewers. One of the ways they do that is by turning minor events into breaking news panics. CNBC viewership tends to spike when the S&P 500 Index Level falls and their viewership goes down as the market stays steady or increases. Their viewership spiked as the stock market fell during the financial crisis. It wasn't because they were telling everyone to keep calm and carry on. People tend to focus on negative information and turn to the media in times of crisis. That's not a great way to keep your cool.

Don't listen to the talking heads. Tune out the noise. Let us filter through the headlines and keep you informed. If you're worried about how the election will affect your portfolio, it's natural to think: "maybe I should just wait it out before investing." That might be a mistake.

Data from Morningstar tracked the hypothetical growth of $10,000 invested in the S&P 500 index between the beginning of 1961 and the end of 2015. The investor who moved to cash during election years ended up with just over $1.1 million. The investor who stayed fully invested for the whole period ended up with nearly $1.9 million. The investor who stayed invested and added an extra $2,000 during each election year ended up with nearly $2.9 million.

One of the most important things you need to do as an intelligent investor is to understand your personal attitude about risk. Risk is, unfortunately, not something we can completely do away with. Though we mostly talk about market risk (the risk that an investment's value will decrease due to market factors), there are also other kinds of risks that affect investors: longevity risk, inflation risk, currency risk, interest rate risk, credit risk, and many more. As financial professionals, our job is to help you understand how these risks affect your financial picture and help you develop an understanding of your personal comfort level with risk. For this reason, we do in-depth risk assessments with our clients to understand their feelings.

If recent market gyrations are making you nervous, we encourage you to come in and discuss your concerns with us. While we don't advocate making major strategy changes due to normal volatility, we do take into consideration your greater comfort and increased confidence.

Another important tactic for long-term investors is not to let emotion take over.

This chart shows the hypothetical growth of a $100,000 investment between 1996 and the end of 2015. It also shows many of the emotions an investor might feel along the way. It includes euphoria when markets are high and surprise, nervousness, panic, and defeat when markets pull back. It's all normal and all part of being an equity investor. The investor who remained invested in this hypothetical illustration might have seen that investment grow to nearly $500,000. Investors who sold out during the lows would have missed out on the rallies that followed. Keep in mind that this is just a hypothetical illustration that doesn't include factors such as taxes and fees. It's not meant to show the performance of any actual investment.

Along with your risk profile, we also need to understand when you expect to need the money we're investing. Three years from now? Ten years? Twenty years? By understanding how and when you'll be using your savings, we can help make sure you have the money you need when you need it. Though we can't predict what markets are going to do, we can create strategies to help mitigate the effects of volatility and market swings on your overall financial picture.

The money you'll need in the next one to three years is generally positioned as highly liquid and reasonably stable in value. We might keep most of it in cash or cash-equivalent investments. The longer your time horizon, the more prudent risk we may take with your portfolio. We might include more equity exposure and even some alternative strategies to hedge against downturns while pursuing growth with your long-term investments.

While you might say to yourself that you don't want to take any risks, even with your long-term money, there's always one risk you can't outrun: **inflation**. Can you really afford to let your money sit there with inflation eating away at it each year? Though inflation has been low in recent years, historically, inflation averages about 3 percent each year. With Americans living longer than ever, it's very important to have enough growth potential to be able to fight rising costs for twenty or even thirty years.

Our goal with this strategy is to identify your short-, medium-, and long-term needs. We then spread your money among different instruments with prudent amounts of risk and liquidity. In this way, we strive to ensure you are prepared for every future phase of life.

Once your portfolio has been constructed, that doesn't mean the hard work is over. Professional investors continuously monitor markets, performance, and current trends to stay on top of what's going on. While we believe it is prudent to have a core of passive investment selections that are allocated for long-term growth, we also know that just because something is a good investment today doesn't mean it will be a good investment tomorrow. This is why we don't necessarily advocate "buy and hold" or "set it and forget it," instead, it seems much more reasonable to "buy and stay invested" over the long term with changes in investments as deemed appropriate with the changing economic climate.

This is why we choose to engage the human element. That comes in the form of a team of portfolio strategists making investment decisions. Active strategists rely on analytical research, forecasts, and their own judgments and experience when making investment decisions about what securities to buy, hold, and sell. An active strategy cannot eliminate the risk of fluctuating prices and uncertain returns and it cannot ensure profit or guarantee against loss. It simply helps us be responsive to changing market environments.

Reading the market tea leaves is never as simple as looking at who is in office or who is likely to win an election. If you're like us, you probably can't wait to see the election come and go so that we can stop worrying about it. However, financial, economic, political and other factors will continue to influence markets long after the election is over. As always, it's essential to follow the basic fundamentals of investing and try not to get caught up in the headlines and theater of election season.

Sources Available Upon Request

Should You Downsize After Retirement?

The answer isn't simple.
It's a question as old as retirement itself: Now that the children are gone, should you downsize your home?

Maybe move to your favorite vacation spot to enjoy the sunshine and natural beauty? Or should you stay put, relaxing in familiar surroundings and a community you know well? Today's retirees enjoy more freedom than ever to choose where and how they live. Many retirees choose to downsize to reduce housing costs or move to be closer to family. As with most important personal and financial decisions, there are pros and cons to downsizing your home that you should consider.

A New Home For a New Chapter
Here are some of the potential advantages to downsizing and moving into a smaller house:

#1. You Could Free Up Additional Capital For Your Retirement.
For many retirees, their house is both their biggest asset and their biggest expense. If you have significant wealth tied to your home's equity, selling and downsizing can provide liquid assets to boost your retirement savings, especially if your home has a high market value and you sell at a good time. However, to make the most of this opportunity, you have to avoid the temptation to spend the windfall immediately.

A financial professional can help you determine whether selling your home and socking away some of the profits is a smart move. Though most taxpayers will be able to exclude some of the capital gains on a primary home from federal taxes, a tax professional can offer advice on your personal situation.

#2. You Can Choose a Home That Suits Your Retirement Lifestyle

Many home owners live close to work or their children's school. Choosing a home that suits your postwork life may be a better financial and psychological fit. Downsizing to a smaller property often means less maintenance, less time doing household chores, and more time enjoying hobbies and travel. Your current home or neighborhood may also not be conducive to aging independently. If you're concerned about getting older, you can consider moving to a continuing care community or a neighborhood with better infrastructure for aging.

#3. You May Enjoy the Simplicity of Starting Over
Now that the kids are gone, do you really need all that space? Many retired Americans enjoy doing away with the decades of clutter and starting over in a smaller home. If you feel as though you own too many things or your home is too big to manage, you might appreciate the freedom of downsizing.

Home Is Where the Heart Is
There are also some potential disadvantages associated with selling your home and downsizing in retirement. Think through these potential pitfalls before you post that "For Sale" sign in the yard.

#1. You May Lose Connection with Family and Community
If your family members and friends live close to your current home, moving to a new area could mean losing touch with the people closest to you. Don't underestimate the importance of feeling connected to the people and places you love. If you have strong ties to your community, you might find it hard to replicate that same sense of belonging in your new locale, especially without the benefit of work or child rearing to foster new connections. Take the time to think about how you would build a support network in your new home.

#2. You May Have Less Room for Family and Friends
If you enjoy hosting big family celebrations or want your loved ones to stay over, a smaller home might make it hard to continue the tradition. Retirees who still support or expect to support adult children should also consider "boomerang" housing needs in the future (for children that return to live with parents after living on their own). Think carefully about what role you expect to play in your family's life after retirement and whether downsizing supports your goals.

#3. The Financial Savings May Be Less Than You Think
Though downsizing has the potential benefit of reducing the time and expense of maintaining a home, it may not save you as much money overall as you might think. Consider the expense of selling the old house and buying a new one, as well as the cost of moving, in your decision. You should also think holistically about car insurance, utility rates, and property taxes in your new location. Once you factor in all these costs, you might find that the annual savings aren't worth the move.

Bottom Line
Think long and hard before making such a permanent and lifechanging decision as selling your home and moving. If you have considered all your options and believe that moving is the right decision, consider trying out your new neighborhood with a short-term lease before making the move permanent. If you have questions about downsizing or would like help calculating the costs and benefits of a move, give us a call at 913.814.3800. We would be happy to assist you in making the most of this important decision.

BikeMS 2016

Our Searcy Spinners BikeMS team raised $18,200 so far this year. We continue to grow and have now raised over $78,000 for the MS Society in our 6 year team history. If you have an interest in joining our team, email Cali@SearcyFinancial.com for details. All riders are welcome, from beginners to experts!

The Joy Bus

Jessica Searcy-Maldonado received her food handlers license so she could volunteer for The Joy Bus, a Not for Profit organization in Phoenix that relieves the daily struggles of home-bound cancer patients with a fresh Chef inspired meal and a friendly face. She made bread from scratch, along with sausage patties and sausage seasoning, trimmed chicken and portioned out corned beef to prepare for meals. For more information, visit http://www.thejoybus.org/index.html.

QUOTE OF THE WEEK

"Either you run the day, or the day runs you." –Jim Rohn

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