Some Commentary on Election Season

October 24, 2020

It's election season which means we're settling in for politically-fueled financial commentary assuring us that Trump/Biden is good/bad for markets because of one reason or another.

If we think back to the 2016 election, the overwhelming belief and punditry across both left- and right-leaning financial outlets was that Clinton would be elected President (wrong). But, in the unlikely event that Trump won, markets were going to crash (also wrong). Speculators who got their election prediction correct likely lost money (or missed out on sizable gains). The speculators who got their guess wrong, probably profited handsomely.

In times like these, it is essential to recognize that personal attitudes are not necessarily shared by the market. There are *billions* of participants in global financial markets each investing for different reasons and with different expectations about economies. Based on your party affiliation, worldview, or attitude toward the candidates themselves, it may seem to make sense that if <Trump/Biden> wins the election markets will <rise/fall>. However, in practice, things rarely play out so cleanly.

Have you ever noticed how the heroes in action shows seldom need to defend against more than one or two challengers at a time? Even when the champion is outnumbered, the individual attacks arrive in implausibly orderly fashion. Otherwise, the hero wouldn't stand a fighting chance. Pundits often suggest markets are subject to an equally implausible universe, one where there is always an orderly set of reasons for why "X" is about to climb, or "Y" is about to drop. In real-life, that is not how it ends up working out.

Successful trading not only requires prediction of the event and prediction of the market's reaction to the event. It also requires prediction of hundreds and thousands of other variables that also contribute to how markets will move over the short- and long-term. Looking beyond the outcome of the election we would also need to consider:

- *When will a COVID vaccine become available?*
- *How is Brexit going to affect European and Global economies?*
- *What will China do next?*
- *How will the world adapt to climate change?*
- *How will expensive growth stocks perform at elevated valuations?*
- *What other big events will occur that no one will see coming?*

What has driven markets in 2020? Easy – COVID. Global pandemic wasn't on anyone's radar at this time last year. We were going to football games and weddings and concerts – then the world changed. The "unknown-unknowns" are what truly drive surprising market results and, by their very definition, they cannot be planned for or predicted.

Long-term investing has never been a game of predicting an event and then living or dying on the result. That is what speculators and day-traders do. Long-term investing is capturing the economic growth and development of the world which has been sizable and relatively consistent across 100+ years.

The rolling 30-year annualized return of the S&P 500 has been somewhere between about 8% and 15% over the past century. The absolute worst time to be a US equity investor over any thirty-year period was investing at the peak of the market in 1929 right before the Great Depression. Had an investor experienced the grave misfortune of investing at the absolute worst moment in history, he would have earned 7.8% annualized for his troubles – not too bad1.

Does this mean that markets cannot return below this amount over the long-term in the future? Of course not. But, even if markets turn in performance a percentage or two

worse than The Great Depression

*I*nvestors will still clean up a tidy return above inflation – a promise that the illusory safety of cash does not offer.

1 Source: YCharts, S&P 500 data from 1/1/1926 to 9/30/2020.