StraightTalk

PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES

VOLUME 5 OCTOBER 2024

ALFRED L. STRATFORD, III
Chartered Retirement Planning Counselor (CRPC®)
Managing Director

Foaming the Election Runway

Next month is a presidential election, and the morning after roughly half the country will be disappointed. Actually, it may be more than that, as this is yet another election in which the choice is voting for the lesser of two evils, rather than voting for a candidate whom you really admire and respect.

One of the two candidates has changed her longstanding positions on just about every issue, while the other has no real positions on anything. One has never won a primary, yet finds herself the nominee, and the other is psychologically unfit for the Office of the Presidency, yet has already held that office. The Lewis Carroll quote in the classic children's book, Alice in Wonderland, "Curiouser and curiouser!" springs to mind. It seems like every four years we ask ourselves the same question, "in a nation of 258 million adults, these two are the best choices we have?"

So, we are left with an anxious feeling as we head to the voting process, being told often by the media that if our candidate does not win – that America's future is in peril, and our democracy will end. Of course this is hyperbole, thrust upon us by desperate negative campaign ads and a news media hungry for advertising dollars - but if something is repeated often enough, it begins to have an impact. There is a reason that in Presidential election years since the advent of the television era, markets have swooned in October. In plain English, this stuff has a measurable effect on sentiment.

However, as I frequently endeavor to point out in conversations (and in this newsletter) there is an equally clear pattern after each election season concludes. Again, in the modern news and information era – since 1950 – the markets have rebounded after the election, and averaged a gain of 11% the following year. So, why the disconnect?

My personal opinion is that when the smoke clears after each election, half of the country is disappointed in the result, but *all* of the country is glad that the election is over. And at that point, our focus returns to how the great companies are doing in the strongest economy in the world. The electioneering is over, the campaign promises forgotten, and we all reassess the reality of our lives.

Think of it this way, imagine for a moment that your candidate loses. Will you, as so many Hollywood actors proclaimed they would in the past – actually renounce your U.S. citizenship and take up residence in a foreign country? Of course not. More important to the continued expansion of our economy – will you still pay your power bill? What about buying groceries? Or filling the car up with gas? Or paying your mortgage, buying clothing, or taking a vacation? If your answer is yes, it is reasonable to conclude it is also yes for most of America – *and life goes on*.

This is not to say that bad policy does not matter – it does. From my vantage point, the Trump and Harris campaigns seem to be having a contest of who can come up with the worst economic platform. One is proposing price controls on several industries while also raising taxes on all corporations. Plus, my personal favorite – *taxing gains that have not yet been realized*. Think about the increase in your home or business values, and what a nightmare that would be.

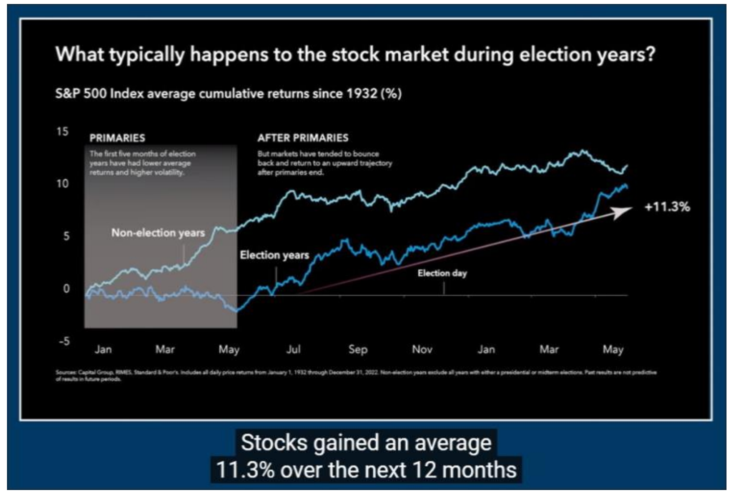
The other candidate wants to keep income taxes low but raise tariffs on almost all imported goods. The specifics change each time he speaks, but generally range from 10-20% on some goods, to as much as 60% on all goods imported from his favorite bogeyman, China. These are all horrible ideas. Price controls have never worked in all of history. Raising corporate taxes just becomes a tax on employees and customers, as corporations do not pay taxes. Instead they simply pass those costs along, either by reducing their workforce or raising the cost of their goods and services. And tariffs never work as intended, because again, companies quickly adjust their prices to overcome the tariff, which costs the consumer more in the long run.

If either candidate has access to a public library (or just an internet connection,) they could easily review the history of high corporate taxes, price controls, and tariffs. I will spare you the research, those ideas all failed. The last time corporate taxes were high relative to the rest of the developed world, the Obama administration watched over 100 corporations relocate their headquarters overseas to avoid that taxation. The last time price controls were widely implemented, the Nixon administration watched the economy stall completely and inflation spin out of control. And the mother of all bad economic ideas – the last time our government implemented widespread tariffs, the Hoover administration watched both imports and exports drop dramatically, banks fail, and the economy stall further into a depression. Those of us with Economics degrees actually studied the Smoot Hawley Tariff Act, and how other nations responded in kind – which resulted in a cratering of global trade and exacerbating the Great Depression.

Of course, our candidates are too busy campaigning to bother learning economics, but fortunately the bicameral system of government our founding fathers originally set up saves the day for all of us. The idea of separating the executive branch from two distinct and different legislative bodies means, *that even on a good day,* it is hard to pass laws in America. By spreading out our factional powers, this system ensures that many proposed bad ideas never become law.

This is why I frequently say about Washington, DC, "watch what is being done, not what is being said." Almost all the campaign rhetoric will be jettisoned on Day One of the new administration, either because the candidate said it only for election purposes, or the path to passage into law is not a reality. So, try to tune out the next few weeks of the media covering these outlandish ideas. Instead, let's focus on history, and the stock market lessons it can impart. And to do so, let's get in our StraightLine time machine and travel all the way back to the first election during the Great Depression. According to research from Capital Group, in the 23 Presidential Election years since 1932, the U.S. stock market has averaged a gain of over 11% over the twelve months following those elections. In most of those years, the market sold off before election day – on worries of some nature – that ultimately proved not to be a real problem.

And I do not believe this time is different.



What ultimately matters to the great companies of America and the world is not whether the red team or blue team wins the White House. What truly matters are the top and bottom-line numbers – in other words, customers buying their goods and services, and how much of that dollar volume flows to the bottom-line profit.

One of the benefits of living in the digital age is that we can quickly gain access to real time information for just about everything. For your portfolios – the real time information about expected earnings tells us all that we need to know. As companies report their actual earnings, they sometimes differ from that previously expected number, but when viewed in aggregate – they mostly do not. And those earnings numbers for the Great Companies continue to be revised upward for 2025. So, regarding this election season – try not to fanatically watch the coverage, and remember that soon enough….this too shall pass.

804.225.1143 | straightlinefinancial.com | 5820 Patterson Avenue, Suite 100 | Richmond, VA 23226