It's Finally Over

SYNOPSIS

- After two years of nonstop media coverage and candidates shamelessly bashing each other, the campaigning has come to an end.
- Politics can impact the short-term movements in markets but almost never have any impact on the long-term direction of an economy and asset prices.
- Policy is what matters to the fundamentals, but due to the protracted nature of implementing policy, any impact from new leadership takes several years to register.

POLITICS VERSUS POLICY

After two years of nonstop media coverage and candidates shamelessly bashing each other, the campaigning has come to an end, and we now know who will be leading the country for the next four years.

Investors want to know what this new administration means for the economy and their nest eggs, but before we assess the potential outcomes, it is important to first differentiate between politics and policy.

By analyzing the characteristics of the two, we can better understand how each impact financial markets and the broader economy. Five in particular are worth noting:

1. **Substance**: Politics allow a candidate to make claims that have no basis or support of any kind. Policy is an actual plan comprised of several moving parts that are vetted through committees to ensure thoroughness.
2. **Commitment**: Politics allow a candidate to promise the world only to ignore everything down the road. Policy requires enforcing what is passed into law, which often restricts the ability to roll back legislation once it has been implemented.
3. **Speed**: Politics move at warp speed because promises can be made immediately. Policy moves at a snail's pace due to endless amounts of red tape and the checks and balances of our government.

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4. **Accountability**: Politicians will say anything on the campaign trail with little fear of being held accountable at a future date. Those who create policy are held accountable for their actions and are expected to deliver.
5. **Flexibility**: A politician can promise one thing to an audience today and the exact opposite to a different audience tomorrow. Once policy is executed, making changes can often be more difficult than the initial implementation.

Add it all up, and the goal of politics is to win votes (short-term), whereas the goal of policy is to govern and enact change (long-term).

These contrasting features of politics and policy make each of their impact on the economy and financial markets noticeably different. Politics stir up some pretty powerful emotions, and since emotions dominate the short-term direction of asset prices, politics can have a profound effect on the stock market over the course of a few days, weeks, or even months.

However, emotions cannot change the fundamentals of a $19 trillion economy, so politics are mostly meaningless to a long-term investor's strategy.

Policy is what matters because it is the process that converts talk into action, but this process is also one that is designed to kill most ideas and only implement those that have passed a series of reviews from key stakeholders. Even after policy is passed, the effects of policy changes can often take years to be felt.

The complexity of passing policy in this country makes it very difficult for any President to enact too much change too quickly. Therefore, a new President may conjure up some powerful emotions from their political strategy employed on the campaign trail, but their influence on the direction of the broader economy is severely limited.

Simply put, policy drives the economy and the true value of assets much more than politics, but due to the protracted nature of implementing policy, any material impact from new leadership often takes several years to register.

IMPLICATIONS FOR INVESTORS

I have told investors for some time that we should prepare for elevated volatility as we move deeper into the fourth quarter. Since a Clinton victory had been priced in to the stock market prior to election day, this possibility is now even stronger.

Markets hate uncertainty above all else, and investors got a taste of how stocks can react to unanticipated outcomes, as the Dow Jones Industrial Average (DJIA) fell over 750 points in after-hours trading on Tuesday evening.

NOTE*: Under no circumstances is a long-term investor to ever think about trading stocks before 9:30am or after 4:00pm EST. After-hours trading is the wild west, and the lack of liquidity and proper price discovery is far too risky for even some of the most experienced traders.*

A few hours later, the fear and panic that caused the selloff quickly reversed, and the U.S. equity market opened Wednesday flat and even ended the day up. Gyrations then continued into Thursday, as traders attempted to digest what a Trump presidency means for sectors like banks, technology, and commodities.

Other questions remain unanswered that will only add to this uncertainty. Most notably, before the election, the expectation was that the Fed would raise interest rates in December. If volatility were to rise higher, many wonder if they will once again kick the can down the road instead.

Only time will tell, but what is far more certain is the current economic trends that have taken years to develop will not change. Unemployment will stay at record lows, wage growth will continue to improve, inflation will remain under control, cheaper energy prices will continue to develop into an economic tailwind, and the chances of a recession will remain low.

Furthermore, consider where nearly all of the world's innovation and entrepreneurship is being born. Self-driving cars that run on batteries, breakthroughs in cancer treatments, taxis on demand, 3D printing, cell phones that act as credit cards, virtual reality, fracking, and so many other world-changing ideas were conceived and commercialized here in the U.S. under both Democrat and Republican leadership.

Because these characteristics of our economy remain intact, very little should change in a long-term investor's strategy. As we progress into next year and get a better sense of how a Trump presidency will look, then and only then will it make sense to alter the course if need be.

The bottom line is that despite all of the politics over the past several years, very little has changed to the fundamentals that support our economy and the underpinnings of domestic financial markets.

Sincerely,

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