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Don’t Let 2020 Election Headlines Overwhelm Your Financial Plan

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If there is anything we learned in 2016, it’s that presidential elections can be unpredictable no matter what the polls say. That being said, why would you significantly alter your financial plan based on what may or may not happen in November? People love to prognosticate, and as we all know politics can bring about strong emotions and opinions regarding what each candidate will bring to the table whether it’s positive or not. Uncertainty surrounding how things will eventually shake out can create a toxic environment for making financial decisions today.

The markets hate uncertainty, and there is no doubt we will have our share of that over the next 9 months. What will happen to tax rates? What about estate taxes? Will private health insurance be eliminated? What sectors of the market will do poorly with each candidate? The list of worries is long, and I’m certainly not saying they are not legitimate concerns. What I am saying, is worrying about these possibilities can lead to reactive, emotional decisions, such as impulsive shifts in your portfolio allocation or even “paralysis by analysis” leading to complete inaction.

Other attempts to predict financial performance based on political events include the “presidential election cycle theory,” which posits that U.S. stock markets perform weakest in the year that follows the election of a new president. Yet, recently, this prediction hasn’t held true, either. For example, in the first two years of Barack Obama’s first presidential term, the U.S. stock market performed much better than during his third year in office. And in George H.W. Bush’s first year, the market was up 25.2 percent, and the start of Bill Clinton’s first term also generated strong market performance, up by 19.9 percent.

Of course, we recognize that politics will influence financial planning decisions, but we believe it is dangerous to make these decisions based on predictions or probabilities. Too often, people fixate on elements that are outside of their control—stock market returns, the rate of inflation, or changes to the tax code. We encourage our clients to focus instead on what they can control—their individual savings rate, their discretionary spending level, the investment vehicles they choose, the way they structure their estate plans, and appropriate risk level based on long-term goals. Make no mistake, there will be an opportunity to tactically adjust portfolios to take advantage of emerging trends while avoiding submerging ones when this election is settled and future direction is clear. Just not now or for the next 9 months.

It is easy to become overwhelmed by headlines that speculate about how the upcoming election will impact personal wealth. But it is important to remember that economic policy is not set by one politician alone and that legislation is not enacted overnight. Pundits—and salespeople—are often wrong, and the only legislation that matters is the legislation that is actually passed. What's more, even after a law is passed, it typically takes a good bit of time for the new rules to go into effect, giving sufficient opportunity to change one's financial plans accordingly. For these reasons, we encourage clients to focus on their personal and family objectives when making their decisions, rather than on the peaks and valleys of the 24-hour news cycle.