November 2012

JOHANSON
FINANCIAL ADVISORS

The Election – What's next?

I just spent a few days in the mountains, celebrating my Mother's 80th birthday with my five brothers and sisters. As we spent a couple of days reminiscing about days gone, we could not ignore the future and the ramifications of the past week's Presidential Election. While my family is currently situated in many different locations across the U.S. and even though we all have varying socio-economic lives, we all shared the same worries about the future.

Knowing that I have a degree and background in Economics and work as a Financial Advisor to many high net-worth individuals, my parents and siblings asked me the following question:

How Will the Election Impact our Portfolios?

On November 6, it was decided that President Obama would occupy the White House for four more years. The balance of power in U.S. Government will generally be the same. What should that mean? Should we load up on stocks, put our money under our mattress, or buy enough gold bars to fill our garage?

Election trends really tell us nothing. Since World War II, there have been sixteen Presidential elections; seven have been won by a Democratic candidate and nine by a Republican. Simply put, that is not enough data from which to form any kind of a valid conclusion about how markets "usually" respond to one party or the other. Stock and Bond markets are influenced by a great many variables, the identity and nature of which are always changing, and most of which have little to do with the party affiliation of the occupant of 1600 Pennsylvania Avenue. Rule number one of portfolio decision-making in election season is to ignore any kind of "this usually happens when X is elected" prognostication.

The most immediate issue is the much talked about "Fiscal Cliff". This represents a series of tax hikes that immediately go into effect on January 1st, 2013. If we get the same divided Government that has existed for the last four years, and no compromise is worked out, you can expect taxes to increase on not only the top 1 to 2% of wage earners but for most all of us. Early indications are not promising. As long as compromise and stalemate are in the cards, these markets will remain jumpy.

My guess is we get some compromise before year end. Neither Democrats nor Republicans want to be blamed for pushing us into a recession. The Fiscal Cliff impact will probably get watered down to some extent or kicked down the road. There is so much pessimism with Washington D.C. that any positive surprise might lead to a nice market rally. We will have to wait and see. In the meantime, let the sausage making begin.

My overall thesis is the following: although we may get some gyrations between now and year-end, the best thing a long term investor can do is stay patient and disciplined. We would do well to recall the most recent policy-inspired period of volatility - the debt ceiling debacle in August 2011. Worries caused markets to plunge rapidly over several days. Anyone who panicked in the aftermath of this correction and sold out made a mistake. Markets eventually found their footing and are now higher than they were before the mini-crash. It’s always possible that a real financial “Armageddon” may happen one of these days—but history has shown that it’s a poor way to bet.

We should all focus on a professional diversified strategy with sensible asset allocation for our personal needs.