

October 30, 2020

As the election approaches, investors are being deluged with generalizations and predictions about the impact on the Stock Market if either side gains control.

Given the History of Market returns and the Impact of Legislation by each party, we suggest **IGNORING** the below inconsequential predictions and focusing on superior company selection based on individual business and financial fundamentals.

The issues being espoused include long-time standbys with new twists on old themes, including:

Issue	Dems	Impact	Republicans	Impact
Taxes	Raise	Economy Hurt	Lower	Spur Economy
Spending	More Entitlements	Reduces Incentive to Work	Less (fictional?)	Smaller Government
Trade	Soft	Jobs Go Overseas	Tough	Spur U.S. manufacturing
Health Care	Will Socialize	Kills Profits for Drug Makers	Free Market	Price Declines – Due to Competition
Defense	Lower Priority	Defense Contractors Decline	Strong	Military Contractors Thrive
Energy	More Restrictions	Higher Price	Less Restrictive	Lower Prices
Big Tech	Break Up	Stock Prices Decline	Revoke Sec. 230 Protections	Stock Prices Decline

FIRST, a statistical history of the S&P 500's performance shows us the following S&P 500 PERFORMANCE

Party	President	Beg.	End	Return
R	Eisenhower	1953	1961	129%
D	Kennedy	1961	1963	16%
D	Johnson	1963	1969	46%
R	Nixon	1969	1974	-20%
R	Ford	1974	1977	26%
D	Carter	1977	1981	28%
R	Reagan	1981	1989	117%
R	Bush, HW	1989	1993	51%
D	Clinton	1993	2001	210%
R	Bush, GW	2001	2009	-40%
D	Obama	2009	2017	182%

President	Return
Clinton	210%
Obama	182%
Eisenhower	129%
Reagan	117%
Bush, HW	51%
Johnson	46%
Trump	43%
Carter	28%
Ford	26%
Kennedy	16%
Nixon	-20%

|R Trump 2017 2020 43%

|Bush, GW -40%

A deeper look reveals that the average stock market return during Democratic Presidential terms actually exceeds that of Republican terms.

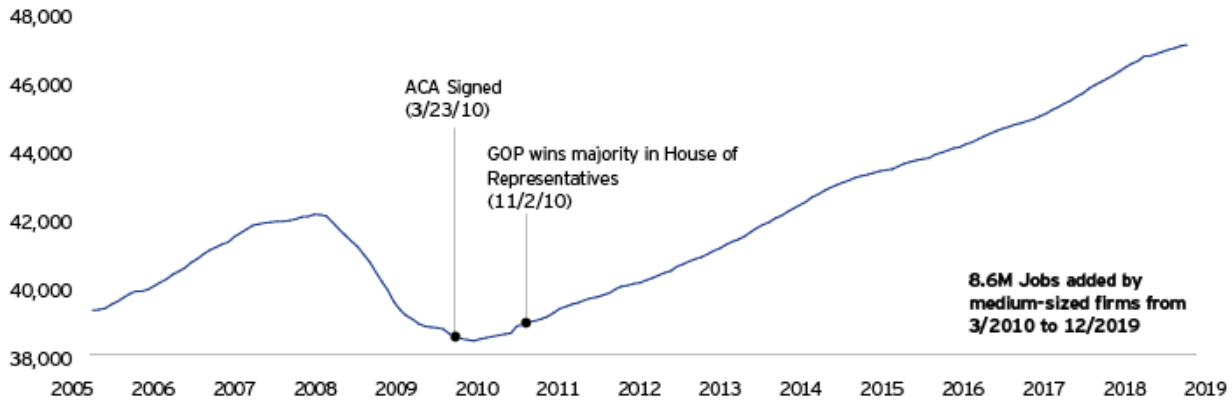
AVERAGES (annualized compound stock market growth rate):

REPUBLICANS +8.3%

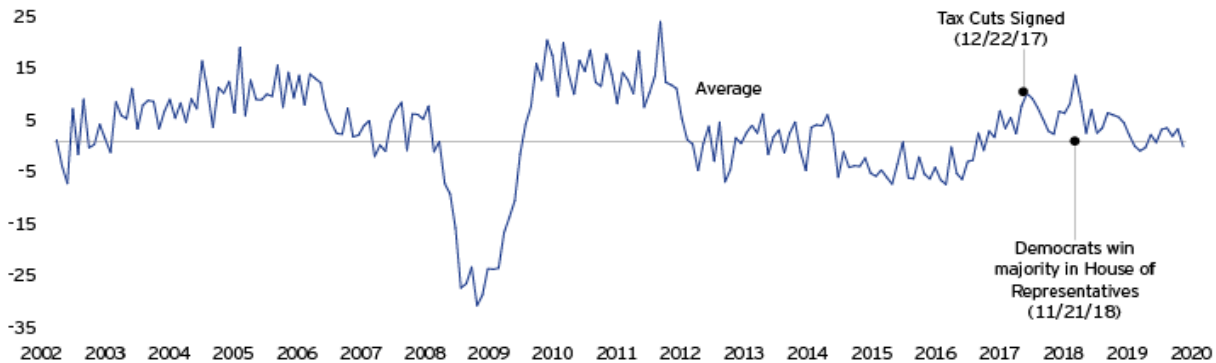
DEMOCRATS +8.4%

SECOND, Predictions of Legislative Impact Seldom Pan Out

Example 1: The Patient Protection and Affordable Care Act – Required Employers with 50+ full-time employees to offer employee health coverage or pay a penalty. It was predicted that this would result in a hiring freeze by mid-size employers; however, 8.6 million jobs were added since its passage



Example 2: The Tax Cuts and Jobs Act of 2017 included Section 179, which allows taxpayers to deduct the cost of certain property (such as machinery and equipment purchased for use in trade or business) as an expense when property is placed in service.



Conclusions:

The above simplistic historical comparisons and charts are of de minimis value since they:

- a. Do not include periods where Presidents have had control of Congress

- b. Do not reflect historic events during the term, Wars, 9-11, Covid, Financial Crisis, or other global events

However, people will continue to work, use cell phones, move to e-commerce, innovate, eat, drink, drive, travel, compete and entertain, irrespective of who wins.

As such, we focus on owning the companies that provide these services and products best.

Brad Stanley, CFA

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