CORDA

TOGETHER WE'RE INVESTED

Effects of Elections

September 30, 2016

"I think that you will all agree that we are living in most interesting times. I never remember myself a time in which our history was so full, in which day by day brought us new objects of interest, and let me say, new objects of anxiety." Joseph Chamberlain, 1898.

Who is Joseph Chamberlain? He was one of the most important British politicians of the late 19th and early 20th centuries. Winston Churchill called him "a splendid piebald, first black, then white, or in political terms, first fiery red, then true blue." He spanned the spectrum in the British political party scene, first to the left of the Liberals, and later to the right of the Conservatives. He is commemorated by a memorial in Chamberlain Square in Birmingham, England where you also can find a huge cast-iron clock tower erected in his name in 1903.

Few today would dispute that we live in interesting and anxious times. Or better yet, maybe it's just the 24 hour news cycle and access to social media that makes us think these are more interesting times. Quite possibly, the pulse is neither faster nor slower than what it was thirty five years ago when the internet was introduced to the public, or back over one hundred years ago in Chamberlain's time, but the constant drone of Twitter, Facebook, CNN, and Fox News makes it seem so.

What we do know today is that the upcoming presidential election to name our country's 45th president is front and center of everyone's attention. There is a great deal of uncertainty surrounding what the outcome of this election will mean for the United States and we hear questions every day as to what it might mean for stock prices.

"Historically, whether a Republican or Democrat occupies the White House has had no statistically significant impact on the US equity market," writes Russ Koesterich, head of asset allocation for BlackRock Funds, which has $4.9 trillion under management. Studies have shown, however, that election years have coincided with favorable markets, particularly when the incumbent party wins.

If statistics are what you thrive on, we can share with you the results of the so-called "Presidential Cycle." According to the Stock Trader's Almanac, market returns based on the four year election cycle show that the best years for the market are in the third and fourth year of a president's term as opposed to smaller gains in the first two years of the presidency. For example, since 1944, the market has averaged a 6.2% rise in the first year of a new president's term, according to S&P Global Market Intelligence.

Overall, the average returns since 1944 based on the presidential cycle look like this:

Year 1: 6.2%

Year 2: 0.5%

Year 3: 17.5%

Year 4: 10.2%

But history has a funny way of fooling everyone. The Dow was up 27% in the first year of Obama's second term and 7.5% in year two. Also, eight years ago, the Dow was -35% in 2008, which was year 4 and the last year of George W. Bush's second term.

One might ask, if the recent past was out of sync with the typical presidential cycle, was does that mean for the next four years? Our crystal ball is no better than yours!

Have you heard the popular refrain, "markets do better with a divided government?" That theory is not borne out in history either. According to InvesTech, going back to 1928 and under three different scenarios, the following results were found in the two years following an election:

16.9% on average return of the S&P 500 Index when one party controls the White House and both houses of Congress.

15.6% when one party controls the White House and the other party controls both houses of Congress.

And just 5.5% when the House and Senate are divided.

Finally, there is a political crystal ball that can help determine who actually wins the election by checking stock market returns in the three months up to an election. If the stock market advances leading to an election, the incumbent party typically wins, although losses over those three months tend to usher in a new party. In the 22 elections since 1928, 14 were preceded by gains in the three months prior. In 12 of those 14 instances, the incumbent party won the White House. So there is an 86% success rate correlating the market's positive returns to who might win the election. For comparison purposes, the S&P 500 was priced at 2,180 on August 8th. Today it is 2,160. Looks like that it is telling us it's too close to call at this time!

So why is it that when we are armed with reputable and sound data, we sometimes tend to do the opposite? We want to impart on you that although statistics and facts may appeal to the logical part of your brain, we find that the emotional side tends to cause us to short circuit every now and then. Ever use the following statement with your spouse, child, friend, or colleague? "Sleep on it and let's talk tomorrow." There must be a good reason for us to call a temporary time out when discussing important issues of the day or things of more intimate consequence. It allows everyone to be calm, fresh, and to have time to reflect upon the issues at hand and to not make outbursts or emotional decisions when not in a position of strength. In light of the upcoming news flow from the election on November 8th and the next Federal Reserve announcement about interest rates on December 14th, we think it's best to understand the psychology of investing and to educate yourself to be a better investor.

We want to share with you (attached to this email) a powerful market study that has been ongoing since 1994 by a firm in Boston, MA called Dalbar. It has examined real investor returns for the thirty year period through December 31, 2015, encompassing the crash of 1987, the drop at the turn of the millennium, the crash of 2008, plus recovery periods from 2009 – 2012. It specifically measured the effects of investor decisions to buy, sell, and switch into and out of mutual funds over short and long-term timeframes. It is a fascinating study! Our goal in sharing this study with you is to help improve your outlook and to act prudently when it comes to your investments.

Believe it or not, the study finds that investment results are more dependent on investor behavior than on fund performance. Shocking, or not?! One of the key findings was that the average gain for an equity mutual fund investor is 4.67% annually for the last twenty years versus the S&P 500 return of 8.19%. Dalbar, having spent years analyzing investor behavior, concludes that it is not just buying and selling at the wrong time that has caused such a lopsided result, but a host of psychological traps, triggers, and misconceptions that cause investors to act irrationally. The exhaustive study finds that investors are plagued by their own personal experiences and unique personalities which cause them to deviate from their sound and pre-tailored investment strategies. So ultimately the best way to fight off negative behaviors is to employ a buy, hold, and actively monitor strategy that focuses on one's goals and is not reactive to short-term conditions.

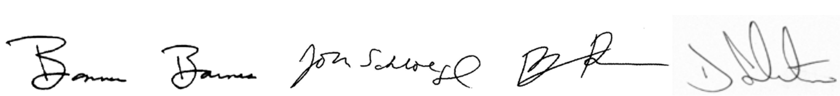
Please take the time to review this material and we will be happy to discuss with you the next time we meet.

As stated in previous communications, we at CORDA will focus on the businesses that we own as they potentially prosper in the coming years and provide long-term returns through dividends and capital appreciation. If we can identify good companies that can muster dividend increases in the years ahead, we will gain even more. Lastly, if we can also help you proactively navigate a full market cycle or two, you will stand to succeed where so many others have failed.

We whole-heartedly believe you should not make any abrupt or emotional changes to your investment portfolio (cue: sleep on it!!) if and when one of our presidential candidates says something controversial. Later, as we roll into December, we surely don't want you throwing anything at the TV screen when Janet Yellen or other Federal Reserve committee member announces a change or potential tweak to our monetary policy. Much of this is likely to happen not just over the next 90 days, but into the future.

As always, we will be watching the capital markets closely and will inform you of any changes that we perceive to be necessary and in your best interest.

Sincerely,



The Portfolio Team