YOUR FINANCES IN AN ELECTION YEAR

There are many different forces that can move the stock market in a negative direction. Wall Street doesn't like uncertainty -- while you'd think an election year would fall into that category, you might be surprised.

Every election year has its own unique set of issues. Let's look at what has happened in the past.

What happens to the stock market during election years?

S&P 500 Index Stock Market Returns During Election Years

Year	Return	Candidates
1928	43.6%	Hoover vs. Smith
1932	-8.2%	Roosevelt vs. Hoover
1936	33.9%	Roosevelt vs. Landon
1940	-9.8%	Roosevelt vs. Willkie
1944	19.7%	Roosevelt vs. Dewey
1948	5.5%	Truman vs. Dewey
1952	18.4%	Eisenhower vs. Stevenson
1956	6.6%	Eisenhower vs. Stevenson
1960	0.50%	Kennedy vs. Nixon
1964	16.5%	Johnson vs. Goldwater
1968	11.1%	Nixon vs. Humphrey
1972	19.0%	Nixon vs. McGovern
1976	23.8%	Carter vs. Ford
1980	32.4%	Reagan vs. Carter
1984	6.3%	Reagan vs. Mondale
1988	16.8%	Bush vs. Dukakis
1992	7.6%	Clinton vs. Bush
1996	23.0%	Clinton vs. Dole
2000	-9.1%	Bush vs. Gore
2004	10.9%	Bush vs. Kerry
2008	-37.0%	Obama vs. McCain
2012	16.0%	Obama vs. Romney
2016	12.0%	Trump vs. Clinton
2020	18.4%	Biden vs. Trump

Source:
www.thebalancemoney.com/presidential-elections-and-stock-market-returns-2388526#:~:text=S%26P%20500%20Annual%20Stock%20Market%20Returns%20During%20Election,Biden%20vs.%20Trump%20%20%2020%20more%20rows%20

According to the 2021 Dimensional Funds report, the market has been **favorable overall in 20 of the 24 election years** from 1928 to 2020, only showing negative returns four times.[1]

According to the chart, the Dow Jones Industrial Average has climbed 10.28% on average during election years when a sitting president has run for reelection.

There's typically less uncertainty for people who buy and sell stocks when an incumbent is in office and running for a second term. In the years leading up to an election, sitting presidents tend to roll out new policies or push for lower taxes in an effort to bolster the economy.

[1] Source:
https://www.thebalance.com/presidential-elections-and-stock-market-returns-2388526#citation-2
(Reference The Balance - "Stock Market Performance in Presidential Election Years")

Shouldn’t my political viewpoint influence my investments?

S&P 500 Price Change by Presidential Term[1]

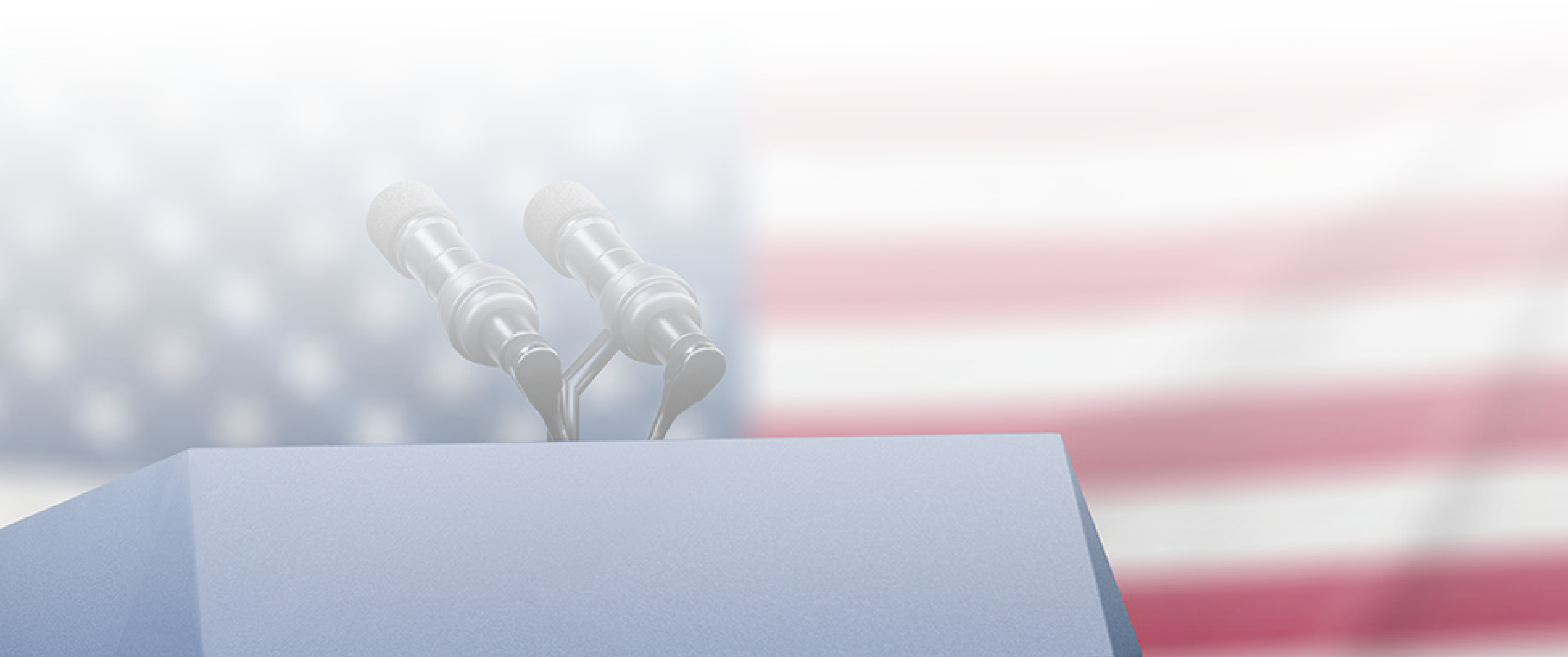
Eisenhower 1 (R)	**up** 70.0%
Eisenhower 2 (R)	**up** 34.3%
Kennedy-Johnson (D)	**up** 44.3%
Johnson 2 (D)	**up** 17.4%
Nixon 1 (R)	**up** 16.8%
Nixon 2 – Ford (R)	**down** 13.3%
Carter (D)	**up** 27.9%
Reagan 1 (R)	**up** 30.1%
Reagan 2 (R)	**up** 67.3%
Bush (R)	**up** 51.2%
Clinton 1 (D)	**up** 79.2%
Clinton 2 (D)	**up** 72.9%
Bush 1 (R)	**down** 12.5%
Bush 2 (R)	**down** 31.5%
Obama 1 (D)	**up** 84.5%
Obama 2 (D)	**up** 52.9%
Trump (R)	**up** 48.5%
Biden (D)	**up** 30.5% (through 1.31.24)

Warren Buffett, who has been investing since 1942 under seven Republican and eight Democratic presidents, said:

“You do not want to have a political view when investing...if you had done that over the last 77 years, you’d have missed out on a lot of the party.” [2]

[1] Source: https://www.investopedia.com/presidents-and-their-impact-on-the-stock-market-4587369 (Reference Investopedia “Presidents and the Stock Market”)

[2] Source: https://www.cnbc.com/video/2019/02/25/warren-buffett-you-do-not-want-to-have-a-political-view-when-investing.html (Reference CNBC interview 02/25/2019)



Is there a history of higher taxes after massive spending?

Tax Rates Throughout History[1]

1913
The top tax bracket was seven percent on all income over $500,000 ($11 million in today's dollars).

World War I
In order to finance U.S. participation in World War I, Congress passed the 1916 Revenue Act and the War Revenue Act of 1917. The highest income tax rate jumped from 15 percent in 1916, to 67 percent in 1917, to 77 percent in 1918. *War is expensive!*

After the war, federal income tax rates took on the steam of the Roaring '20s, dropping to 25 percent between 1925 and 1931.

The Great Depression
Congress raised taxes on the top earners again in 1932, from 25 percent to 63 percent.

World War II
In 1944, the top rate peaked at 94 percent on taxable income over $200,000 ($2.5 million in today's dollars).

50s, 60s, & 70s
Over the next three decades, the top federal income tax rate remained high, never dipping below 70 percent.

1980s
The Economic Recovery Tax Act of 1981 slashed the highest rate from 70 percent to 50 percent and indexed the brackets for inflation. Then, the Tax Reform Act of 1986, claiming that it was a two-tiered flat tax, expanded the tax base and dropped the top rate to 28 percent for tax years beginning in 1988.

Lawmakers claimed that they would never have to raise the 28 percent top rate. The 28 percent top rate promise lasted three years before it was broken.

1990s
The top rate jumped to 39.6 percent.

2013-2017
The Affordable Care Act added an additional 3.8 percent on the top tax rate, making the maximum federal income tax rate 43.4 percent.

2018 - 2024
The highest income tax rate was lowered to 37 percent for tax years beginning in 2018. The additional 3.8 percent is still applicable, making the maximum federal income tax rate 40.8 percent.

[1] Source: https://bradfordtaxinstitute.com/Free_Resources/Federal-Income-Tax-Rates.aspx

So what can I do to prepare for this election?

1 Recognize your own political leanings and try taking an unbiased view of the economy and the markets.

2 Consider how you've reacted to market volatility and elections in the past. Did it serve you well or backfire?

3 Because we don't have a crystal ball, it is important to talk to a financial professional who can help you create a plan for the future.

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