

3rd Quarter 2019

Executive Summary

October 11, 2019

On September 24, House Speaker Pelosi announced that the House would begin a formal impeachment inquiry into President Trump. The president is fighting back. Things are changing by the hour.

Market Data as of September 30, 2019

How might impeachment impact your investment portfolio?

		YTD 2019
U.S. Equities	Russell 3000 ETF	19.93%
International Equities	MSCI EAFE ETF	12.80%
Emerging Markets Equities	MSCI Emg Mkts ETF	5.36%
U.S. Bond Market	Barc Agg ETF	8.51%
U.S. Bond Short Duration	Barc U.S. 1-3 Year ETF	2.94%
Hedging Strategies	Credit Suisse Hedge Fund	7.05%
Commodities	S&P GSCI Comm ETF	7.43%
Real Estate	iShares U.S. Real Estate ETF	27.51%

There have been three impeachments in our history: Johnson in 1868, Nixon in 1974, and Clinton in 1999.

Each of these impeachment sagas was different, but none of them appeared to have had a substantial impact on the performance of the financial markets at the time.

Impeachment and Your Investment Portfolio

The current news cycle is head-spinning. ***On September 24, House Speaker Pelosi announced that the House would begin a formal impeachment inquiry into President Trump.*** The president has just stated that he believes the inquiry is unconstitutional and unfair and he will not cooperate with it. He is launching his own series of counterattacks. Things are changing by the hour.

All that said, we have only three data points. This is not enough information to reliably predict that the current impeachment saga will have no meaningful impact on the markets this time around. The entire situation is too volatile to predict.

Unfortunately, ***the country is deeply divided***; there is less and less ground for anyone in the middle to stand on, draining our energy and straining our relationships. The amount of day-to-day turmoil is astonishing. In the evening, most of us spend some time spelunking in our favorite echo chamber (e.g., CNN or Fox) to watch the latest outrage. It's exhausting. For good mental health, I strongly recommend a cable news diet.

The best advice during periods of uncertainty is to rebalance and stay alert. If you can't sleep at night, you can make your asset allocation more conservative. If you think you can make outsized returns, proceed with extreme caution.

Investors are asking themselves whether the current impeachment inquiry will impact their investment portfolios and their long-term financial plans. Should they make any changes?

Keep your eye on the things you can control, and do not lose sight of your long-term financial goals.

In order to evaluate this question, we must remain objective. If we can, we must leave our political biases at the door. ***Let's take a look at past impeachments and see what impact, if any, they had on capital markets.***

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The History of Impeachment

Only two U.S. presidents have been impeached by a full vote in the House: Andrew Johnson and Bill Clinton. Both were tried in the Senate and both were acquitted. Nixon resigned before a full House vote and Senate trial. Accordingly, no U.S. president has ever been removed from office by impeachment.

Each of these impeachment sagas was different, but none of them appeared to have had a substantial impact on the performance of the financial markets at the time.

The Impeachment of Andrew Johnson

After the assassination of Abraham Lincoln in 1865, Vice President Andrew Johnson assumed office, just as the Civil War came to a close. In the fight over how Reconstruction would be implemented, Congress passed the Tenure in Office Act in 1867 that limited the president's power to fire his own cabinet members. Congress tried to prevent Johnson from dismissing Secretary of War Edwin Stanton, who was an ally of congressional Republicans who wanted a more aggressive plan for Reconstruction, which Johnson opposed. When Johnson fired Stanton, the House voted to impeach him for violating the act. But Johnson was acquitted by one vote after a trial in the Senate in 1868. Eventually, the Tenure in Office Act was found to be unconstitutional, even though historians eventually found Johnson's handling of Reconstruction misguided.

Market Impact

According to economic historians, during Johnson's impeachment ordeal in 1868, stock prices were flat and bonds rallied. ***His impeachment did not appear to be a significant factor in market performance.***¹

The Near-Impeachment of Richard Nixon

Richard Nixon was embroiled in scandal involving a break-in at the Democratic National Committee headquarters in the Watergate complex in June 1972. The House began an investigation, and Nixon steadfastly denied any involvement. He also obstructed the investigation. In 1974, the House Judiciary Committee approved articles of impeachment for referral to the full House. Before the articles were introduced to the full House, the "smoking gun" tape was revealed, and it showed the president was, in fact, involved in the cover-up. Nixon's previous support among congressional Republicans evaporated. On August 9, 1974, Nixon resigned from office after it became apparent that he would be impeached by the House and convicted in the Senate.

Market Impact

Between the Watergate break-in in 1972 and Nixon's resignation in 1974, the S&P 500 fell 25%. But other equity markets around the world also fell during this time. Why? In 1971, Nixon suspended the convertibility of the dollar into gold and implemented domestic wage and price controls to combat

¹ Mackintosh, James. "How Impeachment Could Matter for Markets," *The Wall Street Journal*, September 26, 2019.

inflation. Then, in 1973, OPEC initiated a devastating oil embargo against the U.S., and the price of oil spiked 400% in a very short period of time. ***These economic issues, not impeachment, were the cause of the recession that followed in 1973 and 1974.*** In 1973, the S&P 500 was down 14.7%. In 1974, it was down 26.5%.² ***Nixon's impeachment did not appear to be a factor.***³

The Impeachment of Bill Clinton

In December 1998, the House passed two articles of impeachment against Bill Clinton: one for lying under oath and another for obstruction of justice. The articles related to Clinton's perjury during a deposition regarding his affair with Monica Lewinsky. There was also evidence that Clinton tried to cover up the affair. Chief Justice Rehnquist presided over an impeachment trial in the Senate. In February 1999, the Senate acquitted Clinton, and he finished his second term in office.

Market Impact

The Clinton impeachment played out during the dot-com boom. In 1998, the S&P 500 was up 28.6%. In 1999, it was up 21.0%.⁴ ***Again, the Clinton impeachment did not appear to be a factor in overall stock market performance.***

So What?

History shows that past impeachments have had little impact on the capital markets. The markets were far more influenced by economic factors than political ones. That said, we have only three data points. This is not enough information to reliably predict that the current impeachment saga will have no meaningful impact on the markets this time around. The entire situation is too volatile to predict.

Recommendation

The best investment advice during times of uncertainty is usually to rebalance and stay alert. If history is any guide, the markets may be driven more by economic than political concerns.

If you can't sleep at night, you may want to make your asset allocation more conservative by incrementally lowering equity exposure and increasing your allocation to bonds and cash. You can also select investments that seek to minimize volatility. Of course, the more conservative you make your portfolio, the more you increase your risk of not reaching your long-term goals.

If you think now is an opportunity to make outsized returns, I would proceed with extreme caution. In my opinion, you do not have enough reliable information to make this type of investment decision. If you do make a change, make sure you stay diversified. Understand the cost of being wrong, and make sure you are prepared for that outcome.

² Dimensional Fund Advisors, Matrix Book 2019.

³ Irwin, Neil, "What a Trump Impeachment Battle Means for Financial Markets," *The New York Times*, September 25, 2019.

⁴ Dimensional Fund Advisors, Matrix Book 2019.

During these turbulent, divided times, we need to keep our eye on the ball. ***Focus on your long-term financial objectives, and use a steady hand when it comes to your finances.*** Take care of yourself and your family. Keep grinding at work and saving money, or enjoy your retirement. This is the real world — the one right in front of us. It is worthy of our full attention and focus while we wait to cast our vote in 2020, whichever way that may be.

At least this is the lecture I give myself when I feel anxious and concerned about current events. I'm not sure it works, but I'm sticking with it.

If you have questions or concerns about your situation, please give us a call at (855) 353-3800.

Thank you,
Austin Lewis

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