LEWIS WEALTH MANAGEMENT

Newsletter

October 16, 2024

Executive Summary

We are facing a stressful election. What, if anything, should you do with your investment portfolio?

It depends on whether you are a short- or long-term investor.

For long-term investors (like most of us), the weight of historical evidence suggests the best strategy is to remain invested in a diversified portfolio. That sounds easy, but often our emotions can get in the way.

We can allow ourselves to feel these emotions, but acting on them may not always be advisable. Fear and anger should not drive our investment decisions.

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Market Data as of September 30, 2024

		YTD 2024
US Equities	S&P 500 ETF	21.96%
International Equities	MSCI EAFE ETF	12.97%
Emerging Markets Equities	MSCI Emerging Mkts ETF	14.88%
US Bond Market	iShares US Core Bond ETF	4.56%
Commodities	S&P GSCI Comm ETF	4.48%
Real Estate	iShares US Real Estate ETF	13.47%

Ready or Not – Here Comes the Election

In case you haven't heard, ***we have a presidential election coming up in three weeks***. This election season has been unprecedented in terms of stress, fear, anxiety, worry, and anger. ***What, if anything, should you do with your investment portfolio?***

It depends on whether you are a short- or long-term investor.

In my view, if your investment horizon is more than five years, you are a long-term investor. Long-term investors accumulate wealth for retirement or other long-term objectives.

If your investment horizon is less than five years, you are a short-term investor. Short-term investors are often trying to turn a profit by speculating on current information, trends, or other investment themes.

If you are a short-term investor trying to turn a profit during this election cycle, you will likely have to speculate on the outcomes of the presidential and congressional elections and anticipate how the markets might react to those outcomes. You will have to decide whether to invest in or get out of the markets entirely. You will also need to forecast the overall geopolitical and economic climate over the short term and try to anticipate any number of complications that may arise. There is potential for both substantial gain and loss. Many investors and traders will try to do this, of course. ***The odds are against them.***

If you are a long-term investor, I think your chances for a successful investment experience are very good. The weight of historical evidence is on your side – if you can manage your emotions in the near term.

<u>The Weight of Historical Evidence</u>

The analysts at Dimensional and Charles Schwab have done some very good research that may help guide us. Take a look at the following slides.

The first slide indicates that over 100 years of US presidential terms, stocks have consistently marched upward, regardless of which political party occupies the White House.

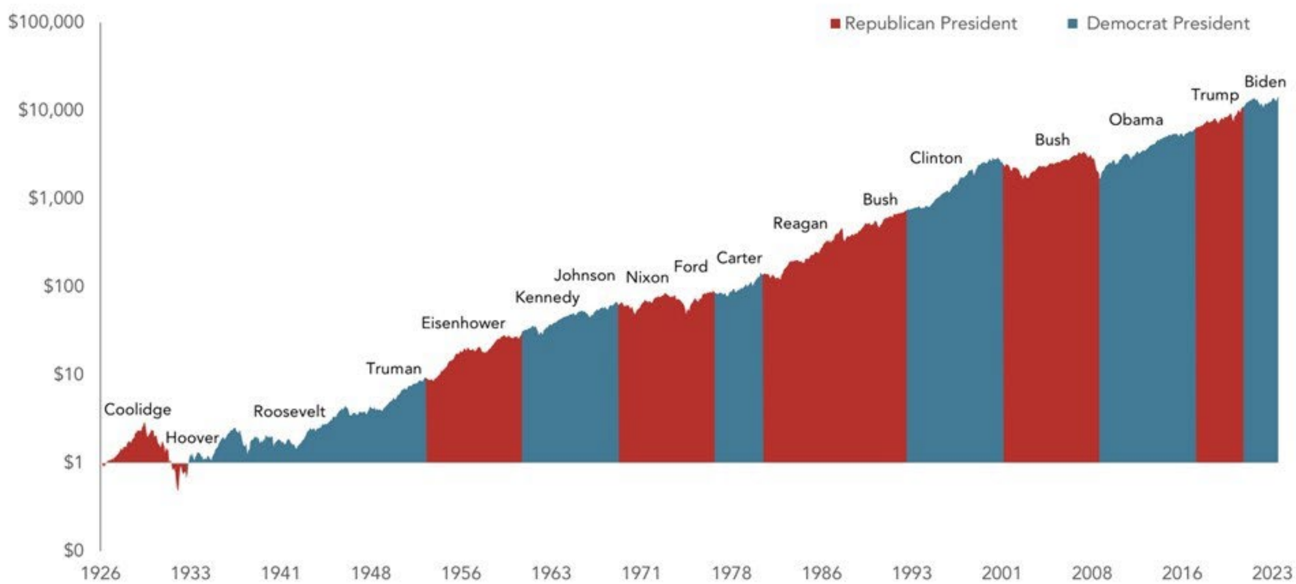
The second slide indicates that stocks have consistently marched upward regardless of which party controls Congress.

The third slide indicates that monthly stock market returns are, on average, no more volatile during an election month than in other months.

The fourth slide indicates that the best long-term investment strategy by far is to stay invested at all times rather than investing based on which party controls the White House.

Markets Have Rewarded Long-Term Investors Under a Variety of US Presidents

Hypothetical growth of a dollar invested in the S&P 500: January 1926–December 2023



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Data presented in the growth of $1 chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment. Source: S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Dimensional

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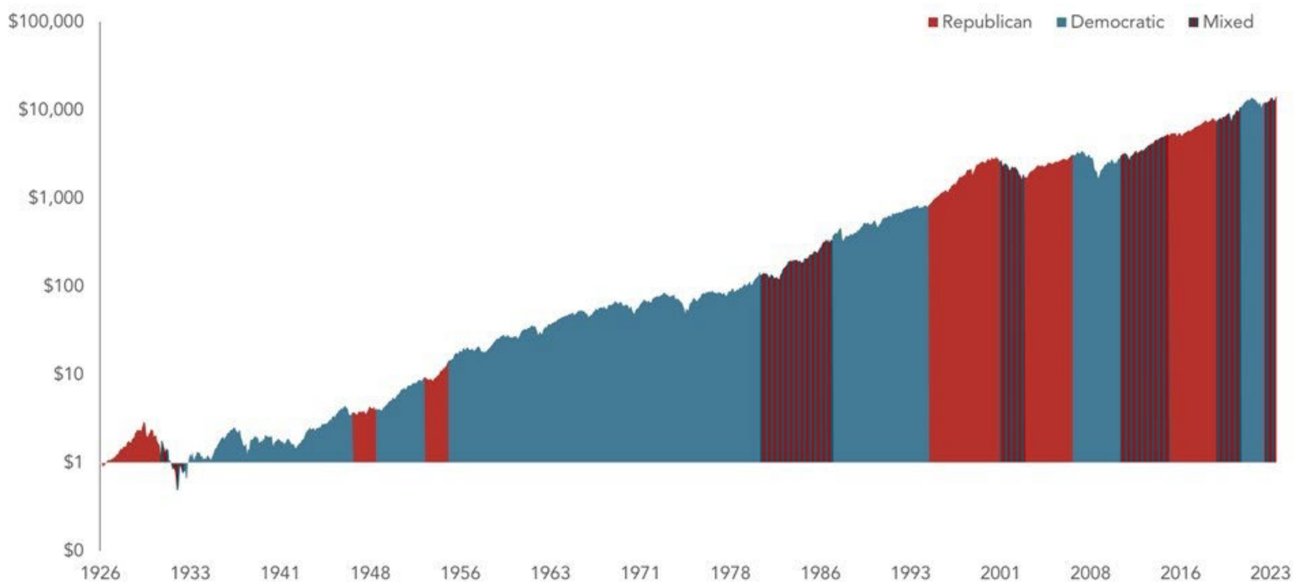
Hypothetical Growth of $1 Invested in the S&P 500 Index and Party Control of Congress

January 1926–December 2023



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Dimensional

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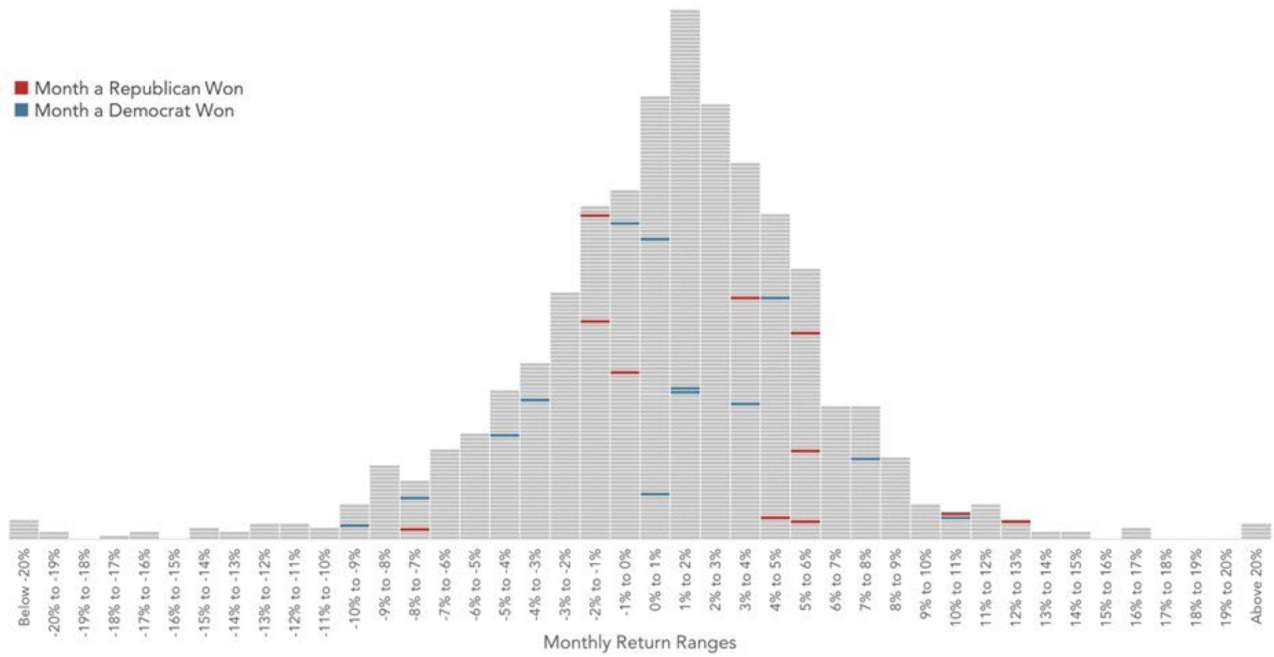
US Presidential Elections and Monthly Returns

Distribution of Returns for S&P 500 Index, January 1926–December 2023



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Dashes representing returns for a given month are stacked in ascending order of return within each column, with highest return within that range on top. Source: S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Dimensional

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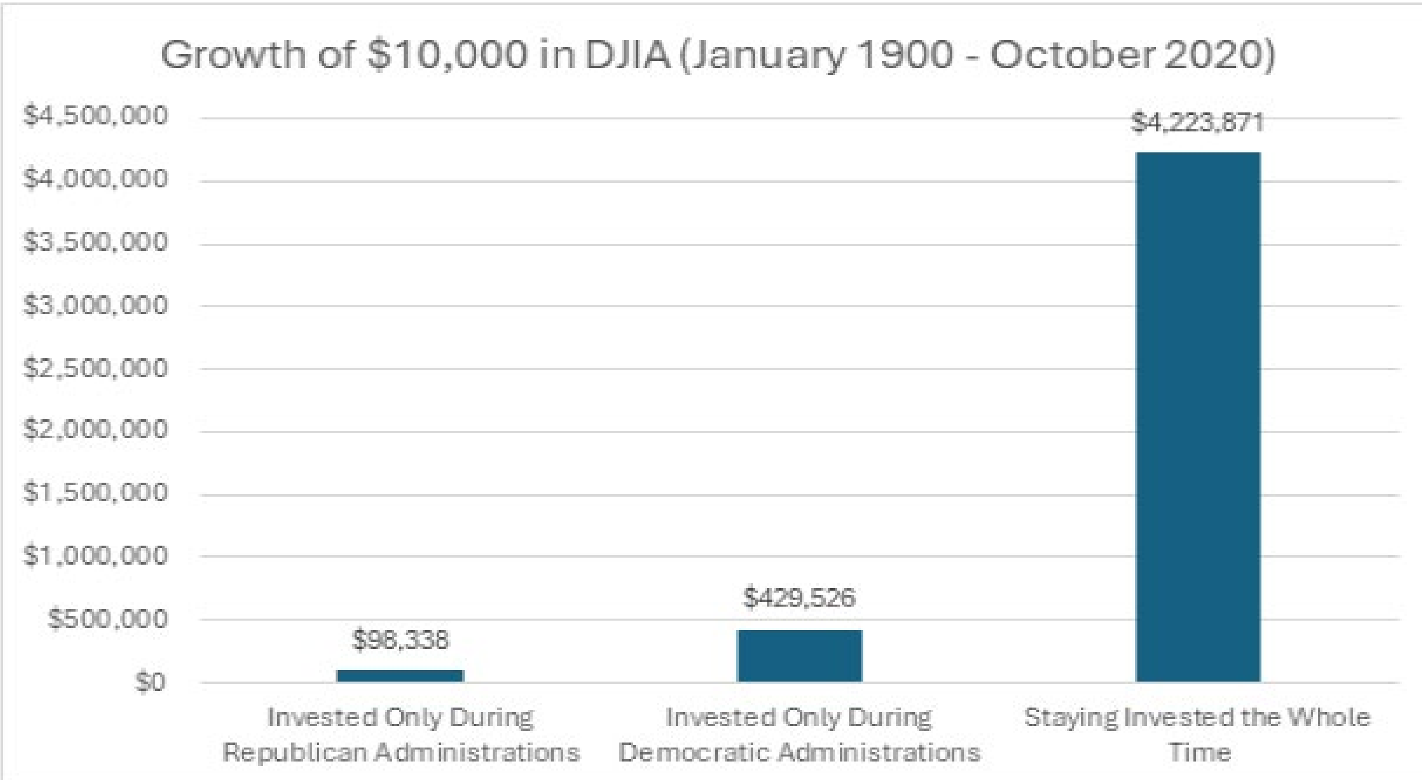

Source: Charles Schwab & Company

Historically, the best strategy for the long-term investor has been to continue to stay invested, ride out any short-term volatility, and follow a diversified long-term investment strategy. Historical data does not suggest there is any strategy that would enable an investor to consistently time the market around the election or bet on which party controls Congress or the White House.

Managing Your Emotions

For many investors, historical data and objective research fall short of comforting them during volatile and stressful times. Lately, political rhetoric has never been hotter or more frightening. Cable news and the internet repeat, distort, and amplify everything. Most of us react in two ways: we get scared or we get angry. Sometimes both.

In such times, I tend to revisit the advice of some very experienced and wise investors, two of whom are Jeremy Siegel and Nick Murray.

Most investors are familiar with Professor Siegel. He is an economist who teaches at the Wharton School of Business at the University of Pennsylvania. He has been around for a very long time. In his classic book on investing, "Stocks for the Long Run," Siegel said, ***"Fear has a greater grasp on human action than does the impressive weight of historical evidence."*** In the first half of this newsletter, we reviewed that historical evidence.

Less well-known is Nick Murray. He was a financial services professional for more than 50 years and is a respected industry writer and speaker – especially in the advisor community. In 2007, Nick received the Malcolm S. Forbes Public Awareness Award for Excellence in Advancing Financial Understanding.

When it comes to stressful times, Nick has been around the block a few times. I find some of his writing helpful. Back in 2008 (in the depths of the financial crisis but before the pandemic and our recent bout with inflation), Nick wrote the following:

"***The world does not end; it only seems to be ending from time to time.*** No bear market is unique, none is fatal, and this time is never different."[1]

"***Any disaster is a possibility. None is a probability.*** Rational investors assess probabilities. If I considered all the terrible things that were possible on any given day, I'd probably never get out of bed in the morning."[2]

"***Panic is usually a big mistake, and it always rationalizes itself.*** 'I have to get out until we see who wins the election/we see how the war in Iraq goes/we get past the dot.com depression/the jobless recovery/the balance of payments deficit/deflation/inflation/Watergate/Vietnam/Ike's second heart attack/Pearl Harbor . . . .'"[3]

I believe in this advice.

Of course, I cannot promise you that that nothing bad will happen during the upcoming election. Terrible outcomes are possible but not necessarily probable. That is the nature of risk itself. There are no

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[1] Murray, Nick, *Behavioral Investment Counseling* (2008), p. 194.
[2] *Id.*
[3] Murray, Nick, *Simple Wealth Inevitable Wealth* (3rd ed., 2008), p. 160.

guarantees. That said, the weight of historical evidence is behind the rational, long-term investor who stays the course.

In the next few weeks, it is expected that we will all feel fear, anxiety, anger, and a host of other emotions. It would be a mistake to panic and act inappropriately on those emotions.

I hope you can find a little peace during this volatile election cycle. ***If you have questions about your portfolio or long-term financial plan, please give me a call.***

Thank you.

D. Austin Lewis

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