

The Pre-Election Correction Continues. Is It Over?



- *The Correction Continues*
- *A Historical Look At Pre- And Post-Election Years*
- *Portfolio Positioning Update*
- *MacroView: A Permanent Shift To Valuations*
- *Sector & Market Analysis*
- *401k Plan Manager*

Follow Us On: [Twitter](#), [Facebook](#), [Linked-In](#), [Sound Cloud](#), [Seeking Alpha](#)

We Need You To Manage Our Growth.

Are you a strong advisor who wants to grow your practice? We need partners we can work with to manage our lead flow. If you are ready to move your practice forward, we would love to talk.

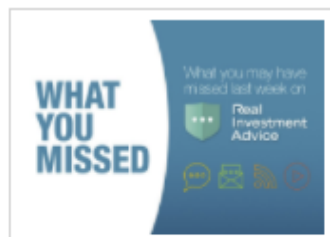
Tap into something big while staying in charge.

 RIA Advisors

JOIN US



Catch Up On What You Missed Last Week



#WhatYouMissed On RIA This Week: 09-18-20

Written by Lance Roberts | Sep 18, 2020

Here is what you might have missed from the RIA Crew last week. A compilation of our best blogs, newsletter, podcasts, the daily radio show and commentary from RIAPRO.NET.

[>> Read More](#)

The Correction Continues

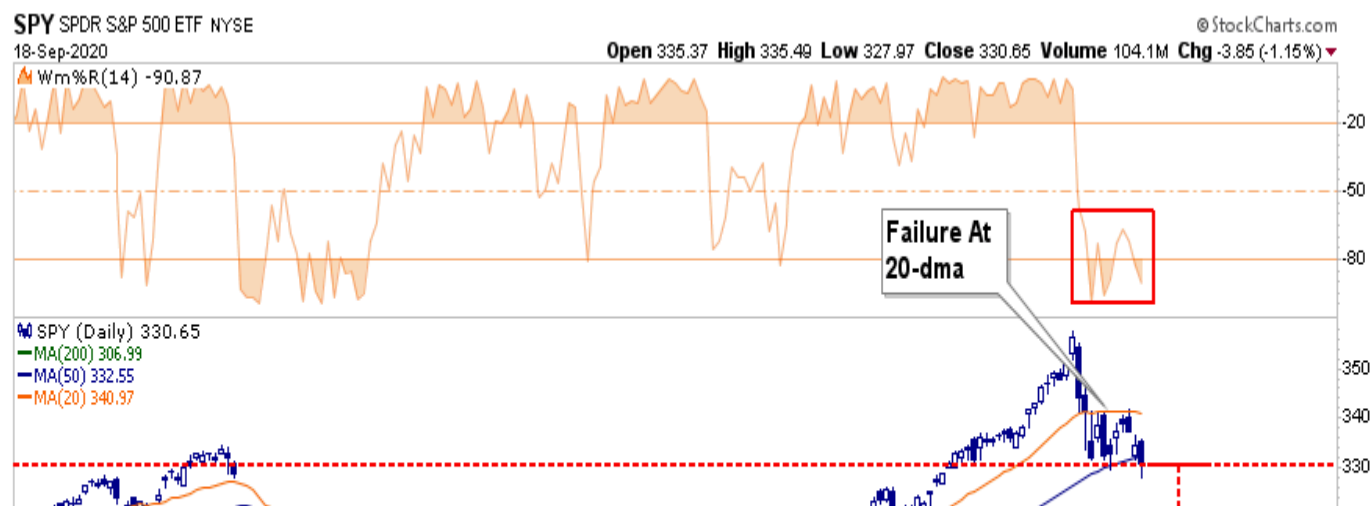
Over the last couple of weeks, we have been discussing the ongoing market correction. As we stated last week:

*"As shown in the chart below, we had suggested a correction back to previous market highs was likely **but could extend to the 50-dma**. So far, the correction has played out much as we anticipated."*

However, we also said:

*"However, **while we expect a rally next week, due to the short-term oversold condition of the market**, there is a downside risk to the 200-dma, which is another 5% lower from current levels. **Such would entail a near 14% decline from the peak, which is well within the historical norms of corrections during any given year.**"*

On Friday, due to the "quad-witching options expiration" (when all options contracts for the current strike month expire and rollover), the market gave up support at the 50-dma, as shown below. The good news, if you want to call it that, is the market did hold a previous level of minor support and remains oversold short-term.



As such, the break of the 50-dma must recover early next week, or it will put the 200-dma into focus. That is currently about 7% lower than where we closed on Friday. **However, as shown below, the markets are very oversold short-term, so a tradeable "bounce" remains very likely in the next few days.** If the bounce fails at either the 50- or 200-dma's overhead, as shown above, such could well confirm an ongoing correction process.



Importantly, as noted previously, this correction was not unexpected and fell in line with historical pre-election market cycles. **Is the correction over?** As noted we are likely to get a tradeable bounce next week, but as we will discuss next, there could be more downside pressure in October heading into the election.

Real Investment Report

Market updates, sector analysis, 401k plan manager & more.

> **Subscribe today**

Presidential Elections & Market Outcomes

There has been a fair bit of concern about the upcoming election. Given the rampant rhetoric

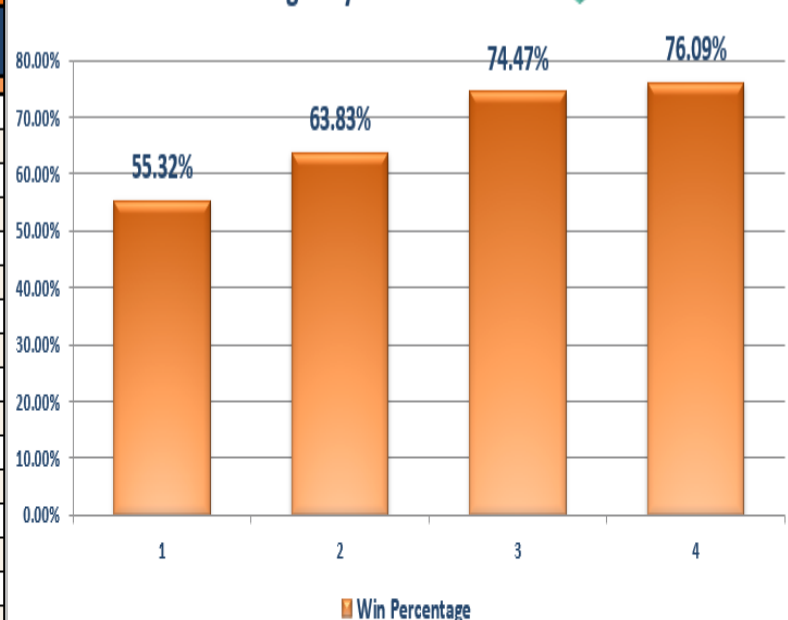
between the right and left, such is not surprising. The Republicans claim that Biden will crash the market. The Democrats suggest the same with President Trump. From a portfolio management perspective, what we need to understand is what happens during election years to stock markets and investor returns.

"Since 1833, the Dow Jones industrial average has gained an average of 10.4% in the year before a presidential election, and nearly 6%, on average, in the election year. By contrast, the first and second years of a president's term see average gains of 2.5% and 4.2%, respectively. A notable recent exception to decent election-year returns: 2008, when the Dow sank nearly 34%. (Returns are based on price only and exclude dividends.)" - [Kiplinger](#)

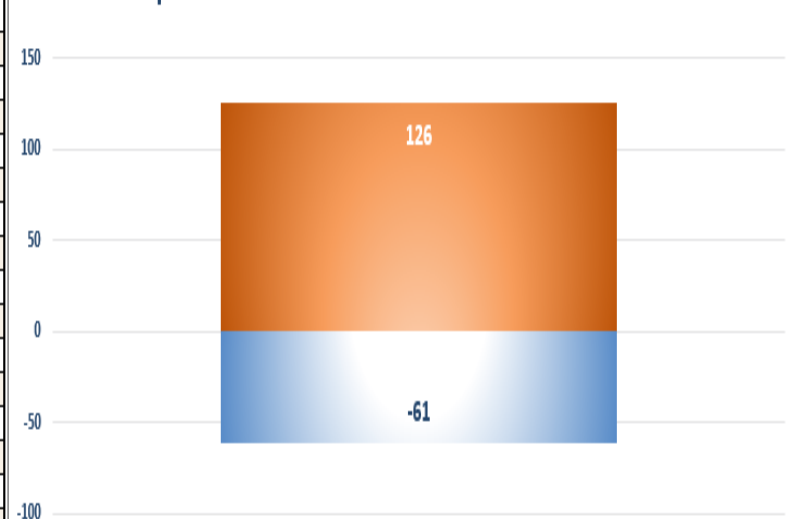
The data in the table below varies a bit from Kiplinger as it uses total returns. Since 1833, markets have gained in 35 of those years, with losses in only 11. Since President Roosevelt's victory in 1944, there have only been two losses during presidential election years: 2000 and 2008. Those two years corresponded with the *"Dot.com Crash"* and the *"Financial Crisis."* On average, stocks produced their **second-best performance** in Presidential election years.

Presidential Election/Stock Market Cycle						
Beg. Of 4-Yr Cycle	Elected President	Pres. Post Election Party	Mid-Term Year	Pre-Election Year	Election Year	
1833	Jackson	Dem	(0.90)	13.00	3.10	(11.70)
1837	Van Buren	Dem	(11.50)	1.60	(12.30)	5.50
1841	WH Harrison	Whig	(13.30)	(18.10)	45.00	15.50
1845	Polk	Dem	8.10	(14.50)	1.20	(3.60)
1849	Taylor	Whig	0.00	18.70	(3.20)	19.60
1853	Pierce	Dem	(12.70)	(30.20)	1.50	4.40
1857	Buchanan	Dem	(31.00)	14.30	(10.70)	14.00
1861	Lincoln	Rep	(1.80)	55.40	38.00	6.40
1863	Lincoln	Rep	(8.50)	3.60	1.60	10.80
1869	Grant	Rep	1.70	5.60	15.26	7.84
1873	Grant	Rep	2.97	8.60	11.40	(16.51)
1877	Hayes	Rep	20.24	30.46	20.34	31.60
1881	Garfield	Rep	(6.29)	8.47	5.15	(5.36)
1885	Cleveland	Dem	31.29	9.42	(3.65)	7.17
1889	B. Harrison	Rep	9.43	(7.73)	26.11	(2.03)
1893	Cleveland	Dem	(3.90)	4.61	4.51	0.15
1897	McKinley	Rep	17.63	29.20	(12.37)	22.84
1901	McKinley	Rep	11.90	(2.40)	(13.05)	35.17
1905	T. Roosevelt	Rep	15.86	(3.23)	(18.58)	37.79
1909	Taft	Rep	8.85	7.02	(0.77)	1.39
1913	Wilson	Dem	(3.64)	(8.96)	27.28	(2.83)
1917	Wilson	Dem	(26.39)	(2.83)	(0.56)	(4.28)
1921	Harding	Rep	19.99	26.45	(2.23)	25.18
1925	Coolidge	Rep	19.41	13.48	34.75	43.81
1929	Hoover	Rep	(8.30)	(25.12)	(43.84)	(8.64)
1933	F. Roosevelt	Dem	49.98	(1.19)	46.74	31.94
1937	F. Roosevelt	Dem	(35.34)	29.28	(1.10)	(10.67)
1941	F. Roosevelt	Dem	(12.77)	19.17	25.06	19.03
1945	F. Roosevelt	Dem	35.82	(8.43)	5.20	5.70
1949	Truman	Dem	18.30	30.81	23.68	18.15
1953	Eisenhower	Rep	(1.21)	52.56	32.60	7.44
1957	Eisenhower	Rep	(10.46)	43.72	12.06	0.34
1961	Kennedy	Dem	26.64	(8.81)	22.61	16.42
1965	Johnson	Dem	12.40	(9.97)	23.80	10.81
1969	Nixon	Rep	(8.24)	3.56	14.22	18.76
1973	Nixon	Rep	(14.31)	(25.90)	37.00	23.83
1977	Carter	Dem	(6.98)	6.51	18.52	31.74
1981	Reagan	Rep	(4.70)	20.42	22.34	6.15
1985	Reagan	Rep	31.24	18.49	5.81	16.54
1989	G.H.W. Bush	Rep	31.48	(3.06)	30.23	7.49

S&P 500 TR Win Percentages By Year Of President REAL INVESTMENT ADVICE



Number Of Up vs. Down Years



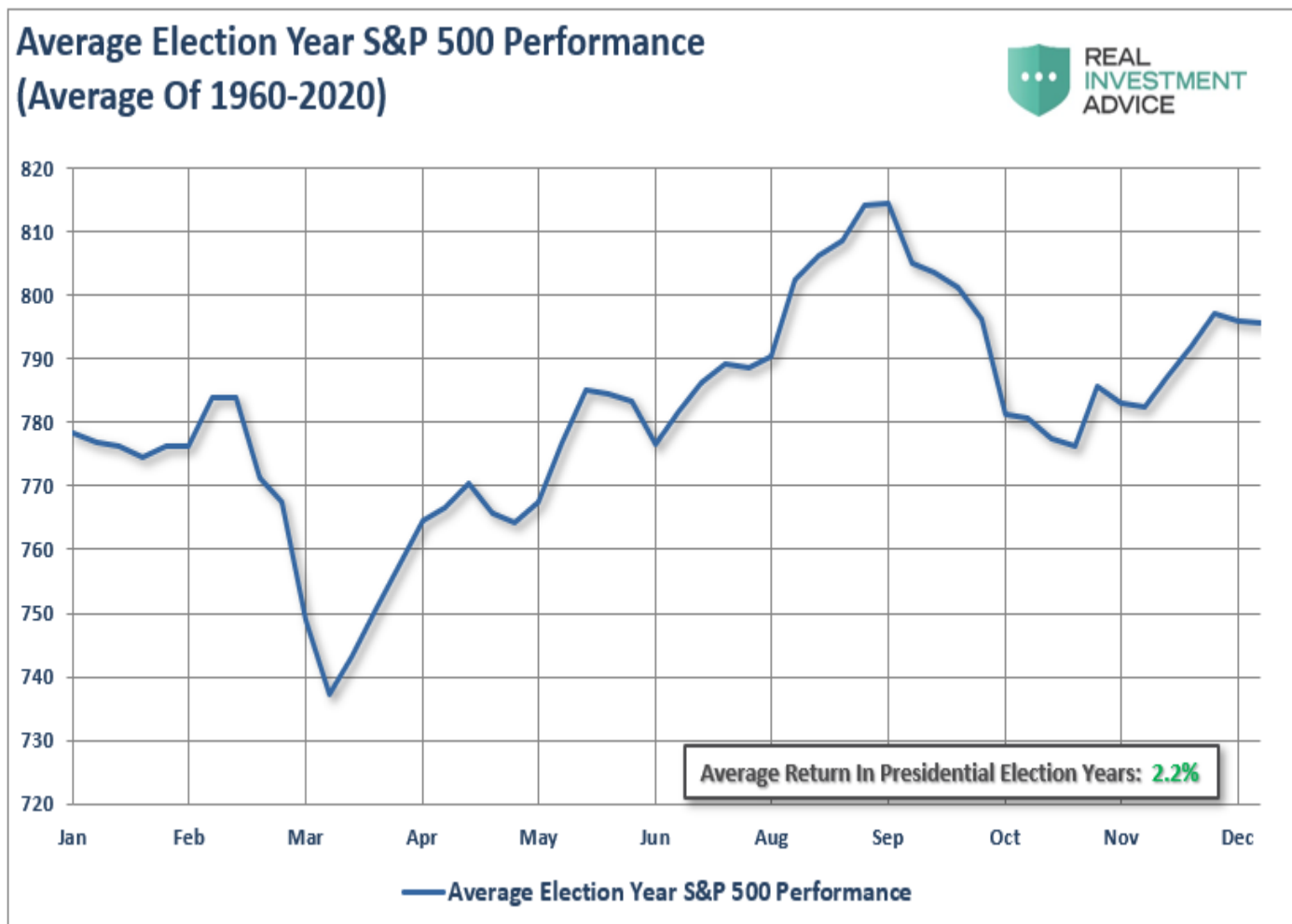
S&P 500 TR Average Annual Return By Year Of President



With a "win ratio" of 76%, the odds are high that markets will continue their winning ways. **However, I would caution completely dismissing the not so insignificant 24% chance that a bear market could reassert itself, given the current economic weakness.** Furthermore, given the current 12-year duration of the ongoing bull market, the more extreme deviations from long-term means, and ongoing valuation issues, a "Vegas handicapper" might increase those odds a bit.

Will Policies Matter

The short answer is, "Yes." However, not in the short-term. **Presidential platforms are primarily "advertising" to get your vote.** As such, a politician will promise many things that, in hindsight, rarely get accomplished. Therefore, while there currently much debate about whose policies will be better for the stock market, historically and statistically speaking, it doesn't matter much. A look back at all election years since 1960 shows an average increase in the market of nearly 2.2% annually.



However, that number is heavily skewed by the decline during the 2008 "Financial Crisis." If we extract that one year, returns jump to 7.7% annually in election years. **Importantly, note in both cases the slump in returns during September and October. As we stated above, the current market correction falls nicely in line with historical norms.**

Election Year Returns - Bear Markets (Without Financial Crisis-2008)



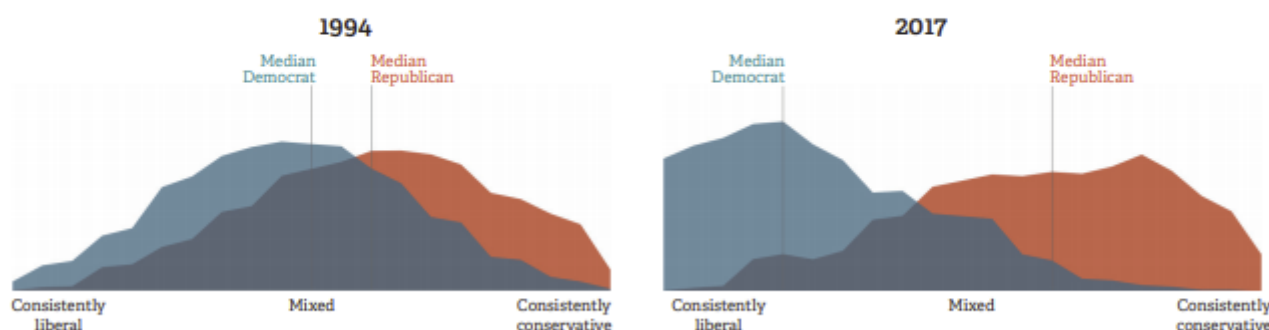
The Great Divide

While you may feel strongly about one party or the other when it comes to politics, it doesn't matter much when it comes to your money. Such is particularly the case today.

"For the second election in a row, voters will cast ballots for the candidate they dislike less, not whose policies they like more." - Lance Roberts, [Real Investment Show](#)

What the market already understands is with the [parties more deeply divided](#) than at any other single point in history; the likelihood of any policies getting passed is slim. (2017 was the latest data from a 2019 report. That gap is even larger currently as Social Media fuels the divide.)

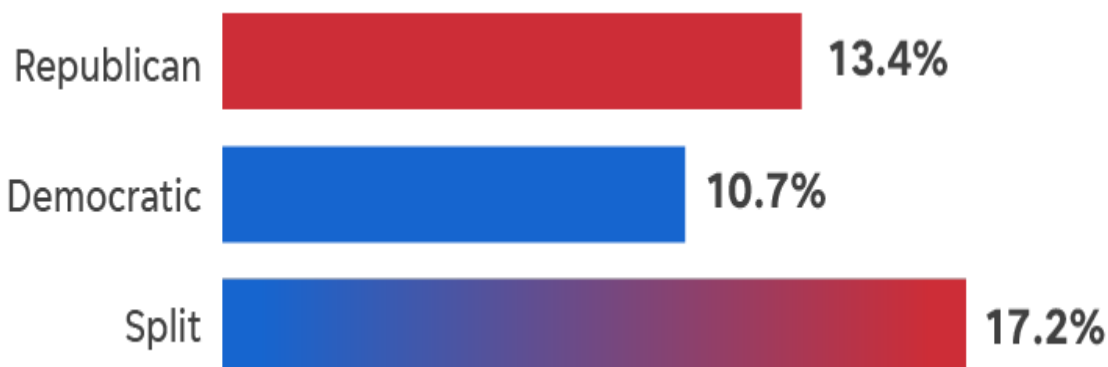
The two charts below illustrate that the overlap between political values of Democrats and Republicans (the purple area) shrunk between 1994 and 2017, as the share of Americans with ideologically consistent values increased.



Source: "Political Polarization, 1994-2017." Pew Research Center, Washington, D.C. October 20, 2017, <https://www.people-press.org/interactives/political-polarization-1994-2017/>.

The one thing markets do seem to prefer - "**political gridlock.**"

"A split Congress historically has been better for stocks, which tend to like that one party doesn't have too much sway. Stocks gained close to 30% in 1985, 2013 and 2019, all under a split Congress, according to LPL Financial. The average S&P 500 gain with a divided Congress was 17.2% while GDP growth averaged 2.8%." - USA Today



**REAL
INVESTMENT
ADVICE**

Have more than \$500k invested?
Get a better strategy than
"buy and hold"

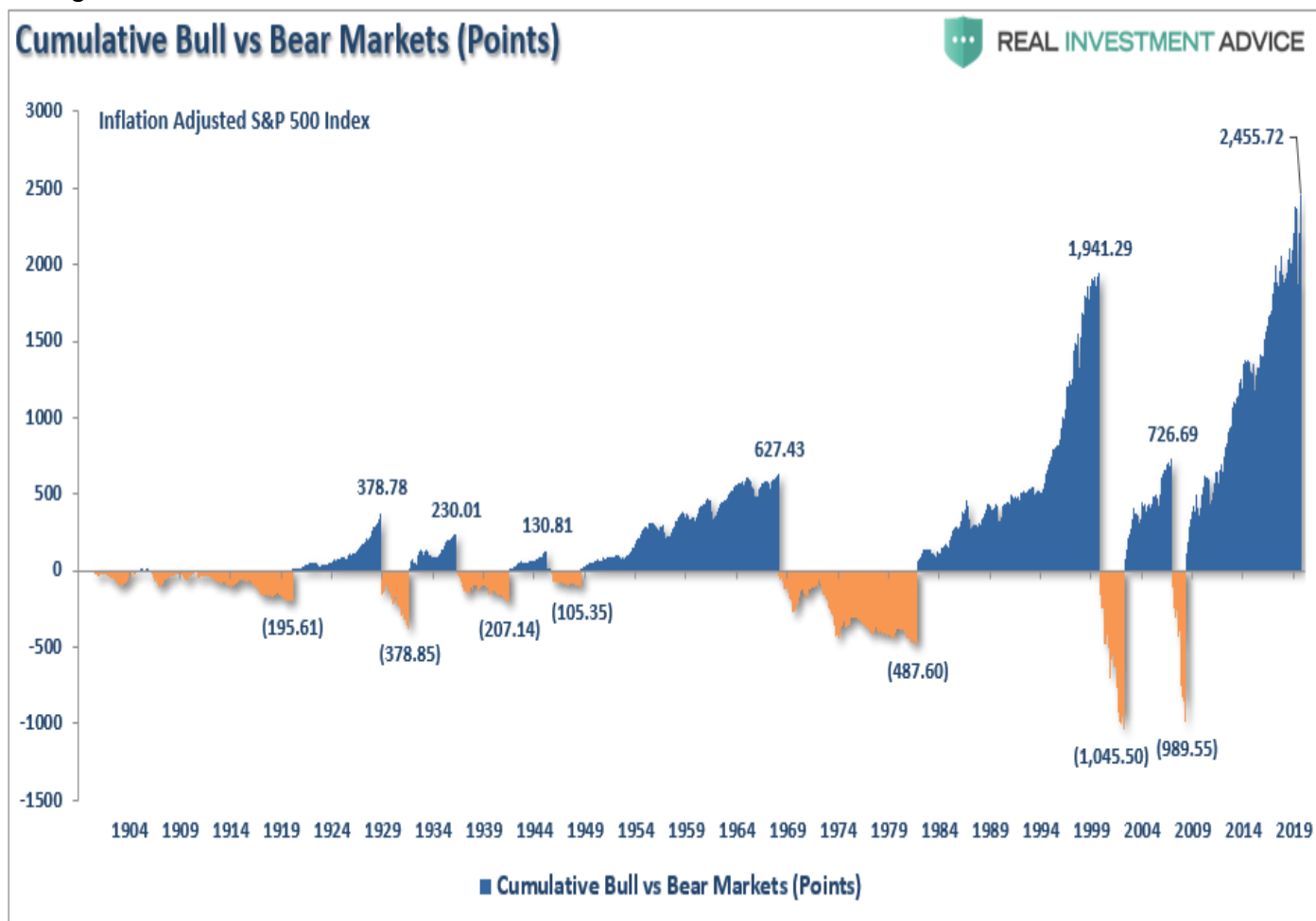
**MEET WITH AN
RIA TEAM
MEMBER TODAY**

It's Not A Risk-Free Outcome

What we can derive from the data is the odds suggest the market will end this year on a positive note. However, such says little about next year. If you go back to our data table above, **the 1st year of a new Presidential cycle is roughly a 50/50 outcome. It is also the lowest average return year going back to 1833.** Furthermore, from the election and 2021, outcomes are overly dependent on many things continuing to go "right."

1. **Avoidance of a "double-dip" recession.** (Without more Fiscal stimulus, this is a plausible risk.)
2. **The Fed continues expanding monetary policy.** (There is currently no indication of this.)
3. **The consumer will need to expand their current debt-driven consumption.** (This is a risk without more fiscal stimulus or sustainable economic growth.)
4. **There is a marked improvement in both corporate earnings and profitability.** (This will likely be the case as mass layoffs will benefit bottom-line profitability. However, top-line sales remain at risk due to items #1 and #3.)
5. **A sharp improvement in employment, rising wages, and falling jobless claims will signal a sustainable economic recovery.** (There is currently little indication this is the case outside the bounce from the March shutdown.)

These risks are all undoubtedly possible. However, when combined with the [longest-running bull market in history](#), [high-valuations](#), and [excessive speculation](#), the risks of something going wrong indeed have risen.



(While most financial media types present bull and bear markets in percentages, which is deceiving because a 100% gain and a 50% loss are the same thing, it worth noting

what happens to investors by viewing cumulative point gains and losses. In every case, the majority of the previous point gain is lost during the [full-market cycle](#).)

So, how do you position your portfolio into the election?

RIA Pro

Get the latest trades, analysis, and insights from the RIA Pro team.

> Sign up now

Portfolio Positioning For An Unknown Election Outcome

Over the last few weeks, we have repeatedly discussed the idea of reducing risk, hedging, and rebalancing portfolios. Part of this was undoubtedly due to the overly exuberant rise from the March lows and the potential for an unexpected election outcome. As we noted in "[Tending The Garden](#):"

*"Taking these actions has **TWO specific benefits** depending on what happens in the market next.*

1. ***If the market corrects**, these actions clear out the 'weeds' and allow for protection of capital against a subsequent decline.*
2. ***If the market continues to rally**, then the portfolio has been cleaned up and new positions can be added to participate in the next leg of the advance.*

*No one knows for sure where markets are headed in the next week, much less the next month, quarter, year, or five years. **What we do know is not managing 'risk' to hedge against a decline is more detrimental to the achievement of long-term investment goals.***

That advice continues to play well in setting up your portfolio for the election. **As we have laid out, the historical odds suggest that markets will rise regardless of the electoral outcome.** However, those are averages. In 2000 and 2008, investors didn't get the "average." **Such is why it is always important to prepare for the unexpected.** While you certainly wouldn't speed down a freeway "*blindfolded*," it makes little sense not to be prepared for an unexpected outcome. Holding a little extra cash, increasing positioning in Treasury bonds, and adding some "*value*" to your portfolio will help reduce the risk of a sharp decline in the months ahead. Once the market signals an "*all clear*," you can take "*your foot off the brake*," and speed to your destination. Of course, it never hurts to always "*wear your seatbelt*."



Real Investment Show
with Lance Roberts

Monday to Friday,
from 6 to 7am. > Get it now

The MacroView



#MacroView: Newton, Physics & The Market Bubble

Written by Lance Roberts | Sep 18, 2020

I have previously discussed the importance of understanding how "physics" plays a crucial role in the stock market. As Sir Issac Newton once discovered, "what goes up, must come down."

If you need help or have questions, we are always glad to help. [Just email me.](#) See You Next Week **By Lance Roberts, CIO**

Market & Sector Analysis

Analysis & Stock Screens Exclusively For RIAPro Members

Discover All You Are Missing At RIAPRO.NET

This is what our [RIAPRO.NET](#) subscribers are reading right now! **Risk-Free For 30-Day Trial.**

- Sector & Market Analysis
- Technical Gauge
- Sector Rotation Analysis (Risk/Reward Ranges)
- Portfolio Positioning
- Sector & Market Recommendations
- Client Portfolio Updates
- Live 401k Plan Manager

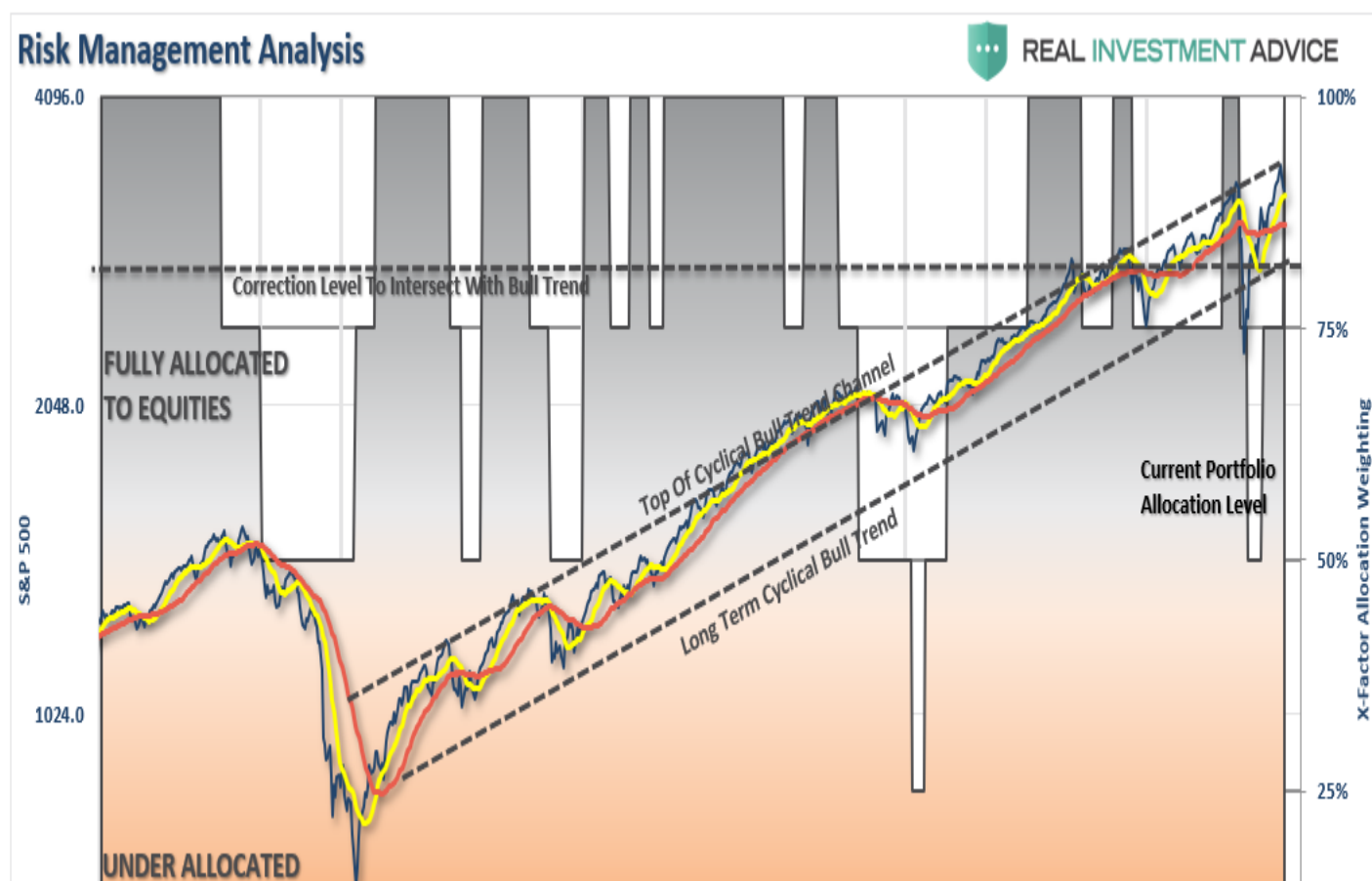
RIAPro

Get the latest trades, analysis, and insights from the [RIA Pro](#) team.

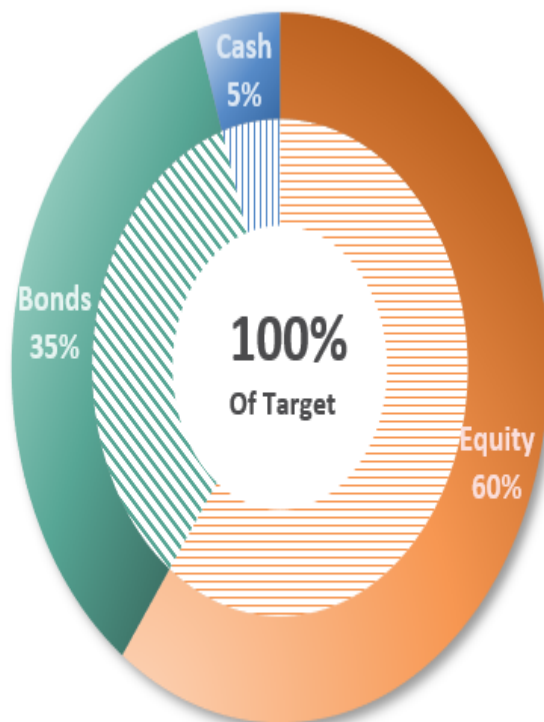
[> Sign up now](#)

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



Current Portfolio Weighting



Current 401k Allocation Model

5.00% Cash + All Future Contributions

Primary concern is the protection of investment capital

Examples: Stable Value, Money Market, Retirement Reserves

35.00% Fixed Income (Bonds)

Bond Funds reflect the direction of interest rates

Examples: Short Duration, Total Return and Real Return Funds

60.00% Equity (Stocks)

The vast majority of funds track an index.

Therefore, select on ONE fund from each category.

Keep it Simple.

20% Equity Income, Balanced or Conservative Allocation

30% Large Cap Growth (S&P 500 Index)

5% International

5% Mid-Cap

Portfolio Instructions:

Allocation Level To Equities	Recommendation	When To Take Action
Less Than Target Allocation	Use Weakness To Add	Move Slowly On Weakness
Equal To Target Allocation	Hold Current Exposure	Hold Exposure
Over Target Allocation	Hold Current Exposure	Hold Exposure

Commentary

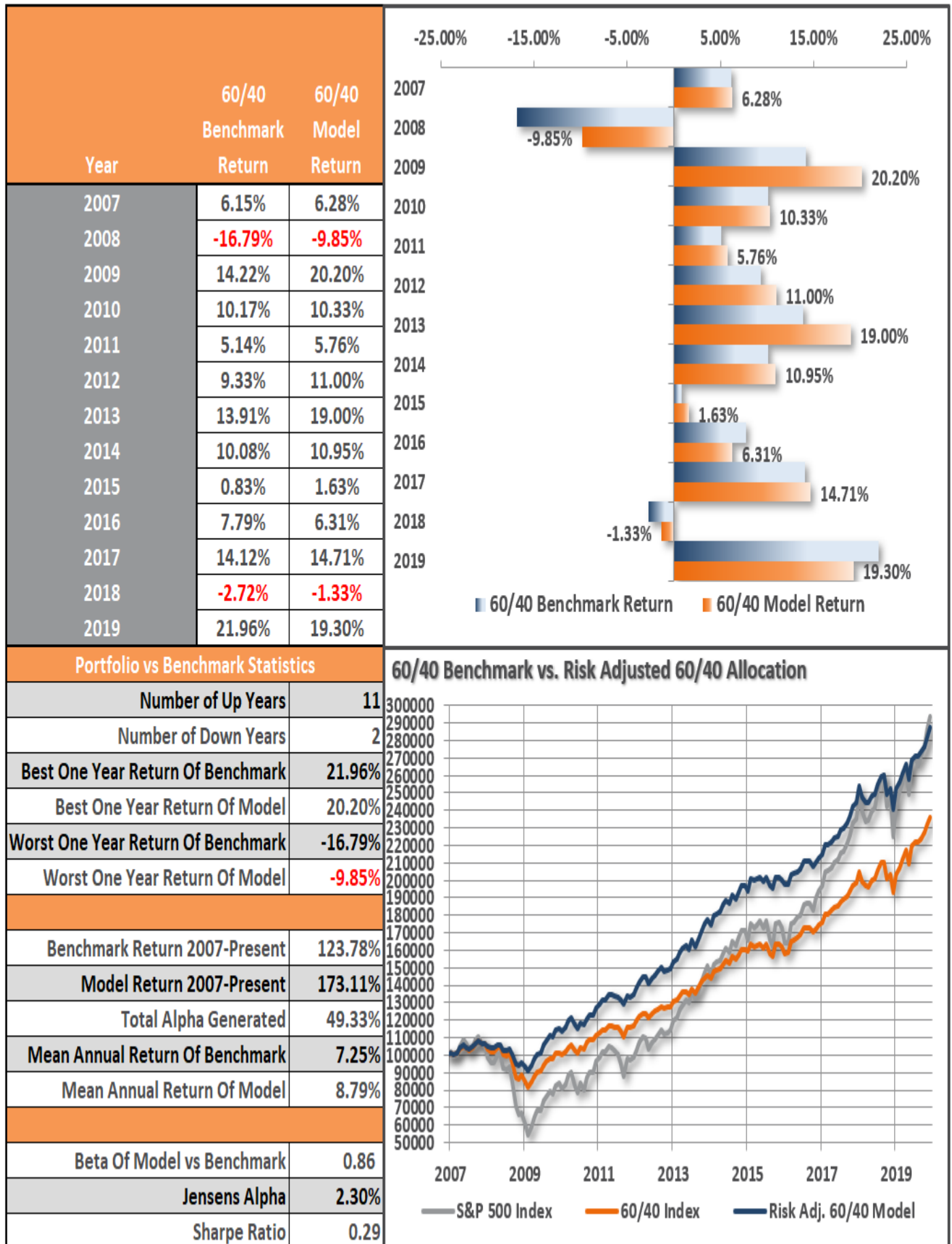
As noted last week: "That correction started on Thursday and Friday and with the markets 5% lower, we will look for a short-term oversold condition to add exposure to equities."

The market is getting fairly oversold short-term, so if you are wanting to increase exposure there is a tradeable opportunity to do so. Add some of your exposure next week, and use additional weakness to add accordingly.

In the longer-term the markets remain extremely overbought, so there is downside risk. Be mindful of the risk you are taking particularly if you are close to retirement.

If you need help after reading the alert, do not hesitate to [contact me](#).

Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only, and one should not rely on it for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.



401k Plan Manager Live Model

As an [RIA PRO subscriber](#) (You get your first 30-days free), you have access to our live 401k plan manager. Compare your current 401k allocation to our recommendation for your company-specific plan and our on 401k model allocation. You can also track performance, estimate future values based on your savings and expected returns, and dig down into your sector and market allocations. **If you would like to offer our service to your employees at a deeply discounted corporate rate, [please contact me.](#)**

RIAPro

Investment Analysis, Research & Data
From The RIA Investment Team

Dashboard

Macro

Ideas

Research

Portfolio

401K - Beta

Symbol

Help

This is the Beta version of 401K. Some Errors are expected ! Click Here to report Issues

My Portfolios

CVS Health

Enter Portfolio Name

Add Portfolio

Delete Portfolio

Rename Portfolio

My Info

Fund Selection

Comparison

Summary

Commentary

My Portfolio

RIAPro Portfolio

RIA PRO MODEL PL

Retirement Income (My Portfolio Annual ROR 9.44 %)

Current account balance	10,000
Estimated Retirement Balance	632,861
Estimated Retirement Balance (Inflation Adj)	620,204
Monthly Income	2,768
Monthly Income (Inflation Adj)	2,713
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

Retirement Income (RiaPro Annual ROR 9.02 %)

Current account balance	10,000
Estimated Retirement Balance	609,786
Estimated Retirement Balance (Inflation Adj)	597,590
Monthly Income	2,667
Monthly Income (Inflation Adj)	2,614
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

My Fund Composition

RIAPro Fund Composition

My Asset Composition

RIAPro Asset Composition