

Markets Insight

Vote with your ballot, not your life savings

History shows us that markets move forward regardless of who wins US elections

DAVID BOOTH

This year marks the 15th time I've had the opportunity to vote for our nation's leader. When I was growing up in Kansas, my family instilled in me the importance of casting your ballot. It's a civic responsibility I continue to take seriously.

In many ways, this year's presidential election feels like the most unusual one yet. In just the past few months, we've seen the attempted assassination of a former president who's running again, the withdrawal of an incumbent president and the elevation of a sitting vice-president.

Pollsters and commentators are still trying to make sense of the changes and what they might mean for the US and the global community. We have deep cultural divisions, the economy's still recovering from the effects of a global pandemic, and there are heightened geopolitical tensions around the world. For many voters, this moment feels historic.

And yet as an investor, I'm fully confident in the long-term prospects for the stock market. And I know investors will continue to have opportunities to pursue their financial goals no matter who wins the White House, which party controls Congress or what stocks do in November. Why am I so confident in this prediction? Because of history, and because of people.

First, we can look to history. Over the past century, through Republican and Democratic administrations, US stocks have consistently trended upwards, returning on average about 10 per cent a year.¹ Even this year, despite the electoral uncertainty, the S&P 500 index has risen about 22 per cent.²

Election outcomes are just one of many inputs that can have an impact on stocks and bonds. After all, shareholders are investing in companies, not in politicians. There are many other factors that can influence returns, including foreign affairs, oil prices and technological breakthroughs.

Second, we can look to people. Time and again, people have come up with creative solutions for problems big and small. This is how new companies start and established companies grow. I continue to believe in the power of human ingenuity to innovate and create investment opportunities.

As optimistic as I am about the long-term outlook for markets, I also know it can be challenging to keep this historical perspective in mind when we're inundated with campaign advertisements, news alerts and experts analysing the latest polls. There's a lot of noise out there. And what's important – in politics and investing – is being able to separate the meaningful information from the noise. Most observers, for example, think the presidential election is going to be close, with the majority of polls falling within the margin of error.

Any poll result within that range isn't telling us much, if anything, that's new. It's another form of noise. History shows us that markets have moved forward regardless of who has led polls – and won elections.

When people feel uncertain, they may be tempted to make investment decisions based on how they think elections might unfold. But there's nothing in the historical data that's strong enough to warrant changing your investment allocation based on who you think might win. In fact, trying

to time the market may lead to costly mistakes. Investors are generally better off looking beyond elections and maintaining a steady approach to markets.

So control what you can control. If you're feeling anxious about your investments, talk with a financial adviser. A good adviser can help you develop a plan you can stick with through the ups and downs of the market, and they can help you tune out the noise during periods of economic and political uncertainty.

I'm not sure which presidential candidate will prevail, or which party will control the Senate or House of Representatives. But my 50 years in finance have taught me to believe in the power of markets.

In just the past 25 years, markets have adapted to Y2K, 9/11, a global financial crisis and a pandemic. Despite all the uncertainty, a dollar invested in the S&P 500 stocks in January of 1999 would have been worth more than \$6 at the end of 2023.³ When we look back 25 years from now, I'm fully confident that markets will have continued to work and that investors can still have a positive investment experience.

So on Election Day, I'll be watching the returns just like everybody else. But I won't be adjusting my investment plan. As I often tell people: "Vote with your ballot, not your life savings."

The writer is founder and chair of Dimensional Fund Advisors

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