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INTEGRATED WEALTH

Election Reflex – to shift or to hold?

Elections are here and touted to be the most important of our lives. The nation is reportedly more polarized than ever and there is fear of unrest whichever party wins. With this uncertainty the temptation is high to tweak and shift portfolio investments. On the other hand, we have been planning for the long game. But the desire to protect our assets remains.

History offers plenty of examples of events or possible events that greatly alarmed investors but that seemed to have little eventual effect on asset markets, either because the effect was less than expected - or the event did not occur at all. Recent examples include Y2K, Fiscal Cliff fears in 2012, the Brexit vote in 2016, and pending US government shutdowns in both 2013 and 2019. Market timing to avoid these events would have been fruitless at best, very harmful at worst.

A second point about timing is the most critical. We do not need to engage in it to achieve our objectives. The allocation chosen should give you a high probability of meeting your objectives despite the declines likely to occur from time to time. In other words, those declines should be built into your planning. If we could avoid them, of course we would attempt to do so, but history tells us there is little or no chance anyone can do that reliably, We are as always however, looking for those reliable ways to improve investments results.

So, if we do not base investment decisions on specific event outcomes, how do we make those decisions? In short, we manage portfolios according to financial principles and historical evidence. Financial principles dictate that the value of an investment should equal the present value of all future cash flows produced by that investment. Historical evidence shows that certain indicators have been reliably predictive of returns, especially over long periods of time.

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