

Harvesting Strategy

Do Stocks Care Who Wins?

Stocks fell Friday on news the President tested positive for the Virus. Investors are digesting how this news may affect policy, sentiment, and of course, the election. Volatility derivatives were already pricing in much greater volatility post-election. But post-news, the election is, to quote Chris Cole of Artemis Capital, “[the most expensively priced ‘known-unknown’](#)”. Uncertainty over a decisive and peaceful outcome aside, this latest pre-election twist offers fresh fuel to the question of the impact the President or his or her party has on stock market returns.

Some folks view the Oval Office occupant as an important consideration in stock market performance. Shortly after Barack Obama became president, a dear friend called me to say she was selling all her stocks because she thought the new administration would be bad for the economy. She turned out to be both right and wrong. Thus began one of the weakest economic expansions, yet one of the strongest equity bull markets.¹ Flash forward to 2016, the night of Trump’s electoral victory. Stock futures famously fell over 5% that night but indices actually ended the next day up. Carl Icahn, a hedge fund manager, left a victory party to invest more than a billion dollars to profit from the selloff

because he thought it was an overreaction.



Much ink has been spilled comparing stock market performance with various candidates or parties, concluding that [there isn’t a meaningful correlation](#). History, however, only offers a limited data set (approximately 100 years, or just 25 federal elections or so) from which to draw conclusions. So while we can’t rule out that the identity of the winner doesn’t affect stock returns, predicting how and when is the challenge.

What does this mean for investors? Just as there are other reasons besides the presumed impact on the stock market to vote for, there are also other reasons besides who is the likely winner as to whether and how much to

invest. For instance, investors should instead consider their risk tolerances, time horizons and the outlook for stocks and other assets based on a variety of factors to determine the appropriateness of adding or [reducing exposure](#). And, of course, what should matter to investors is not how any one part of the portfolio is doing, but how the whole portfolio is positioned to perform and ultimately how much of that return can be kept, i.e. after taxes are paid.

Manage what is controllable. And, perhaps better to vote the election with your conscience, not with your portfolio.

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[Download Our White Paper: Value of Tax Benefits](#)

¹ Not ascribing the economic weakness to the Obama administration but the most recent and [longest economic expansion was also the weakest](#).



Tax Benefit Capture Heat Map for period spanning September 28 – October 2, 2020:

Market Exposure	Sectors/Regions with GHAM Tax Benefit Capture	Total Return (%)	Weekly Max Drawdown	
			(%)	Day of Low
Broad Market Index (e.g. S&P500)	X	1.6%	-1.7%	Friday
Materials		1.3%	-2.8%	Friday
Energy	X	-2.9%	-8.7%	Friday
Financials		3.5%	-2.4%	Friday
Industrials	X	1.4%	-3.1%	Friday
Consumer Staples		1.6%	-1.3%	Friday
Utilities		3.4%	-2.2%	Friday
Health Care	X	1.1%	-1.7%	Friday
Real Estate		5.1%	-3.1%	Friday
Info Tech	X	0.8%	-2.9%	Friday
Consumer Discretionary		3.0%	-1.9%	Friday
Communication Services		0.9%	-2.4%	Friday
MSCI ACWI Ex-US		1.7%	-1.4%	Friday
Asia Ex-Japan		3.9%	-1.0%	Wednesday
Japan		0.2%	-2.4%	Friday
Australia		1.2%	-0.9%	Friday
Switzerland		2.1%	-1.6%	Friday
EuroZone		1.7%	-1.9%	Friday
United Kingdom		2.4%	-1.1%	Friday
Lat America	X	-2.1%	-2.9%	Tuesday
Canada		1.2%	-0.5%	Monday

Areas with Tax Benefit Captures (TBCs) indicates where individual tax-loss harvest trades were executed in each market exposure across all eligible accounts for period specified. Darker shaded areas contained more TBCs.
 Broad Market Index (e.g. S&P500) reflects TBC in hedged positions.
 Max Drawdown calculated as max decline from interim peak to Intra-Day Low.
 Market Data Source: Bloomberg
 Market statistics calculated using representative ETFs.



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