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Will Stocks Dive With Trump or Clinton?

Q. I saw a story that said the stock market isn't worried about who wins the election because they don't think Trump or Hillary will be able to get anything done. I'm concerned about a big downturn no matter who wins. What do you think? — Concerned

A. There are always theories about what happens to the stock market during certain kinds of cycles, and the presidential election is no different.

But does it really matter? There is no doubt that between now and Nov. 8 there are going to be a glut of stories talking about the potential outcome for the market as a result of the election, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge.**

"Many pundits will focus on Presidential Election Cycle theory, which evaluates stock market performance by dividing the past into four year periods, looking at whether a Democrat or Republican wins, or if it's an incumbent running or not," Mott said. "Needless to say, these statistics are used to try to second guess the direction the markets will take."

Unfortunately, like many stock market theories, they are far from perfect predictors, Mott said.

She said not unlike the "January Effect" or "sell in May and go away," the Presidential Election Cycle is another form of market timing. Market watchers are looking for signals that let an investor know when to get into or out of the market to maximize their portfolio's performance. More often than not, market timing will actually lead to poorer returns because it is extremely difficult to pick the perfect moment to buy or sell, Mott said.

"The recent vote by the U.K. to leave the European Union, known as Brexit, is a prime example. The Dow Jones Index dove 4.8 percent in the two days following the surprising outcome and many investors bailed out fearing the worst. Since June 27, the Dow has gained 8 percent."

Back to the Presidential Cycle.

The fourth year of the Presidential Cycle, which is the election year, has seen the S&P up an average of 6.1 percent since 1948 and the return has been positive 76 percent of the time, Mott said. When a second-term president is leaving office, the return their last year may be up — or it may be down. The chance is 50-50. The first year in office has also averaged positive returns since 1948, although the frequency of an up year is lower at 61 percent, she said.

Mott said the state of the economy, direction of interest rates and what's happening globally are all factors that will influence the direction of the market no matter who is elected. "No one knows what the outcome of the election will be, therefore creating a well-diversified portfolio and having the confidence to ride the ups and downs will likely lead to better long-term returns than trying to maneuver in anticipation of an event that may or may not happen." Mott said.

Chip Wieczorek, a certified financial planner with Tradition Capital Management in Summit, took a closer look at both candidates.

He said if Donald Trump wins, the concern is a prospective renegotiation and/or cancellation of trade deals, which could be a drag on global growth. "However, in the U.S., if there is a reduced regulatory environment and a lower tax burden for corporations and individuals, that would be a positive for U.S. growth," he said. "We feel that it would be relatively uneventful for the equity markets."

Then, if Hillary Clinton wins,

If Clinton wins, Wieczorek said, it would be difficult to get anything done if Congress continues to be controlled by Republicans. "The concern is that there could be increased regulation and larger tax burden for all. This would be a big negative long term for the economy and equity markets," he said. "More intrusive big government would continue the slow growth environment we have experienced over the past several years." But, he said, in either case, the economy won't come to a screeching halt and, like always, the best way to prepare for possible market volatility in 2016 is to take a long-term perspective.

"Be careful of reaching for yield and try to manage the risk in your portfolio the best you can," he said. "Risk management is what will ultimately keep most investors out of trouble."

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