THE HOME STRETCH

Q 4 Market Update

"Hope smiles from the threshold of the year to come, whispering 'it will be happier'."

-Alfred Lord Tennyson

There is a light at the end of the tunnel. The end of 2020 is finally within sight as we head into the 4th Quarter home stretch. At least we are finally unified in something - our collective loathing for the plague this year has become. But, before we can start to close the books on 2020, we have at least one more major chapter: the elections.

I am aware, dear reader, that this is a hot button issue. And to protect my e-mail box from exploding in angry responses, I am not going to pontificate on who wins, nor the pros and cons of either candidate. I do just want to highlight important facts about the upcoming (potential?) street fight we are about to witness. There is a general air of anxiety about what might happen with a contested election, and one must always evaluate historical instances of markets and elections to ensure one is not overreacting.

It is difficult to separate one's values and political affiliations from one's decision making, but it is important to view your financial portfolio with an unbiased eye. Emotions and behavioral biases are generally the origins of bad decision making. They can encourage us to override facts, often blatantly ignoring evidence that does not conform with our belief system.

Consider any business decision you have made emotionally: Was it smart? Did you look back on it with pride and feel good about it? Most likely the answer is, "No." you looked back on it with a pang of guilt, excusing it with an emotional justification. Some of the most difficult tasks are to invest unemotionally, detach oneself from the anxiety of the general world, and focus in on the facts as they stand. Unfortunately, we must make decisions in real time, sometimes with incomplete information, and while dealing with our emotions. Understanding some of the major emotional biases can help one combat the temptation of knee jerk emotional decisions.

I recommend you consider your own internal emotional well-being and potential biases so you can be a more effective investor. Step one is always understanding where you may struggle and fall short. Once identified, you can begin to mitigate potential emotional decisions. The most frequent emotional investing error is panic. Our brains are hard-wired to "fight or flight", so once the panic button is triggered, the ability to think rationally becomes diminished, and the primal urge to act is almost overwhelming.

6 Major Behavioral Biases that Drag Investors Down:

1.) **Confirmation Bias:** Only looking at facts that support your current thesis; weighting those that support your thesis higher than those that do not.

2.) **Recency Bias:** Focusing only on short term and recent data & analysis vs. a wider range that provide a fuller picture.

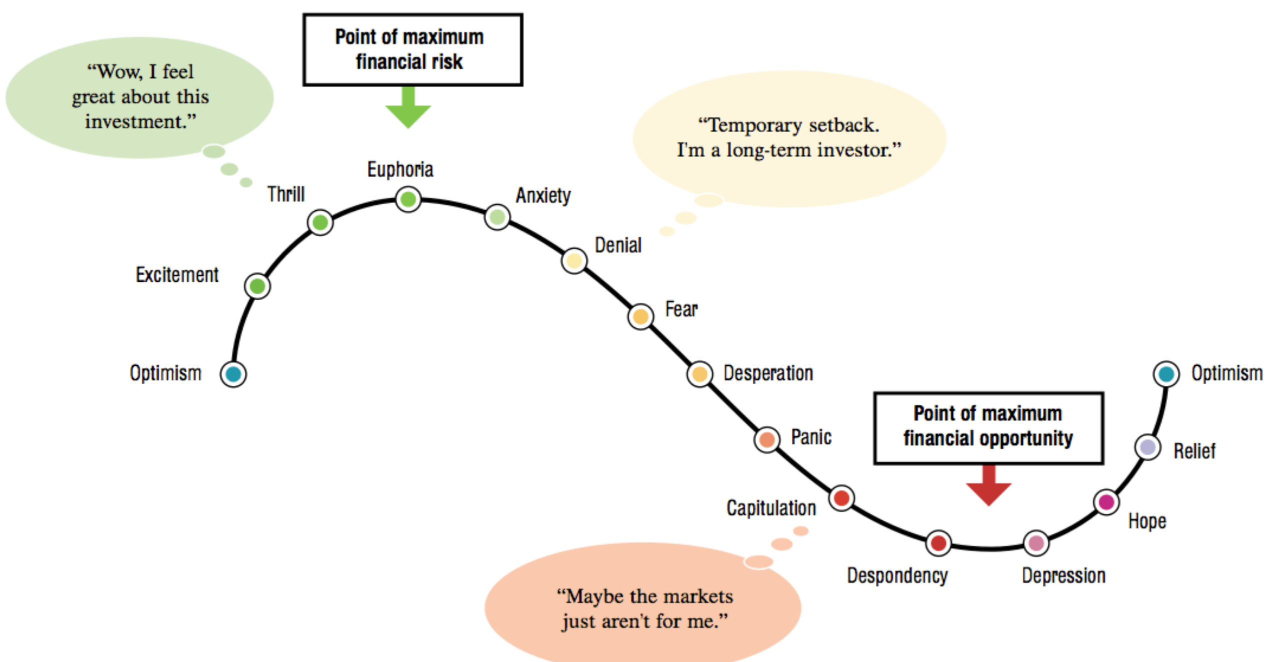
3.) **Ego & Self Attribution:** Also known as overconfidence. Attribute success to yourself rather than other factors. Rank your personal skill set too high, while ignoring shortcomings. This can also be an illusion of control.

4.) **Familiarity Bias:** Weighting investments you know higher than other sectors or investments. Don't drink the Kool-Aide.

5.) **Cognitive Dissonance:** The emotion of conflicting beliefs which can lead to irrational decision-making.

6.) **Loss Aversion**: The pain of the loss is greater than the joy of gains. Can cause panic selling.

At the end of the day, each investor must feel comfortable with risk, accept that market cycles occur, and work to fight their internally hardwired settings that may lead to irrational and emotionally based decisions. The 4 most dangerous words in finance are: "This time it's different." Which is the first step in convincing yourself that the bad decision you are about to make is going to work because *this time it's different!* None of us set out to make irrational or bad decisions, but they happen all the time.



Turning back to the election, as of October 1st, we are only 23 trading days away from this event. The news cycle will become more compressed and more outlandish. Every skeleton and doomsday scenario will be invoked. Regardless of how the election is decided, it is dangerous to assume you know how the markets will react. A "Blue Wave" Democratic sweep is not necessarily a death knell to the markets. Blue Waves occurred in 1993 with Clinton as well as 2008 with Obama; the markets were up +1.32% in 1994 and +26.46% in 2009. Many times, the market returns are less correlated to the current administration and more correlated to the Business and Market Cycle as well as other underlying trends and factors such as economic health and current unemployment. Empirically speaking, since the 1940's the markets have returned more under a Democratic President than a Republican one. Average annualized real stock returns from 1952 to June 2020 have been 10.6% for Democrats vs. 4.8% for Republicans.[1]

As Jeremy Siegel wisely points out, "Stock markets do perform better under Democrats than under Republicans. That's a well-known fact, but it does not imply cause and effect." The world-renown and well-respected Professor of Finance at the Wharton School of the University of Pennsylvania also points out "Bull markets and bear markets come and go, and it's more to do with business cycles than presidents."

So, before you decide all hope is lost, or begin looking to move to a Caribbean nation for refuge, make sure you are basing your decisions on solid data and not just hypotheticals. As Mike Tyson said, "Everyone has a plan until they get punched in the mouth." Be ready to be punched in the mouth, and don't give up. Being a successful investor means focusing on the long term and navigating stress and uncertainty with a steady hand. Be ready for the unknown and adjust accordingly.

President	Political Party	Years In Office	S&P Return (%)
William J. Clinton	D	1993-2001	210
Barack H. Obama	D	2009-2017	182
Dwight D. Eisenhower	R	1953-1961	129
Ronald W. Reagan	R	1981-1989	117
Harry S. Truman	D	1945-1953	87
George H. W. Bush	R	1989-1993	51
Lyndon B. Johnson	D	1963-1969	46
Donald J. Trump	R	2017-	43
Jimmy E. Carter	D	1977-1981	28
Gerald R. Ford	R	1974-1977	26
John F. Kennedy	D	1961-1963	16
Richard M. Nixon	R	1969-1974	-20
George W. Bush	R	2001-2009	-40

Source: YCharts. Table: Forbes
Performance represents price change only. Figure for Truman reflects the Dow Jones Industrial Average.

1 https://www.forbes.com/sites/sergeiklebnikov/2020/07/23/historical-stock-market-returns-under-every-us-president/#514befdafaaf

We Looked At How the Stock Market Performed Under Every U.S. President Since Truman- And The Results will Surprise You. Forbes Article published 7/23/2020, written by Sergei Klebnikov and Halah Touryalai

Below are a set of facts regarding the election process that G Squared hopes can provide you a solid foundation to weather the inevitable crazy theories that will certainly come up.

1.) We have had contested elections in the past. We have always worked it out. Don't forget those 4 dangerous words: *This Time It's Different.*

2.) You need 270 electoral votes to win via majority. There is a total of 538 electors among the 50 states.

3.) Congress verifies and qualifies the Electoral College votes, not the Supreme Court.

4.) Most states assign their electoral votes via winner takes all, except Maine and Nebraska.

5.) Dates to know:
   a. **December 8th**: 35-day Safe Harbor Date. Date by which States should (not required but *should*) finalize their own controversies regarding appointment of electors.
   b. **December 14th:** Deadline for choosing Electors (41 days post-election). Date Congress has specified for casting of electoral votes by the States.
   c. **January 6th:** Certification Deadline in the Constitution. Formally counted before a Joint Session of Congress.
   d. **January 20th:** Inauguration and Swearing In.

6.) Electoral math means the election will mostly come down to 6 states. The one that really matters is FL (29), followed by PA (20), OH (18), MI (16), NC (15), and WI (10).

7.) Potential Toss-Up States with unified State Governance who will certify and submit their electors:
   a. Florida- Republican Governor, Republican Legislature
   b. Ohio- Republican Governor, Republican Legislature
   c. Arizona- Republican Governor, Republican Legislature

8.) Potential Toss-Up States with divided State Governance may have difficulty certifying vote & delivering electorate vote in a timely manner. These states may be the most controversial:
   a. Wisconsin- Democratic Governor, Republican Legislature
   b. Michigan- Democratic Governor, Republican Legislature
   c. Pennsylvania - Democratic Governor, Republican Legislature
   d. North Carolina- Democratic Governor, Republican Legislature

9.) If Congress has not qualified a President or Vice President by Inauguration date, then the order of succession is enacted, and the Speaker of the House becomes Acting President until Congress has qualified a President-Elect. This has never happened.

10.) The House has decided elections in the past: 1801, 1825 and 1877
   a. 1801: Jefferson vs. Burr
   b. 1825 Andrew Jackson vs. John Quincy Adams
   c. 1877: Rutherford B. Hayes vs. Samuel J. Tilden

11.) Recent Contested Election: 2000 Bush vs. Gore
   a. Came down to one state: Florida.
   b. 5-4 Supreme Court Decisions *Bush v. Gore* ended the re-count efforts in FL.
   c. Bush won FL by 537 votes (0.0009%).
   d. Bush won the election with 271 electoral votes vs. Gore's 266. Closest election since 1876.
   e. Five states and 55 electoral votes were won by less than 1% margin of victory.
   f. January 6th, 2001 Congress finally certified the electoral vote.
   g. Bush took the oath of office and was inaugurated on January 20th, 2001.

Victoria Greene CFA®, CRPC®
Founding Partner &
Portfolio Manager

G SQUARED PRIVATE WEALTH
A Boutique Approach

1470 Copperfield Parkway
College Station, Texas 77845

(979)314-4830
GSquaredPrivateWealth.com