MONEY TALK

Editor: Dixie Butler, CFP®, CDFA™ **Summer/Fall 2019**

Politics and the Stock Market

One factor that has a significant effect on the stock market is politics. There is no disputing the fact that government policy and political events have a pronounced influence on the stock market. The price of a company's stock reflects investors beliefs about its future profitability. Changes or potential changes in government policies, regulations, or even just plain "chatter" (true or false) can affect the price of a publicly traded company's stock.

The Consumer Confidence Index is an economic indicator that tracks the degree of confidence that consumers have in the economy. This monthly indicator details buying and selling intentions and consumer attitudes about the markets and the state of the economy. Because investors and consumers are looking into the future when making stock or bond buy and sell decisions, politically charged announcements can affect a publicly traded company's stock price, a sector of the market, or the broad market. For example, if a tariff on automobile imports is announced, this could hurt investor confidence, thereby potentially causing a downturn in various automobile company stock prices. Conversely, a positive report (i.e. tariffs are being lessened or lifted) could cause an upswing in automobile stock prices.

Politicians have an enormous amount of power to directly or indirectly affect the overall strength or weakness of the stock market, or affect a market sector, or even affect the stock price of a company. An example would be a threat or an actual event of going to war with another country. Investors could see this as a very negative announcement, which could cause them to "take their money and run to the hills," thereby causing a downturn in the market and the economy.

Politicians should be cognizant of the consequences that follow their actions — whether real or chatter.

Politics and the economy/market are intertwined in many different ways. It is important to remember that elections, new policies, and political chatter don't affect stock prices. Rather, it is the buy and sell decisions that investors make based on those political events and knowledge. Political uncertainty often leads to lower markets, while political stability can allow the markets (the investors) to have the opportunity to act and react using fundamental and technical tactics.

Political conditions are definitely a consideration when developing opinions about the stock market and the economy.

Are you putting all your eggs in a political basket, or are you buying companies?

Are Bulls and Bears Predictable?

History of Bulls and Bears

In stock market trading, there are bull markets and bear markets. Bull markets are characterized by optimism, investor confidence, and rising stock prices. In contrast, bear markets are branded by negative investor confidence and low or falling stock returns. A history of the market shows neatly separated bulls and bears. In addition, the bears appear to be much shorter than the bulls.

Many investors believe that there must be some sign that indicates when to buy and when to bail. Since World War II, there have been nine bull markets and eight bear markets. Bear markets are deceptively short because the bull markets must work twice as hard to make up for the previous bear. If a bull market returns 80%, a bear market only needs to decline by 40% for the investment to be back to its original value.

An Impossible Trend

Though it may appear easy to foresee, the ability to perfectly predict the timing of bulls and bears is much harder than it looks. If timing the market was possible, every investor would easily become rich. There are so many different factors when it comes to timing the market that it is almost impossible to do.

These market turning points increasingly seem to be driven by mass psychology rather than disciplined judgement based on valuation techniques. Determining your investments solely based on whether there is a bear or bull market creates investments that are based on rumor and guesswork. Bear markets and crashes happen, but history indicates the stock market always makes a comeback and eventually rises higher than it ever has before.

The Long Run

Even though timing the market is nearly impossible, this hasn't stopped many investors from shifting their investments in an attempt to avoid downturns. Consequently, they often miss the market's best returns. Many of the best days in the market have occurred coming out of a bear market.

History has shown that the stock market always rises over the long term. Rather than trying to "time the market", investors should *focus on time in the market* to allow their investment returns to compound year after year. It is smarter to base investments off of research into strong, competent companies with good growth potential.

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