What Trump means for Investors

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Long-Term Strategy trumps Short-Term Volatility

As a Nation, we have endured months of politically fueled tension and division. We've witnessed immature name-calling and vicious assertions. The election may have ended, but for investors, tumultuous uncertainty seems to continue on. What does a Trump presidency mean for investors?

The Stock Markets' Election Night Dive

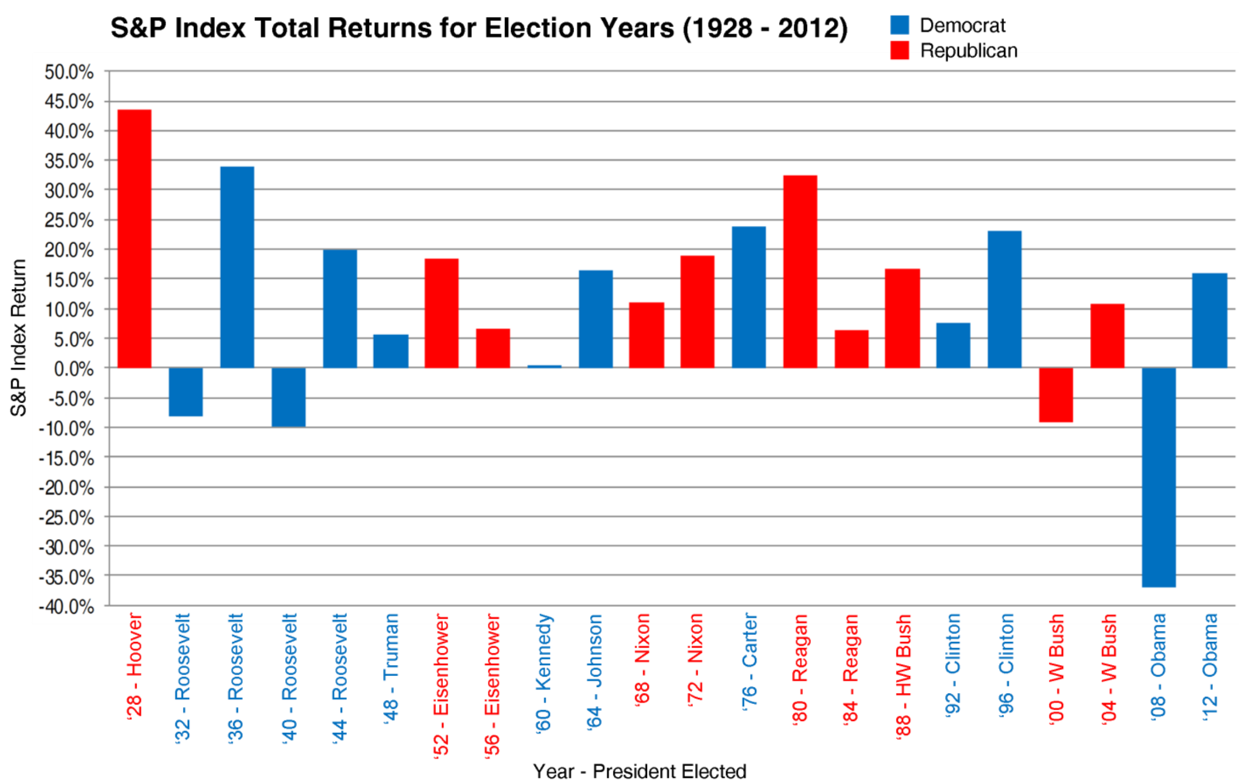
Investors may feel hopeless after watching the stock market's dive in response to Donald J. Trump leading the polls while the majority of analysts forecasted an easy win for Hillary Clinton. Was this a sign that a Trump presidency will be detrimental to the markets? Would the market have shown extreme gains had Clinton been in the lead?

What the stock market was experiencing was the initial reaction to an unexpected outcome and fear of the unknown. It does not signal devastating times or actually forecast anything at all. As TD Ameritrade's Chief Strategist, JJ Kinahan, explained on the day following the election, "Overnight was all about uncertainty. Today we know the result." In fact, Wednesday, November 9th tells a very different story than the night prior. CNBC remarks, "The day's rally took the major averages within 2 percent of their all-time intraday highs, and marked a stunning recovery from a sharp plunge in stock index futures overnight. Trade volume Wednesday was the highest since the surprise U.K. vote to leave the European Union in June."[1] Similarly, CNN Money explains, "The impressive market performance [on November 9th] represents a dramatic reversal from the knee-jerk panic in global markets overnight as the results were coming in." This preliminary panic is depicted in the graph below from CNN Money via Factset.

[1] Cheng, Evelyn & Imbert, Fred. Dow closes up 250 points; financials surge after Trump election upset. CNBC.09 November 2016.

A History of Election Volatility

The important thing to realize about the market's initial reaction is that it was temporary, anticipated by industry professionals regardless of the candidate chosen, and it does not forecast future returns. Data compiled by Bloomberg helps to solidify this notion. "In the 22 elections going back to 1928, the S&P 500 has fallen 15 times the day after polls close, for an average loss of 1.8 percent. Stocks reversed course and moved higher over the next 12 months in nine of those instances."[2] The chart below shows S&P 500 returns for the past 22 election years since the index was created.



It is important to notice that there is no correlation between the President-Elect's political party and the S&P index returns. There are many factors that affect stock market returns; the election is just one of these factors.

What does a Trump Presidency mean for Investors?

So what does a Trump presidency mean for investors' current strategy? Perhaps very little. Currently, the only definitive change is that Donald Trump is the President-Elect. His policies will bring about additional changes that the market will respond to, but right now, the only event that has occurred is the United States of America has chosen her next leader. In January, when Trump takes office, the market may react again out of fear of uncertainty, but the important thing to remember is that policy changes take time. America will not change overnight.

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[2] Renick, Oliver. Don't Worry When the Stock Market Goes Crazy After Election. Bloomberg. Updated 7 November 2016.

The most important thing investors can do is adhere to a well-developed, long-term investment strategy. Do not overreact to the noise of the media which amplifies current events. It is extremely difficult to successfully play the market and predict peaks and falls. Don Bennyhoff, a Senior Investment Strategist in Vanguard's Investment Strategy Group explains, "It would be ideal if you could consistently pick the peaks to sell and the troughs to buy. But no one can do that effectively over time. In fact, market timing is difficult for professional managers, and they have a lot of tools at their disposal." Market volatility will happen and the market will go through periods of growth and decline. Set your sights on your retirement dreams and stay on the course that gets you there. "A detailed financial plan can be your steadying hand when market volatility triggers the impulse to buy or sell.", Bennyhoff explains, "A long-term plan that includes a caveat for when you'll rebalance is one of the best ways investors can protect themselves from the urge to react to financial news."[3] Arguably the most significant reason to stay the course is the inevitable market correction.

A helpful rule of thumb: If you're investment goals and time horizon haven't drastically changed, your long-term investment strategy probably shouldn't be drastically changed either. Build a plan to meet your long-term goals and stay the course.

[3] Keep investing amid market volatility. Vanguard: Markets & Economy.