



A Note From Your Advisors

BAIRD

THE MAIN, GOWIN, FISCHER, RICE GROUP

November 09, 2022

As I write this post, it's the morning of Wednesday, November 9th. What's special about today? America held mid-term elections yesterday. Elections and democracy work best when people participate in the process. So regardless of political affiliation, we hope you voted! As of this writing, results are still being counted in a few states. It is likely that we will need to wait another month until the results of a runoff election in Georgia are known; but some form of "divided" government (Republicans in charge of some things and Democrats in control of others) seems assured.

We believe the mid-term elections have been one of a few factors causing market pain in 2022. This is because markets haven't been able to confidently predict what policy (taxes, spending, regulation) will be like going forward: markets hate uncertainty! That said, we often get asked, "Do markets perform better under Republicans or Democrats?"

Looking at data from 1933 to 2021, during years when Democrats controlled the White House and Republicans controlled both chambers of Congress, the S&P 500 index averaged +13.0% annual gains. However, when Democrats controlled both the White House and both chambers of Congress, the S&P's gain was +9.8% per year average. Lastly, when Democrats controlled the White House and Congress was split, the average performance was +13.6%.*

Of course the next year plus may be totally different than these figures, and past performance is no guarantee of future results. My point is simply that **regardless of which party is in power, markets have a history of successfully adjusting to whatever policy becomes reality.**

By definition, almost half of the people in the country are likely to be disappointed – maybe deeply upset – with the results of this election. Candidates and political parties repeat the mantra non-stop during campaigns: "the stakes have never been higher." They try to convince us with carefully produced scary advertisements (is it a coincidence that these run during Halloween season?) that their opponent is an unhinged lunatic who will partner with other terrible people to drive this country into a dangerous hellscape.

I want to be clear and honest: I have a political point of view, just like you. And I care deeply about who wins certain elections, and who has control of our institutions of political power. Elections matter! But we try NEVER to give investment advice through the lens of a political point of view. Regardless of political environment, we will continue to provide guidance based on observable information and each client's individual plan. And I can assure you that we do our best work for both Republican and Democrat clients, and everyone in between. Just like markets, individuals often don't deal very well with uncertainty – it leads to fear, and fear leads to poor decisions. But as our Baird colleague Ross Mayfield has said, "Being comfortable with uncertainty is a skill we can cultivate."

All the emotion around an election leads too many people to adopt a win-at-all-costs mentality. Democracy depends on those of us who are on the losing side of elections (as we all occasionally are) to accept legitimate results with grace, as adults. I can be mad as hell about an individual candidate that I dislike or don't respect; but it's up to me to keep my tone civil and express myself in a manner that can be respected. To do otherwise is to become part of the problems that divide us.

- John
The Main, Gowin, Fischer, Rice Group