Results of U.S. Presidential Election

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Donald J. Trump has been elected as the next President of the United States, after a long and arduous campaign for both Democrats and Republicans. As polls were pointing to a Clinton victory coming into the election, Trump's victory has left many statisticians and political pundits shaking their heads this morning.

This presidential election has been both volatile and event driven. In the age of social media, this election may have been a preview of the power social media can have in general elections. While Donald Trump reportedly lost steam after the famous audio recordings were released, the race presumably began to tighten a bit at month's end with the release of a letter written by the FBI to Congress regarding Hilary Clinton's investigation.

In the end, the popular vote finished split nearly down the middle. While many were surprised by Trump's victory, it is not a surprise the country voted in a divided manner. As economist Dr. Ed Yardeni reported this morning, "No matter who won, close to half of the country will be in mourning, while the other half will hope that it's a new morning for America."

How May Markets React?

The general consensus was markets were expecting a Hilary Clinton victory and viewing such as preferable for markets in the short term. After all, she has vast political experience and was viewed as more predictable in the short term. On the other hand, a Trump victory would bring a President with no past political experience.

Last week markets declined, leaving many people wondering if Trump had a better chance than the polls led many to believe. However, markets rallied on Monday and Tuesday, leaving many to believe Hilary Clinton was riding momentum into the election.

With the surprise results of the BREXIT vote fresh in our minds, investors can draw some precedent from recent events. Like any event viewed by markets as a surprise, it would not be out of the question to expect some election driven market volatility this week. However, it may be important to remember markets rallied significantly after the short term negative reaction to the BREXIT surprise vote. Investors who sold assets at the depths of the BREXIT reaction would have dramatically underperformed general markets this year.

What does the Presidential Election mean for my Investments in the Long Run?

The United States is governed by a system of checks and balances. Our political system is designed to provide impediments to significant swings in policy. As such, it is important for those supporting Trump and those who supported Clinton to remember the President does not govern unencumbered in the U.S. system. Similar to the efficiency of investment markets over the long run, the political system in the U.S. is designed with the goal of providing stability and growth over the long term. As a result, the political and market systems in the U.S. have vaulted the country to unprecedented levels of overall economic size.

So, while we understand the anxiety some investors may have after surprise election results, we would encourage investors to remain disciplined and focused on long term goals. There is a long list of non-election factors which contribute to market performance in the long term, such as:

- Impactful long term policies
- Economic data
- Individual company performance
- Supply & demand for securities
- Changes to inflation, interest rates, exchange rates
- Valuations
- Labor market

While presidential elections may make us feel markets are volatile, the reality is volatility is simply part of the investment process. Likewise, levels of volatility can be volatile over time. The best defense investors have against volatility is a widely diversified portfolio, including equities, fixed income, international securities, real estate, and commodities. Market research has consistently proven diversification can reduce volatility and increase long term returns. While the political process can and does impact markets, many other factors do as well. As such, we continue to note the importance of diversification for long term investors and advocate investors should not try to make short term bets on uncertain events.

What is Next?

The TOPS Portfolio Management Team will continue to monitor market movements and the longer term implications of the Presidential vote. Our team has over 70 years of combined investment experience, which we will rely upon to analyze the potential implications impacting long term asset allocation in the coming years. We remind investors to note, much of the market impact resulting from last night's surprise vote will take decades to play out.

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Source: Bloomberg for historic price and return references.

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