KOVITZ INSIGHTS

Presidential Cycle: Fourth Year

FEBRUARY 2020

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THE PRESIDENTIAL CYCLE

We must always be careful about drawing significant conclusions from a small number of data points, but it is interesting to look at equity market returns in each of the four calendar years of the Presidential Cycle. Given that the Commander in Chief often makes tough choices early on, while doing everything possible to spur the economy late in the four years to ensure personal or party re-election, we suppose that it should not be a big surprise that equities in general have not performed as well on average in the first couple of years of the presidency and much better on average over the last two years.

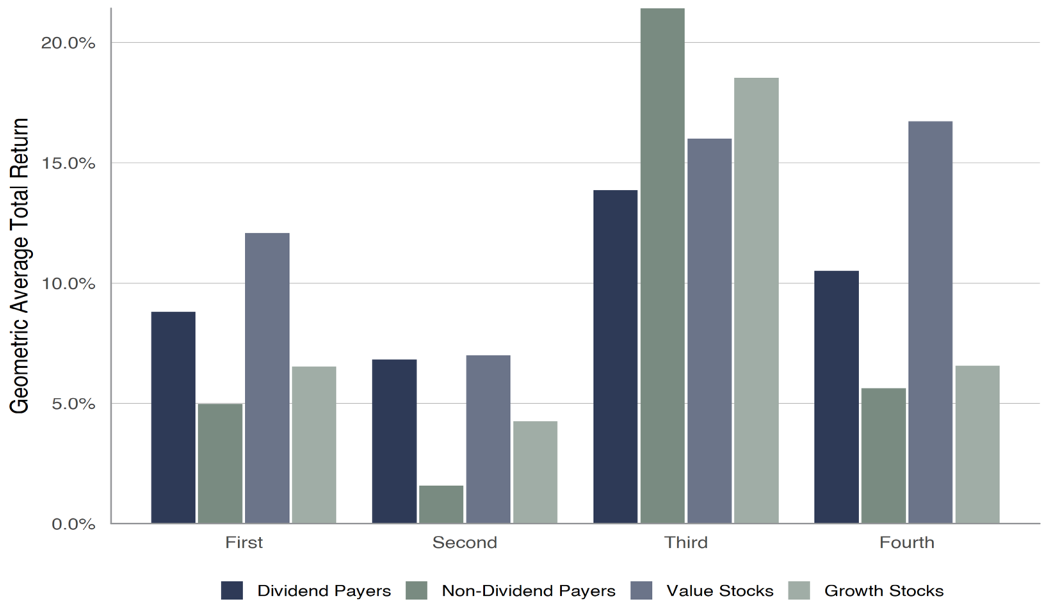


FIGURE 1

Performance by Year of Presidency

From 12.31.28 through 11.30.19, using gemetric average. Expanded definitions can be found in the disclsources. Soucre: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French.

Obviously, the current presidency thus far has been anything but ordinary, yet the more than 50% price appreciation for the S&P 500 since Election Day 2016 has been terrific, especially as so many supposed market experts were predicting that a Trump victory would lead to big losses in the equity markets. We'll see what 2020 brings, but nine decades of market history show that the Value stocks have managed to earn a geometric average annual return of 16.7% in the fourth calendar year of the Presidential Cycle, while Growth stocks gained just 6.6%. Dividend-paying stocks have fared well too, gaining an average of 10.5%, while Non-Payers gained just 5.6%.

Certainly, we recognize that past performance is no guarantee of future performance or even profitability, and we note that 2017 was much better and 2018 much worse than the average respective first and second years, so history should always be a guide and never the gospel!

MARKET HISTORY

Outside of a few periods, U.S. stocks have fared well no matter who the POTUS has been. Despite the inevitable hoopla before U.S. elections, and sticker shock after, equity markets have historically gained over the long term, no matter who resides in the White House. Presidential candidates like to offer grand initiatives that they will accomplish in office. But the makeup of Congress plays a significant role in what gets done in Washington. A presidential candidate's plans and intentions can't necessarily overcome a divided government and imbalance of power.

In Figure 2, we present nearly a century of S&P 500 growth and the President's party affiliation in the background, while Figure 3 shows the same S&P 500 growth with the congressional majority (or split).

FIGURE 2

S&P 500 Growth and Presidential Party

From 12.31.25 through 12.31.19.
Logarithmic scale. Source: Kovitz using data from Ibbotson Associates

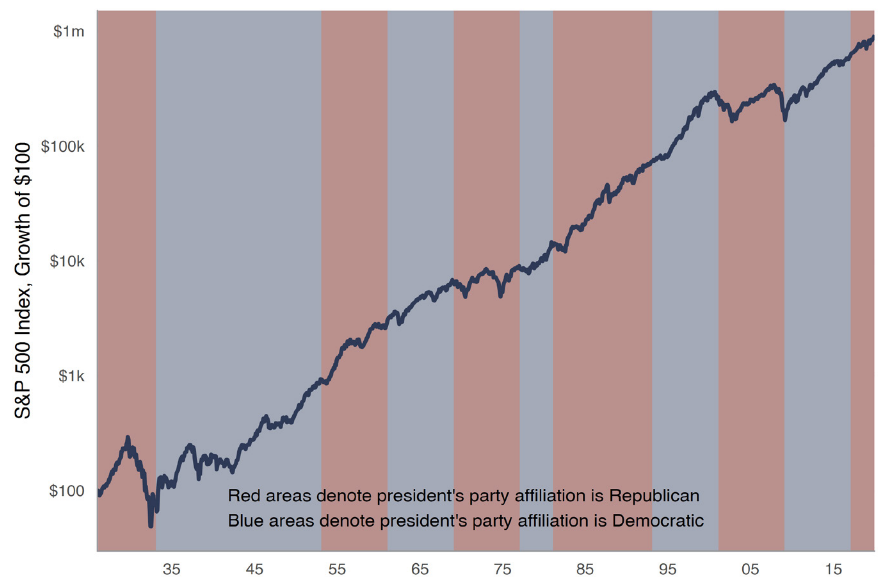
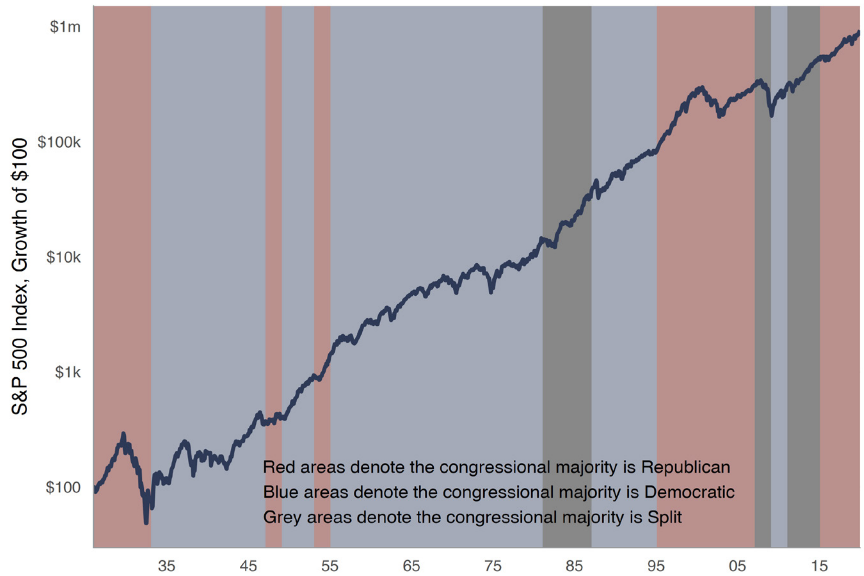


FIGURE 3

S&P 500 Growth and Congress Majority

From 12.31.25 through 12.31.19
Logarithmic scale. Source: Kovitz using data from Ibbotson Associates



While the media pundits would have you believe that certain political parties might be more or less beneficial to your investment portfolio, the reality is that knowing the future president's political party or future congressional majority offers little in the way of predictive power. As we proceed closer to this fall's election, the historical performance of stocks suggests that the

CONCLUSION

As we proceed closer to this fall's election, the historical performance of stocks suggests that the political party of the Commander in Chief plays no role in the subsequent performance of the stock market. That's not so suggest that a president's policies do not have an effect on the market… they most certainly do… however, the party relationship on its own is hardly predictive. Whether we end up with an incumbent victory for the Republicans or a transition to a Democrat in the White House, our political platform always starts and ends with recommending a diversified portfolio of what we believe to be undervalued stocks.

FOR MORE INFORMATION, PLEASE CONTACT:

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We screen potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We recommend only those stocks we believe are undervalued along several lines relative to their own trading history, those of their peers, or that of the market in general. The prices at which we'll recommend purchases or sales of stocks incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal 3-to-5-year investing time horizon.

Past performance may not be indicative of future results. Therefore, you should not assume that the future performance of any specific investment or investment strategy will be profitable or equal to corresponding past performance levels. Investing involves risk, including possible loss of principal. Diversification does not protect against loss in declining markets. Payment of dividends cannot be guaranteed.

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The dividend-weighted portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 30% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers). Non-dividend payers are stocks that do not pay dividends. Dividend payers are stocks that pay dividends. The capitalization and factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. A large value stock is a type of large-cap stock investment where the intrinsic value of the company's stock is greater than the stock's market value. A large growth stock is a growth stock of a company with a market capitalization value of more than $5 billion. A small value stock is a value stock of a company with a relatively small market capitalization. A small growth stock is a growth stock of a company with a relatively small market capitalization.

Large-cap stocks are represented by the Morningstar-Ibbotson Associates SBBI Large Stock Total Return index. Small-cap stocks are represented by the Morningstar-Ibbotson Associates SBBI Small Stock Total Return index. Short-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. 30-Day T-Bill Total Return index. Intermediate-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. Intermediate-Term Government Total Return index. Long-term bonds are represented by the Morningstar-Ibbotson Associates SBBI U.S. Long-Term Government Total Return index.

The Russell 3000 index measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. A value stock is a stock that tends to trade at a lower price relative to its fundamentals (e.g., dividends, earnings and sales) and thus considered undervalued. A growth stock is a company whose earnings are expected to grow at an above-average rate relative to the market.

The S&P 500 index measures the performance of the largest 500 US companies representing approximately 75% of the investable US equity market. The S&P 500 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those S&P 500 companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those S&P 500 companies with higher price-to-book ratios and higher forecasted growth values. A value stock is a stock that tends to trade at a lower price relative to its fundamentals (e.g., dividends, earnings and sales) and thus considered undervalued. A growth stock is a company whose earnings are expected to grow at an above-average rate relative to the market.

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