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PRESIDENTIAL ELECTIONS IN PERSPECTIVE

As summer turns to fall, interest in the presidential election is heating up. As has been the case in the past, investors are becoming nervous about potential outcomes that they fear could negatively impact the economy, and by inference, their financial wellbeing. Considering the season, we thought it appropriate to offer our perspective on presidential elections.

First, it is important to state that from a firm standpoint, we have always been and will continue to be as non-partisan as possible. Furthermore, we do not advocate for policy positions that are being put forward, choosing instead to be objective observers of unfolding events in the hopes of correctly evaluating their impact on the future course of the economy.

Perhaps a review of history might be helpful. Over the 40-year history of our firm, beginning in 1980, we have lived under seven different presidents, four of them Republicans and three Democrats. Of the 40 years, 24 were under Republican presidents and 16 under Democrats. Each entered office under different economic circumstances and proposed varying policy initiatives. However, it is safe to say that we believe each of them, regardless of their party affiliation, was motivated by a desire to implement policies that would stimulate and sustain economic growth in our country and provide the opportunity for rising standards of living. To varying degrees we believe, each, at least partially, succeeded in the attainment of these goals.

We acknowledge the success of these presidents. However, perhaps of more importance than their efforts to influence the course of economic events is the fact that they all were contending with secular trends that had been developing over the last 40 years. Each of them attempted in certain ways to subvert, reverse, or contain these major trends, but more often than not, they were unsuccessful, simply because the trends were so large and were powered by forces beyond the control of any president.

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We highlight three secular trends that we believe each president has been forced to deal with: a slowing trend of overall economic growth as measured by real Gross Domestic Product (GDP), declining inflation, and declining interest rates. The good old days of 3% GDP growth have given way to 2% growth, at best. Inflation has virtually disappeared, and interest rates have been in steady decline for the entire 40 years. There have been many economic factors which established and made these trends sustainable. In combination, they have been strong enough to overwhelm presidential efforts to reverse or mitigate them. We believe, in some ways, each of the presidents has benefited from these trends; and in some ways, they have been challenged. But the essential point is this: these trends were bigger than any of these presidents or their policies.

In thinking about presidents, we have always felt that the economy, considering its size ($22 trillion at its recent peak), its international dimension, and its overall complexity, is beyond the efforts of a president to affect its course in a major way. To put it in pedestrian terms, we have often said, "A president can put his shoulder to the economic wheel and push real hard, but he can only move it so far." We believe this, and as a result, our anxiety level over any presidential race remains fairly low. This is not to say that it does not matter who is president, but rather; that from an economic standpoint, whoever is president will be limited in his/her ability to materially change the longer-term course of the economy. It's just too big, and it has its own internal engine, making it difficult to alter its fundamental course.

To conclude, we will, of course, be monitoring political events as they unfold, but we will also be focusing on the things that we can control, namely, making sure the portfolios contain high-quality securities that we believe will be successful investments, regardless of the outcome of any election.

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