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There is an adage I repeat to my colleagues during every election cycle (of which I'm sure they've long ago grown tired): "We don't get to manage money in the world we wish we had, we can only manage money in the world we have." Every four years approximately half our clients are disappointed about the election results and can't see how their investments could possibly survive the newly sworn-in administration. And, yet, they do in fact survive and, often, even prosper. These last two election cycles have been particularly emotional for many. After the 2016 election many of our clients thought their investments would plummet in value and leave them penniless. Right now, I'm hearing similar fears from the "opposite side of the aisle." In both cases, these groups were influenced by "experts" whose opinions had more to do with their political views than with their knowledge of the economy and markets. And in both cases, we believe, they are (and were) wrong.

Why is it that people are so often wrong about the effect of political swings on markets? Half of the population usually gets the election's impact on the stock market wrong because of a simple factor: emotion. Few activities in American life generate more, and hotter, emotions than politics. Without exception, emotions are the greatest stumbling block to good investment decision-making.

Emotions are one of the elements that make us human. I'm not denigrating them universally. But emotions cloud our powers of reasoning, causing us to overlook evidence to the contrary or to overweight evidence that we like, leading us to the conclusions we *want* rather than to the conclusions the evidence infers. Emotions can lead us to make poor decisions on individual stocks or on the entire investment climate. During and after major elections, this phenomenon is rampant.

People have often spoken of the twin catastrophic emotions of investing, fear and greed; fear is extreme pessimism regarding investments and greed is optimism run amok. That greed, ironically, generally leads investors to either lose money or make much less than they could have made, while fear usually leads investors to *not* make the money they should have made. It is *fear* that tends to afflict investors most during election cycles.

I touched on this subject in my recent October 2020 letter. (In fact, I was tempted to just reissue the same letter after changing the date and changing the future tenses to past tenses.) Fear combines with an important historical tendency to create a big problem for investors. That tendency is to overestimate the impact of presidential elections on investment portfolios, often by a lot. Factors that are generally well beyond the short-term impact of politics, such as economic progress and corporate earnings, have a much bigger impact. This is not to say that politics plays no role in the economy at all, but it is less than one would expect, especially in the short run. The impact of political decisions usually plays out over decades, not years, and even then, it is often swamped by secular trends that politicians can't control.

As I noted in that previous letter, the economic recovery currently underway, the Fed's extraordinarily favorable monetary policy, and the likelihood that COVID-19 will recede over the next two years should lead to higher stock prices, regardless of the political landscape. Those reasons for optimism still hold, in my view. In fact, the positive results of vaccines were unknown three months ago. Thus, my optimism is higher still.

If the outlook, independent of the election, was dire, I would tell you as much. But that is not the case today. As I noted three months ago, the outlook was (and is) positive, regardless of the election's outcome.

President Franklin Roosevelt began his first inaugural address (March 4, 1933, in the depths of the Great Depression) by asserting that "the only thing we have to fear is fear itself." When I first heard that phrase, I thought it was non-sensical; then I got into the investment business. We observe that phenomenon almost daily. Do not let fear debilitate your investment goals.

We appreciate your confidence in us.

Gratefully,

Mark A. Keller, CFA
CEO and Chief Investment Officer

This letter was prepared by Mark Keller of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change. This information does not constitute a solicitation or an offer to buy or sell any security.