

Political talk and investing not always connected



The old notion that you should never bring up politics or religion at a dinner party is pretty sage advice and a lesson I've had to learn a few times myself.

These wedge issues are simply too divisive for normal discourse and more often than not, our emotions dictate the pace of conversation.

This usually steers the discussion well wide of logical argument and into the bottomless pit of identity politics. Aside from any religious constraints, the same dinner party wisdom applies to the world of investing.

It's of course far easier to recite rules of thumbs than to actually follow them.

Even the pros are capable of letting their political emotionalism get in the way of better judgment.

This cycle has seen its fair share of perma bears, for example, who viewed the Obama administration as an affront to Wall Street. All the while the S&P 500 returned 181 per cent during his

eight-year tenure. Those same once nervous investors are ecstatic now that we've seen political turnover in the White House, while a new breed of political fearfuls heads for the hills. Neither position is advisable.

Warren Buffett is one of the most successful investors of all-time and has been at it professionally since the early '50s. He saw stocks do well under the Eisenhower administration when taxes were inconceivably high by today's standards (the top tax bracket was over 90 per cent) and also under the Reagan administration when taxes and regulation were being cut.

He's fully aware that most of the forces driving stocks over time are outside the scope of who occupies the White House. That's not to say that political forces aren't a factor in the economy, because they are. But it is to say it's not the single driving force many would have you believe.

In an interview with CNBC, Buffett said, "America Works" and that, "it'll work wonderfully under Hillary Clinton, and I think it'll work fine under Donald Trump." Reading between the lines, it may not be that strong of an endorsement for the current president relative to Hillary, but the proof is in the pudding – and he's been buying stocks since the election. He also warned to "never bet against America" because they have the "secret sauce" (and the secret sauce is not the administration).

The markets have moved

higher because of economic strength and corporate earnings, not politics. The U.S. economy began to pick up steam well before the election and has continued into 2017. Both manufacturing and services activity in the U.S. started the year on a very strong note which bodes well for first quarter economic growth. This is why markets are moving higher and why it's a great time to be invested to take advantage of the momentum.

There's no apparent correlation between stock performance and which political party is in charge as markets have done well under various administrations both in Canada and the US. It's therefore unwise to make broad investment decisions based solely on politics. Our job is to manage risk and provide a good return for our clients, so we watch the political scenery with interest, but not too much. It's prudent for other investors to do the same.

Lori Pinkowski is a senior portfolio manager and senior vice-president, Private Client Group, at Raymond James Ltd., a member of the Canadian Investor Protection Fund. This is for informational purposes only and does not necessarily reflect the opinions of Raymond James. Past performance is not necessarily indicative of future performance. Lori can answer any questions at 604-915-LORI or lori.pinkowski@raymond-james.ca. You can also listen to her every Monday morning on CKNW at 8:40 a.m.