RIVERFRONT INVESTMENT GROUP

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THE WEEKLY VIEW

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- **We are preparing for the 'certain uncertainty' that will likely surround the US election.**
- **Despite the uncertainty, we continue to believe that equities are the most attractive asset class for growth.**
- **Minimizing distractions, anticipating volatility, and being prepared to override our natural instincts are keys to our investment strategy.**

Preparing for Certain Uncertainty

MANEUVERING THROUGH THE 2020 ELECTION

The 2020 US election is a long way from decided, but there are things investors can do now to be ready. We love a good metaphor to make a point. This week we are going to lean on one of our favorites: performance driving. No matter the result, it is likely that things will be moving quickly after the election so performance driving tips are useful, particularly since they can help us prepare for 'certain uncertainty'.

1. <u>Focus on the objective:</u> We live in Richmond, Virginia and the largest interstate artery in the country runs directly through our city. We all hate to drive on I-95 because it is too congested and aggressive (the other drivers are rarely as nice as we are). However, if we want to get to our destinations as efficiently as possible, I-95 is often the best route.

Investing Implication: Most of us need our money to grow to meet our long-term objectives. Unfortunately, with interest rates near multi-decade lows, there are few alternatives to equities for achieving growth. Bonds and cash are even less attractive, if you believe as we do, that they will continue to be the backstop for future economic weakness through money printing and fiscal stimulus. Like driving on I-95, owning equities is not always pleasurable. **The journey can be erratic (volatile) and emotionally taxing, but over time stocks have generally provided more growth relative to bonds and cash.** We expect them to continue to do so going forward.

2. <u>Choose the 'right' vehicle:</u> The 'right' vehicle, as we define it, has a high probability of getting to the destination on schedule with its occupants intact. Rarely is the 'right' vehicle the one simply with the fastest top speed, since high speed often equates to high risk and discomfort. Therefore, finding a vehicle with the appropriate amount of speed, comfort, and protection is important.

Investing Implication: From now until the election, we think investors should work with their Financial Advisors to confirm they are in the right vehicle to best navigate the 'fast moving traffic' (volitale markets) that we anticipate. **Investors should, at a minimum, consider rebalancing their equity/bond mix if it has gotten out of alignment after the stock market's recent run.** At RiverFront, we also believe that certain 'safety features' such as the flexibility to make tactical adjustments and an independent and objective risk management process should be standard equipment. We think it is important to start now, since adjustments can be difficult and expensive when they are most needed. **A dynamic discipline, like the one that RiverFront employs, is designed to adapt to changing conditions and will calibrate for the higher-speed environment.**

3. Anticipate the obstacles and be prepared to override emotional instincts: On a race course, if you are just looking at the corner as you enter it, you are already too late. Performance driving is about anticipation. Performance driving is also about overriding natural instincts that can be dangerous at speed. Learning to relax, loosen one's grip on the wheel and favoring the throttle over the brake are necessary skills to incorporate as speed increases.

Investing implication: A contested election? Social unrest? More partisan politics? Market volatility? All four are likely in the election's aftermath, so investors should be ready for them. Prepare yourself emotionally now for these scenarios and remember that 'being ready' does not always necessitate action. **We think that often, the best decision is not to act in the face of a volatile market, since the likelihood of perfectly timing entries and exits is low.** Also bear in mind that what may seem like minor adjustments in normal conditions can have unforeseen consequences when made at high-speed. No doubt you have heard stories of investors dumping their stocks near market bottoms, only to chase them higher after they rebound. When an investor loosens their grip and resists slamming the brakes, they make fewer and smaller adjustments, if any at all.

4. Eliminate the distractions: There is a reason a race car doesn't have radios. Performance driving requires the kind of focus that can only be achieved by eliminating distractions.

Investing Implications: During the COVID-19 crisis we recommended that investors avoid 'the echo chamber' to think more clearly. The 'echo chamber' occurs when bad news is viewed repeatedly via news and social media until it overwhelms the investor's ability to think independently. **Fortunately, we think the negative impact of the echo chamber can be offset by consciously limiting media consumption, particularly when a crisis occurs.**

5. Choose the right time and place to take action: Every road has its low-risk and high-risk areas. These areas are often marked with warning signs such as 'no passing'. Understanding when and where conditions are most favorable to certain maneuvers is a cornerstone of performance driving.

Investing Implications: There is a 'right' time and a 'wrong' time to make significant portfolio adjustments. **The 'wrong' time to make such an adjustment comes directly after a significant news event, like an election, in our view.** This is because it is the time that emotions are the highest and the markets most volatile. It is also the time when the least amount of information is available to make informed decisions. For example, by early November, we are likely to know the 'winners' but we will not know the economic conditions the elected administration will have to consider come January. A recent case in point, occurred during President Barack Obama's first term where tax reform was a high-profile issue on the campaign trail but could only be prioritized after the economy had recovered and had the strength to absorb it.

Bottom Line: This will not be the first time or the last time that investors will encounter fast moving and emotionally taxing investing conditions. Ultimately, equity markets will endure as they have since the 1920s, but preparation before major events can increase the likelihood of success and make the ride more comfortable. Our businesses and our citizens will continue to adapt to different political regimes as they always have and our nation will continue to get stronger from it. As we get closer to November 3rd, remember: ***Whatever Side… We're on Yours.***

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