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Presidential Politics is Affecting the Portfolio According to Finance Experts

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A review of what happens to markets in election years—and how investors protect themselves—is critical to retirement saving success.

Irvine, CA – April 13, 2016 /MM-LC/ —

Middle East strife, plunging oil prices, increased volatility—if that wasn't enough, add election-year antics to the mix. No wonder investors are anxious.

While candidates lob insults and vie for votes, pre-retirees and retirees, those who are most vulnerable to a loss of income resulting from economic declines, can take some solace in presidential-driven market performance, at least if history is any guide.

Comprehensive research on the subject from Pepperdine University found that between 1950 and 2004, stock market declines occurred "during the first or second years of the four-year U.S. presidential cycle," and no major declines occurred during the third or fourth years.

More specifically, the most favorable investment climate "was from October 1 of the second year of a presidential term to December 31 of the fourth year," according to Pepperdine researchers.

Past performance is of course no guarantee of future returns, but for those looking for general trends to soothe their psyches, partisan election politics, believe it or not, might be it. It shows the potential for at least three more quarters of solid growth. Yet the emphasis should be on "trends," meaning they're guides, rules of thumb, approximates; not something on which to hang one's hat, and certainly not something to use when timing the market, financial experts say.

Market timing is the attempt to predict future market via technical data or subjective indicators, and then to act on those predictions. In theory it sounds great, in reality it's extremely hard, if not close to impossible, for the average investor to perform; there are simply too many variables acting interdependently that affect market direction one way or the other.

"The market timing hall-of-fame is an empty room," Brian Levy, founder of BML Wealth Management in Irvine, California, wryly notes. "There is so much noise during an election year. Investors should have an idea of how it should be filtered or they'll end up acting on it and potentially doing significant damage to their portfolio. Ultimately, there is no substitute for solid underlying asset protection strategies, which is especially important to those about five years from retirement, as well as those already in retirement."

Those solid underlying strategies mean a return of the investor's money, rather than a return on the investor's money; meaning a long-term focus that ignores day-to-day fluctuations. It also involves a thorough knowledge and mitigation of what's known as sequence-of-return risk, which is the risk of retiring at the beginning of a down market. Sequence-of-return risk combines the withdrawal of needed income from a portfolio for daily living expenses with lower asset values, something that can quickly deplete retirement resources and devastate even the best laid retirement plans, from which the retiree will most likely never recover.

More and more financial advisors are achieving this long-term focus and combating sequence-of-return risk through the use of conservative investment vehicles like fixed income annuities, which offer protection in down markets along with the ability to lock in gains during up markets. Municipal securities are another conservative vehicle that, when used correctly, have a proven investment-protection track record.

No matter the product or strategy chosen, experts say, a good financial advisor will test what hypothetically would have happened in the worst markets imaginable (say another 2008) to ensure they successfully perform to expectations. Apparently, it's sorely needed.

"Investors are often asked what they are doing differently now to avoid the same sort of losses they experienced in the economic crisis of 2008," adds Shane Brosnan, a partner at BML. "The response is often blank stares, meaning they aren't doing anything different."

While the exact outcome is difficult to predict, this much can be said; a defensive strategy involving asset protection, retirement income and portfolio longevity will solve for almost any scenario that might arise come November.

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For more information about us, please visit http://www.bmlwealth.net

Contact Info:
Name: Brian Levy, Founder
Email: info@bmlwealth.net
Organization: BML Wealth Management
Phone: 949-682-9105

Source: http://councilofeliteadvisors.com/liftmedia

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