INDIVIDUAL SOLUTIONS
FINANCIAL PLANNING

The Presidential Election & Your Financial Plan:

Cast Your Vote for Rationality - This Election

Every four years, our country has the opportunity to change direction or stay the course. And every four years, investors become increasingly nervous as the first Tuesday in November approaches. This year, that nervousness is especially acute.

Looking back at the stock market this year, what do you remember?

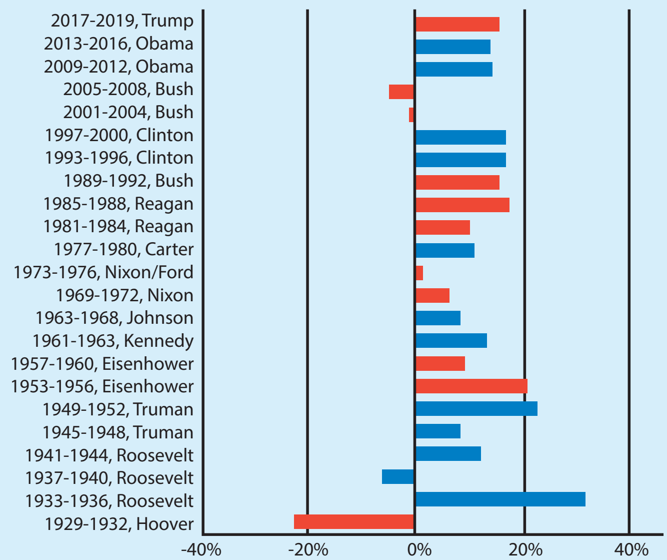
- The Dow plummeting 2,352 points in a single day last March?
- The Dow declining an additional 2,997 points four days later?
- The S&P 500® and NASDAQ both closing at record highs at the beginning of September?

Hopefully, the thing you remember most vividly is *not* the fear that compelled you to alter your investment strategy and abandon stocks for the safety of low-yielding fixed income securities and/or cash.

Emotion can be the enemy of sound investing, and few events elicit more emotion than a presidential election. At the same time, however, it's important to remember that:

- The stock market has not necessarily thrived under one party's administration and faltered under another (see chart).
- The main drivers of the stock market are economic and earnings growth, which are often driven by external factors, as opposed to who is in office.
- Stocks generally rise over time, no matter who is in the White House.

S&P 500 Index Returns For 4-Year Presidential Term



Since 1929, only four presidential terms have experienced negative returns for the S&P 500 on an annualized basis. The average annualized return for a president's term is over 10%.

All this being said, it is equally important to remember that volatility in the market is common before a presidential election. This year, it might remain with us after the election if a winner isn't declared on the night of November 3.

Whatever the case, however, keep the following in mind:

- **Eliminate partisan politics from your decision-making process**
  Don't try to time the market based on your political beliefs or the outcome of the election.
- **Maintain a long-term investment plan**
  Focus on the reasons why you're investing – your long-term goals – and avoid looking at your account balances on a daily basis.
- **Use volatility to your advantage**
  How much did you pay in income tax last year? When stock prices drop, consider harvesting losses for tax purposes. When prices rise, think about whether it makes sense to gift appreciated shares to a favorite charity and receive a larger tax deduction.

Reviewing the Presidential Platforms

The following is by no means cast in stone, but it is what we expect will happen if either Trump or Biden wins the election:

If Trump Wins:

- President Trump has floated a number of economic ideas and goals, but there are not many concrete proposals in his platform.
- Several provisions of the Tax Cuts and Jobs Act (TCJA) are set to expire after 2025 and revert to previous law. These include a top tax rate of 37% (from 39.6%), a limitation on the state and local tax deduction (SALT) to $10,000, mortgage deductibility capped at interest on $750,000 for a new home or second residence, higher Alternative Minimum Tax (AMT) thresholds and doubling the lifetime exemption for estate taxes, among others. A second term would seek to make permanent or extend these provisions for individuals, but not necessarily for businesses.
- Expansion of Opportunity Zones, offering capital gains tax relief for investments made in qualified opportunity zones.
- Tax credit for domestic companies bringing jobs to the United States from China.
- Tariffs and international trade have been a very visible aspect of President Trump's agenda. This would likely continue and expand in a second term.
- Trump has sought to weaken the Affordable Care Act, a centerpiece of the Obama administration. A second term would look to repeal or replace it.

If Biden Wins:

- Increase the top marginal tax rate to 39.6% from 37%, limit itemized deductions (most notably charitable gifts) for those in tax brackets over 28%, tax long-term capital gains and qualified dividends at a rate equal to ordinary income rates (39.6%) for those earning over $1 million.
- Social Security payroll tax would have a "donut hole" where a 12.4% tax would be imposed on earned income over $400,000 and split between employer and employee. Currently the Social Security wage base is $137,700.
- Corporate taxes would increase from 21% to 28% and add a 15% tax on income for corporations with $100 million or more in profits. Pass-through entity business deductions would phase out on income over $400,000.
- Like-kind exchanges, which allow business and investment sellers of real estate to defer capital gains when proceeds are invested in another property, could be repealed.
- The lifetime exemption for estate taxes could be reduced to what has been referred to as "historical norms." Biden has not made clear whether it would be to $5 million adjusted for inflation from 2013, or $3.5 million from 2009.
- The step-up in basis on assets at death could be repealed. Whether capital gains tax would be due at death or at a later sale by an heir has not been made apparent.
- A Biden administration would look to expand the Affordable Care Act, but differences within the Democratic party make it unclear just how far these changes could go.

Finally, keep in touch with your NFP advisor over the months to come and watch for additional reports as the election approaches. We are committed to helping you remain on track with your most important financial objectives and providing you with impartial guidance, no matter who ultimately takes office.

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Source: "Stock Market Performance by President (in Charts)." Darrow Wealth Management, Sept. 2020, darrowwealthmanagement.com/blog/stock-market-performance-by-president-in-charts/