

Patti: Good morning, my name is Patti Brennan and welcome to the “Patti Brennan Show.” Whether you have \$20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives. Take it away, Michael.

Michael: Great. My name is Michael Brennan, and I am very excited to speak with you all today. We're going to have a fun episode and I'm really excited about it.

We have an all-star cast of people for today's podcast. First, I would like to thank all of you. Anybody that's tuned in and listening right now or anybody that has subscribed, I would like to thank the followers that have been tuned in to this show since day one.

I would like to also take a moment to thank all our sponsors. Actually, we don't have any sponsors. This is a completely independent podcast, just like Key Financial is a completely independent firm.

We remain completely independent. Patti is a classic, she is extremely stubborn Irish woman. Sponsors, maybe that comes, but for now, this is what you get. We are who we are. This is the Patti Brennan Show coming to you from West Chester, Pennsylvania on Friday, April 12th.

Patti: How about introducing your guests, Michael?

Michael: I have two brilliant guests, and then we also have Patti.

Michael: First up, we have Rory. Rory, it is such a pleasure to see you in here. You look as beautiful as ever and I love the little baby bump. For those that aren't aware, we are expecting Baby Wonder on August 30th. Rory is in her typical fashion, she looks phenomenal, and the bump looks incredible. I've never seen a better bump on a person before, honestly.

Michael: We also have Matt. He recently got engaged. We are very much looking forward to taking over that wedding, typical Key Financial style, coming soon. As far as Patti, I guess we'll get to you in a moment.

As far as me, Michael Brennan's world, just a quick gauge on all things going on today. As you may know, the markets are up, and inflation may be a little bit stickier than we anticipated for. Joel Embiid is back. I have a big feeling that the 76ers, along with Tyrese Maxey, are going to go on a run this year. The Phillies play the Pirates again tonight. They had a fantastic game last night. On this date, April 12th, you can mark my words.

Patti: OK. Michael enough is enough. Let's talk about why we're here today.

Michael: Fine. Don't mark my words. I'm just going to tell the people that they're going to win the series.

Patti: That's fine. Let's talk about their money.

Michael: What are we here to talk about? We are here to talk about the election. It causes a lot of uncertainty in the markets.

Michael: Before we get into the meat and potatoes of this awesome episode here today, I feel the need to first set the table. A couple weeks ago, Matt, Rory, and I led a phenomenal presentation. These guys really kicked butt. We were tasked with presenting on the election. We did that for our quarterly investment committee meeting, and it was a challenge, although we had a lot of fun. We had to figure out a way to not step on any toes, hurt any feelings, and try to remain as unbiased as possible.

Towards the end, we brought it all together. We played a fun little exercise that I called Pin the Tail on the Donkey. And Pin the Tail on the Elephant. We wanted the team here at Key Financial to take a shot at matching the rate of return under a specific President.

Patti: That's my guess right there.

Michael: Bush was at -25 %.

Patti: You got it. His second term -25 %.

Michael: His second term, correct.

Patti: Think about what was going on in the world then. That feels right to me.

Michael: Good Lord. What did his first term do then?

Patti: Not so hot, which makes you wonder.

Michael: It makes me wonder. Frankly, Patti, I would have switched it.

Patti: Just goes to show you this stuff is hard. Even though we already know what happened, and it is history, history is no guarantee of what you can expect for the future. We always say it, it's random.

Michael: You're going to hear it a couple times today. I apologize in advance.

Patti: I know.

Michael: That was the activity. If you would like to tune in towards the tail end of the podcast here and send us an email, nothing would make me happier than if we could do this with you. It was a lot of fun; we had a blast, and everybody got it wrong.

People that study this all day and night, couldn't get it right. It was challenging and that was the goal. Before we got into the Pin the Tail on the Donkey game, we formatted the presentation in such a way to look at three different myths that we hear very frequently from clients.

Matt and Rory are essentially the myth busters here. We have the myths and we're going to get into them in a moment. The goal is to bust these myths unless they are valid. If they're not valid, let's address that and say why.

My goal for the listeners today is to know exactly what to do if a certain candidate wins. In addition to knowing what to do if another candidate wins. We want to know exactly what to do if the Fed does one thing or another. I'm going to give you those answers today.

Michael: The very first myth that we are going to bust today is that stocks don't do well in election years. Rory, what are your thoughts on that?

Rory: That is absolutely not true. I can bust that myth.

Michael: Wow. Thank you everybody for tuning in today.

Michael: That will wrap up our podcast here. We have everything that we need. I'm so glad that you could join in. I'm kidding! This is too juicy not to get into more. It's not true that stocks don't do well in election years.

Rory: No.

Michael: What do they do?

Rory: They don't typically do as well during election years as they do during regular years, but if you had to guess, what would you think the total average return is during an election year?

Michael: 7%.

Rory: No. It's double that.

Michael: Wow.

Rory: I know. Shocking.

Patti: Double?

Rory: Yes. The average total return of stocks across election years since 1920 is 11.6%.

Michael: I believe there's 23 or 24 actual election years that we're pulling this data from.

Patti: Actually, there's 28 to be exact. 28 election years since 1926.

Michael: 28 election years since 1926?

Patti: You got it. It's a limited data set, but still, it's information.

Michael: It is. Thank you for that, Patti. Now comparing what markets did in election years versus non-election years, what can one expect in a non-election year? How does it stack up?

Rory: Really only a couple of points higher in regular years. It's about 14% compared to about 12%.

Patti: The other three years, it's about 14%?

Rory: Yes

Patti: That's pretty darn good and tough to argue with.

Michael: We are certainly well on our way to busting this myth. We know what the market does on average during the entirety of the year, but I have a feeling that there's other things that happened during said year. Can we talk a little bit about that? Because I understand that in the end it does get about 11%. Why don't I feel like that happens?

Rory: There's a lot of reasons for that. One, I think one of the biggest ones that I think about immediately is just human nature and everyone's kind of uncertain and that causes volatility throughout the year. Typically, they start out sluggish in the first half and then in the third quarter is when they peak.

Michael: Really?

Rory: You wouldn't really expect that.

Michael: No.

Rory: Based on the data and the research, the third quarter is typically the best quarter.

Patti: That's the thing in the investment committee meeting that blew me away, that the third quarter is the best of all four quarters, because you would think that running up to the election, everybody's pointing fingers and saying, "Oh, they're terrible. They did a terrible job," or "This guy's an idiot" or whatever and that creates that uncertainty.

Yet stocks did well, historically, at least in the third quarter before we knew who was going to be the president. My recollection is the fourth quarter tends to really jump. That's my recollection and it historically has, but it started that even before the election, which is interesting.

Michael: Quick time out here guys, news flash, 2024 is already a perfect example of the maxim. History is not an indicator of what you can expect for the future. We learned that on average during election years, Q1 resulted in a 1.3% return, Q2 was a 2.5% return, Q3 was miraculously 6.2 % and Q4 is 3.3%.

Rory, you were not kidding. It starts off a little sluggish historically, and then it really does tend to pick up. The S&P is already up what?

Patti: About 10% as of the end of March.

Michael: 10%. We're already up. That history shows us one thing, this is what is happening today. It sounds like volatility is a feature, not a bug, of any investing year. It does tend to be more pronounced as households do grapple with this uncertainty.

To try to bring this full circle here and really, really shatter this myth, I think it's important to remember that while markets do tend to be more volatile in the lead up to the election, after the election, when the source of uncertainty is cleared and regardless...

Patti: Where do you want to start?

Michael: To pull this full circle and really bust this myth, Rory, is that volatility is a feature. It's not a bug of investing in any year, but it does tend to be more pronounced as households grapple with more uncertainty. In other words, don't allow this election uncertainty to obscure what is historically a sweet spot for financial assets. Leading up to this, we already know that markets are going to be more volatile as we get into the lead up to the election. But after Election Day, that source of uncertainty is gone. The clarity that the markets have been craving is finally there. Regardless of the results, markets move on and refocus on the fundamentals.

Patti: Well said, my son.

Michael: Speaking of fundamentals, that is a beautiful segue, if I do say so myself. Matt is going to lead us into the second myth. Myth number two, the Fed is controlled by the White House. Man, that sounds spooky.

Matt: Yes, it does.

Michael: Tell me about that, bud.

Matt: I'm excited to get this topic because I feel like everyone's been talking about the Fed. There are periods in time where the Fed Chairman is the most important person in the world, even more so than the President of the United States.

Michael: I could possibly go on record to state that back in 2008, Ben Bernanke single-handedly saved the entire economy, not just of the U.S., but globally.

What that man did and studied, his knowledge of the Great Depression, what to do, what not to do, he saved the economy. I'm right there with you. I'm also a big fan of Jerome Powell, but I'm trying to remain completely unbiased here.

Matt: Also, the Fed has not sat on the sidelines during presidential election years since 1980.

Michael: So, if the Fed doesn't sit on the sidelines, does that mean that the Fed is in the game?

Matt: The Fed's playing on their own field. A completely different field.

Patti: That's interesting.

Michael: The Fed's on their field altogether.

Matt: Independent.

Michael: They're on a separate field, which is what we love. It's what makes this thing work. Well said, I like that. I'm going to have to use that again.

Matt: Since 1980, there's only been one time in which the Federal Reserve did not have any action raising or lowering interest rates. And that was in 2012 when we were coming off the Great Recession.

Interest rates were near zero, if not zero. I feel like that's an anomaly. I don't think this year is going to be any different. They started out the year with seven predicted rate cuts. It's gone down to three. We know inflation is still running a little hot. Jobs are good, but I do think we will see a cut before the end of this year.

Michael: Matt, just for our listeners, what does that cut mean? What does it mean to the person that's considering buying a new home? What does that mean to the person that has boatloads of their cash in money market accounts or in CDs? What is the order of operations? What does the trickle-down effect look like when the Fed cuts rates?

Matt: We'll see. I know we've had a period of money markets and high-yield savings accounts that are getting over 5%, which has been great for people that need cash flow needs in one to two years. That will probably get hit first.

We'll see those yields start to fall slightly. In addition, bond prices will go up. As we saw in 2022, when they started raising rates, bonds had their worst year in history. We'll see bond prices start to rise.

As you've said multiple times on the show, history is not an indication for the future, but I know small cap has had a tough decade. With lowering interest rates, these small companies that don't have a lot of capital on their balance sheet could start to have a little rally.

Michael: Because money is cheaper.

Matt: Money is cheaper.

Michael: Small cap companies can borrow more at lower rates. That really affects what they can do.

Matt: Yes, that's correct.

Patti: The only thing I would say is, because the big companies have such negotiating power, they've already got lower rates. But the small companies don't have that leverage. They are really affected by what the Fed does. The market is a leading indicator, so it gets hyped up. Small cap tends to come out of this period faster than larger companies.

Patti: I have a question.

Michael: Then I have a question for you.

Patti: I have a question for Matt. Here we are in this Fed-pause period, and we get a lot of people who say, "Wow, I can get 5.3% in your institutional money market. Why don't we just move everything into the money market?"

What happens, historically speaking, during this Fed-pause period? Is cash king? What tends to happen going forward after the Fed-pause period? I remember this from your meeting. I don't know if you remember.

Michael: All right. I have a question. Hold on, timeout. I have a question for everybody here. I want everybody's thoughts because if I'm an outsider and I'm listening to this, what I'm hearing so far is that cash is paying 5%.

Rory was telling me that the first half of the year tends to be sluggish, followed by a third quarter that's up over 6%. Why wouldn't I just hold on to my cash for the time being and wait for that third quarter so I can get the excess return?

Patti: Maybe it already earned that return. I think it's important not to get too cute with this stuff because we don't know what's going to happen.

Michael: As we already know with the S&P up, what it is here to date.

Patti: I'm coming in strong, but the fact of the matter is, investing is not a game. It really isn't a game. We really must understand what exactly this money is for. If you've got money in cash, as Matt so perfectly pointed out, that's the place for what you need in the next year or two years, etc. That's pool number one.

Let's talk about your intermediate and longer-term money. Where do we go with the statistics when we talk about the Fed finishing and pausing? We don't know when that's going to be. The fact of the matter is that it doesn't really matter in the long run.

I know you get tired of hearing that stuff and we get tired of saying it, because people don't really think about the long term.

Patti: It sounds trite and kind of almost patronizing. Think long term. Everybody's screaming and yelling "The world is going to end if so-and-so gets elected." Guess what? It probably isn't. Figure out what's important to you about your money and let's not try and game the system. What do you guys think?

Michael: Well said.

Rory: Yes.

Patti: Did I nail it?

Rory: Yes.

Patti: I hope I nailed it. I get another point, yes!

Michael: There's your point. There's your bell. All right, back to the myth. The Fed is not influenced by the White House. I have a question for you, Matt. Who elects the Fed Chairman?

Matt: The President.

Michael: What is their relationship typically like? I don't want to get into it, but I remember around 2018 when the man that elected Jerome Powell is again running for office this year.

In fact, it was Trump that elected Jerome Powell to serve as the Fed chairman. Correct me if I'm wrong, but I recall there's some beef being there. I believe Trump wanted rates lower.

He even publicly went out there and said, "Powell's a little bit of a knucklehead here." He really was trying his darndest to influence the Fed's decisions. How did the Fed and how did Powell respond to that?

Matt: Another thing I'll add on to that is that Trump also criticized Powell when he was raising interest rates.

Patti: Even though the president elected this Federal Reserve Chairman, he had a different opinion about the course of action that he wanted the Fed Chairman to do. The Fed Chairman didn't do it because he is playing on a different field.

Michael: Matt, I recall back in 2018, I believe that it was Donald Trump, elected Jerome Powell to serve as Federal Reserve Chairman. But it was in 2008 when there was some beef that the two of them had. I think Trump was trying to strong arm Powell into doing something. Could you tell me more about that? How does that work out?

Matt: They had a disagreement on the path forward and how it would relate to raising or lowering interest rates. I've gone back a couple of times, but the Fed has two mandates, price stability and full employment.

I believe Jerome Powell was doing everything in his power to uphold those two mandates that were set in front of him. It was just a disagreement, but it comes back to the point that they're playing on a different field.

Michael: Completely different field. I hope you have had the privilege and opportunity to see Jerome Powell do his thing and give a speech. I love the speeches, but my favorite part is always the Q&A afterwards.

He is asked so many questions about global warming, the war in Iraq, the war in Russia, and his thoughts on the stock market. His answer is always the same, "We at the Fed have a dual mandate, price stability and max employment."

That is what he is focused on. He does not care what's going on in any other sector. We, as consumers in this country, should be very grateful for that absolute independence that he has been granted.

Patti: The clarity that he has regarding his role.

Michael: I would say that we have smashed that myth. Matthew, thank you so much.

Michael: Now we're going to talk about the third myth. The third myth that we are going to dissect, rip apart, or maybe agree with, is that markets will crash if so-and-so candidate wins.

I feel like we do get these calls, meeting requests, and have these conversations with certain groups of clients where it's always interesting. Believe me, my light bulbs go off when we hear fear. We hear fears from one side of the party saying, exactly this, "If he wins, the market's going to crash, and I want to go into all cash."

A couple hours later we have a meeting with a different person, but maybe their stance is on the other side of the spectrum, saying the exact same thing. "If that guy wins, get me out of the market. The market's going down."

We have two different types of people that have identical fears and identical complaints. That right there is something that it's too juicy to just dismiss. Patti, we're going to bust the myth. I see the eye-of-the-tiger look in your eyes, you're ready to go. Markets will crash if the so-and-so candidate wins.

Patti: Michael, we've had this before. This is not new. We've always had strong opinions about government and what the future could be if so-and-so wins versus the other. That phenomenon isn't new.

As we learned from Dr. Elko, who came in to talk with us yesterday and I love this man. He came in with the MainStay funds and he talked about what is happening in our nation. Too many people are drinking "Haterade".

There's too much "Haterade" being drank in this country. I think that's important because we all have strong feelings and that's fine. But I think the idea of collaboration and compromise seems to be getting lost in this nation. The fact of the matter is, let's go through the stats.

Patti: Since 1953, if you had \$1,000 that you invested only when a Democrat won, you would have \$50,000 from that \$1,000. That's pretty good growth. If you invested, and this is a shocker, only when a Republican was president, you had \$31,000. Everybody thinks that when a Republican is in office, the markets go nuts. It isn't necessarily true. If you stayed invested for the entire time and didn't try and game the system, guess what? That \$1,000 grew to \$1.58 million.

Michael: Wow.

Patti: What do you prefer? \$51,000, \$31,000, or \$1.5 million? Seems obvious. Now, let's bring this to more recent history. Let's just do the last 10 years, Michael.

Michael: Let's do it.

Patti: Let's bump up the number up to \$100,000. Since 12/31/2013, if you invested only when a Democrat was in office, you grew to \$172,000. If you invested only when a Republican was in office, you grew \$181,000.

Now remember, we're talking 10 years. If you stayed invested the whole time, you would grow \$311,000. Again, there is a difference. What I think is fascinating is whether we have a unified government or a split, our country thrives when we have a difference of opinion.

Michael: Checks and balances.

Patti: Thank you, Michael. Checks and balances. The market tends to respond quite favorably to that. For example, when we have a split Congress and a Democrat is in office, the actual rate of return historically is 13.60%. When a Republican is in office with a split Congress, it is 7%. Our country likes a split Congress, again, checks and balances.

Michael: I certainly know that some of the best years have occurred during a split Congress. Markets gained more than 30% in 1985 and in 2013, all years where Congressional control was split between Democrats and Republicans. They really like the checks and balances aspect that our government provides.

Patti: We understand long-term, we're big proponents of that, but the fact of the matter is we are in an election year. Let's give people a feel for what they might expect depending on if one guy wins versus the other. Here's some interesting stats, thanks to these guys. I take no credit. This is our team.

Michael: She takes no credit. You guys got that, right?

Patti: Yeah. You got it. When a Democrat was in office and a Democrat was reelected, the average rate of return for the S&P 500 in that calendar year was 15%. When a Democrat was in office and a Republican was elected, the average return was 12.9%.

We've got lots of stats, 15% versus 13%. I think they're both pretty good.

Michael: I'd take either one of them.

Patti: Cash is not necessarily the place to be in an election year, given the facts and circumstances of what we have in 2024.

Michael: Combine that with what we are expecting the Fed to do in the near-term future. I have the numbers right here. It could be plain, boring, vanilla for me to go through this, but it's a wild stat. I'm looking at the hold period six months before a Fed hike and six months after a Fed hike.

In between there, we have what we're going to refer to as the Fed-hold period. The Fed-hold period would be defined as six months before that last hike and six months after the first hike.

During this period, and this is going back across five different Fed cycles since 1990, the Fed-hold period, stocks are up 21%, bonds are up 14% and cash is up 5%.

Patti: You know what's wild about that, Michael? Our Fed, government, leader, and unified Congress versus a split Congress is all important.

Michael: Sure.

Patti: You want to know what really matters?

Michael: What's that?

Patti: How satisfied the American public is with the direction of our nation. It is counterintuitive and not what we think. If less than 33% of Americans are satisfied with the direction of this country, the average annual return of the S&P 500 was 11.3%.

If we are all feeling warm and fuzzy, meaning more than 33% of Americans feel great about the direction of our country, the average annual return of the market was 9.7%. It is counterintuitive.

Michael: Wow.

Patti: We're not going to game the system, stocks, bonds, and cash. The most important thing is when do you need the money. That's it.

Michael: Always.

Patti: And how much tax you must pay.

Michael: Of course.

Patti: That does have to do with the government.

Michael: It does change.

Patti: Yes

Michael: For everybody out there listening, consult with your financial advisor during these times. I strongly recommend it. If you don't have one, it would be a fantastic opportunity to reach out to us. Come in and sit down with Rory, Matt, myself, and maybe Patti, if you'd like.

Michael: If you were to call us and say, "Hey, I listened to the Patti Brennan Podcast Show on the election. You know what? I would like to have a meeting." It is a free one-hour meeting. You're going to get the best of the best. I promise you it will be worth your while.

Patti: Hey, Michael.

Michael: Yeah.

Patti: I have an idea. Why don't we play the game?

Michael: Oh, goodness. The game.

Patti: Because I think it is really a good example. It's counterintuitive.

Michael: For everybody listening out there, Patti 's referring to a game we are pointing to in our podcast room, two gigantic cutouts of elephants and a donkey. We played a spin on the classic game, Pin the Tail on the Donkey.

In this case, the objective of the game was to pin a rate of return and match it to the specific president that they achieved during their presidential term. We have a series of returns laid out, both in elephant trunks and donkey tails.

We have two boards with all the president's pictures from the Oval Office. See, I even cut them in an oval. That was pretty good, right?

Patti: Oh, man.

Michael: We have every president.

Patti: This is why we pay him the big bucks.

Michael: Oh, yeah.

Michael: Every president in their Oval Office photos and we have little Velcro's. The objective was to stick the rate of return that matched with that president.

Now, there's a level of common sense that goes into this. We have ideas of what happened. Bush was president during a tough time. Obama sort of, I don't want to say he inherited anything, but he performed extremely well following that.

Patti: Wait, you're giving away the answers.

Michael: I know, but even if being armed with this knowledge, it's still hard. Think about Clinton. He did fantastic, but did he do better than Obama's first or second term? We have the 30 brightest minds here at Key Financial.

We study this stuff day in and day out. Nobody got it right. With that, I think that this is a wonderful segue into our next episode. You got a little teaser of what the activity was all about. In the next episode, we are going to get into it a little bit more and would love for our guests to play along.

Michael: Until next time. I am Michael Brennan along with Patti Brennan. Thank you so much, Rory and Matt. You guys are phenomenal. This has been a lot of fun. I can't wait for the next episode, so please tune in again. As always, thank you very much for your support.