July 2024

THE CAPSTONE QUARTERLY

Summer is in full swing, and we hope everyone has a safe and relaxing 4th of July holiday. So far this year, the broad markets are in positive territory leading into a likely more volatile second half of our year. In this newsletter, Bryce provides some action items for your financial life and Casey explains some misconceptions about the markets during election years.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Financial Checklist

With the year now half over – where did the time go? – you may find that you have already accomplished some of the goals that you set for yourself this year. Others may be behind schedule; some may still just be words on paper. That's okay! Working towards our goals should always be a marathon, not a sprint. In the rest of this section we review a few items to think about as a "financial checklist" for the 3rd quarter of the year.

Check your credit reports. Credit reports aren't just for getting loans – they're a handy early-warning system for fraud and identity theft. If you haven't checked yours lately, now is the time to do so. In particular, be on the lookout for recent changes that don't look familiar to you as well as "hard inquiries". This is when a business checks your credit report because they received a new application for credit or services. These can impact your score and stay on your reports for two years or so. They can also show you when people are trying to use your information illicitly.

Review your beneficiaries. If you've had any major life changes – or if anyone in your family has – it's a good idea to conduct a "beneficiary audit". Is everything still accurate and up-to-date? If not, adjust your will and estate plan now so that your loved ones will always be taken care of, and your legacy ensured.

Pay off any debts incurred earlier this year. It's not uncommon to rack up debts during the first half of the year. From vacations to home renovations to new purchases, it's easier than ever to reach for the nearest credit card. There's nothing wrong with that – so long as those debts don't linger and grow. Pay them off now, if possible – or at least make a big dent – so they don't weigh you down as you work toward your long-term goals.

Evaluate your autopay bills. If you've placed bills on autopay, like most of us do, now is the time to review those payments. Have any bills gone up in price? Evaluate those bills and consider any less expensive options that might be available. Be sure to include those sneaky subscriptions (think, Netflix, Amazon Prime, cloud storage, etc) and determine if they are still necessary to be paying for.

Lastly, when it comes to summer vacations, I have a few savings tips to keep in mind as you head out on your road trip or hop on the next flight.

Book flights with layovers. While not as convenient, they can often help you save significantly, especially on international flights.

Set a budget for each destination beforehand. If you establish a specific spending limit for each location ahead of time, you will be far less likely to overspend… and far more likely to focus on the items and adventures you value the most.

When possible, pay with cash, not a credit card. While cards can give you rewards points, they can also rack up fees and debt if not paid off right away. Besides, many local, family-run places that offer the most authentic experiences often prefer cash.

However you spend this summer, we hope it is an enjoyable (and cost effective!) one.

CASEY'S CORNER

Casey Morris, CFP®

2024 Elections

Election season is one of the most important aspects of our political system, but there's no doubt that getting through it can be stressful.

But one thing you shouldn't have to stress over is how the elections will impact the markets. There are a lot of misconceptions that spring up every four years about what presidential contests might mean for a person's portfolio. Most of these cause investors to worry unnecessarily. As a financial advisor, it's my job to help our clients to feel confident in their financial future, not anxious. So, in this section, let's do a brief dive into three misconceptions about election season and the markets.

The first misconception is that presidential elections lead to down years in the markets. It's understandable why we might feel this way. When we look back at past elections, the first things we remember are probably the controversies, uncertainties, and negativity. Election years feel volatile in our minds and memories, usually because there's so much drama and so much at stake.

But statistics prove this misconception is a myth. Since 1944, there have been twenty presidential elections. In sixteen of those, the S&P 500 experienced a positive return for the year.[2] In fact, the median return for presidential election years is 10.7%.[2] Of the four election years that saw a negative return, two did occur in this century – in 2000 and 2008 – but on both occasions, the nation was either entering or in the midst of a significant recession.

Now, we do sometimes see increased volatility in the months leading up to an election. If we just look at how the S&P 500 performed from January through October in a presidential election year, the median return drops to 5.6%.[2] That's not bad, but it is nearly 50% lower. This suggests the uncertainty over who will triumph in the election – and the debate over what each candidate's policies will mean for the economy – does tend to have at least some effect. Then, as the victor is announced and the picture becomes a little clearer, volatility tends to subside, and investors move on to other things. So, in that sense, election season does matter, but nowhere near what the media may have you believe. Elections are just one of the many ingredients in the gigantic stew that is the stock market…and they're far from the most important.

The second misconception is that if one candidate wins, the markets will plummet. This narrative is, frankly, driven by pure partisanship. The fact of the matter is that the markets have soared under both Republican and Democratic presidents. Naturally, they've occasionally soured under both parties, too.

Since 1944, the median return for the S&P 500 in the year after a presidential election is 9.8%.[2] Since 1984 the median return rises to over 24%. The reason for this is because of that gigantic stew I mentioned. You see, the markets are driven by the economy more than by elections. By the ebb and flow of trade, the law of supply and demand, by innovation and invention, by international conflict and consumer confidence. And while the president does have an influence on all this, it's just one of many, many influences. As a result, the markets are far more likely to be affected by inflation and whether the Federal Reserve will cut interest rates than by the election.

When you think about it, the markets are like life. The course our lives take isn't determined by one gigantic decision, but by the millions of small decisions we make every day. The same is true for the markets.

Did you know?

On average, summer is the second most expensive season of the year. A survey of 1,000 adults found that poll participants reported spending an average of $2,229 in the summer, while spending $2,314 in the winder, $2,064 in the fall, and $1,952 in the spring.[1]

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The third misconception is that we have no control over any of this, and thus, no control over what happens to our portfolio. It's true. You and I can't dictate who the president will be. We can't determine how the markets will react. But what we can control is what we will do. And that is a mighty power indeed.

As investors, one of the keys to long-term success is filtering out the noise and focusing on what really matters. You see, the goal of all political campaigns – and the media that covers them – is to create noise. That's because noise provokes emotions. Fear. Anxiety. Anger. A greater emotional response leads to more clicks, more views, more shares, more engagement…and, yes, more money. It's understandable why campaigns and the media want these things. But what we must guard against is letting those emotions drive our financial decisions. Emotions promote the urge to do something – buy, sell, get in, get out, take on more risk, less risk, you name it. They prompt us to make short-term decisions to alleviate what is, when you think about it, a short-term concern.

A presidential term lasts four years. But the goals you have saved for, and the time horizon you have planned for, lasts much longer than that. That's why our investment strategy is built around the long-term. It's designed to try to help not just tomorrow, or next month, but years and years from now. It's designed so that the president of the United States, as important as he or she may be, is only a passing mile-marker on the much longer road to your goals and dreams.

So, as we draw near to another election, remember: Tune out the noise. Remember these misconceptions and avoid them. And most of all, remember that our team is here to answer your questions and help you however we can. Please let us know if there is ever anything we can do.

FINALLY…

In case you missed it… we sent out an email/letter to our clients in May about the expansion of our company. It had always been a dream of ours to open an office in Colorado and that dream has finally become a reality. After careful thought and consideration, we decided to take advantage of the opportunity to open an office in Fort Collins, CO. Our former Brea office in California has moved to Tustin, and we continue to be available to meet with clients there. While our mailing address has been moved to Colorado since our operations staff is located there, our phone number and email addresses have stayed the same. With this expansion, we are committed to the same service that we have always prided ourselves on. We thank our clients for their continued business and trust in us.

Sincerely,

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P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

1 https://lendedu.com/blog/summer-spending-statistics/
2 "Election year market patterns," ETRADE, us.etrade.com/knowledge/library/perspectives/daily-insights/election-stock-patterns