KEEN ON
RETIREMENT

What Impact Could a Joe Biden Presidency Have on Our Economy?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to Keen On Retirement, I'm your cohost, Steve Sanduski, and joining me today is Bill Keen and Matt Wilson. Hey gentlemen, how are you guys doing?

Bill Keen: We're doing good here in Kansas City, Steve. How are you doing now that summer is upon us?

Steve Sanduski: Doing well, doing well. And of course we still have COVID-19 here with us all, and that is obviously affecting what we're able to do, but we're trying to make the best of the situation here. And I know even in light of that Bill, I think you've got some news here on the family front.

Bill Keen: We do, Steve. We've talked in prior episodes about how we had a wedding planned, and that was planned for July 11th. That had been planned for a number of months, actually over a year with daughter Hailey who lives in Florida. And Steve, that wedding happened several weeks ago. It did happen here in Kansas City and it came off pretty darn well, all things considered.

Steve Sanduski: Yeah, well, congratulations on that, and a bit of bright news in the environment that we're living in here today. So Matt, how are things on your end?

Matt Wilson: Things are good. Kids are enjoying summer as best as they can. They have swim meets this year, and it's interesting because they don't do them at the same pool. So, it's an odd dynamic, but we make due.

Bill Keen: Well, wait a minute, when you say that not the same pool, explain what that means.

Matt Wilson: The one team does it at their pool and the other team does it at their home pool, so they somehow match it all up and go from there. But I don't know, I don't think too many people were worried about the times, it's more about just the getting together and having those swim meets.

Bill Keen: That's right, that's right. Steve, I thought you might be interested to know and our listeners as well, we talk a lot about this concept of adulting for the younger generation that's coming into the workforce and growing up and going out and hopefully staking their claim in life. Would you like to hear a piece of positive information about my daughter, Hailey, I was just mentioning who was recently married?

Steve Sanduski: Yeah, of course. What's going on?

Bill Keen: Yeah. Well, I don't know if you recall, we've talked about this before. We all look forward to the time, I think this is your policy too Steve, that when your daughter gets married, that she goes off of the family cell phone plan.

Steve Sanduski: Yeah, that's right. That's right, that's one of the last lifelines, I guess you could say that we have with the kids is when they go off the family cell phone plan, then you know they've made it.

Bill Keen: So Hailey, just shortly after she arrived back to Florida after her wedding, she called me the very next business day and she said, "Dad, you can drop me from your mobile plan. I've already set up my own. You can also take me off your health insurance plan, we've also got ours set up and we've also got our own car insurance established here in Florida." So, we were three for three that day, Steve, and that was unsolicited by me. That was her calling me letting me know that she is stepping away there from pops in some form or fashion. But, there's still some bills from the wedding coming in. Go ahead, Matt.

Matt Wilson: She's officially off the payroll then?

Bill Keen: Well, I think so, but we'll see how it plays out, but that was good news. I was proud of her. I get it, that's what they're supposed to. So, but I still was proud of her that she took the initiative to do it just right off the bat, so.

Steve, I got a lot of compliments on the father of the bride speech, and we do a lot of speaking each year. This year we haven't done as much of course live events, but we know we do our podcast and other things, and so, I'm in a rhythm to be able to give a speaking type engagement, but preparing for a father of the bride speech was totally different and it was good, I think. I had quite a few people tell me it was good, and the main person that I wanted to think of it was good was my daughter, Hailey. And so, we had some pretty nice emotion and time around that, so I'll tell you, I was a little nervous nonetheless it was great weekend, but glad to have it behind us.

Steve Sanduski: Yeah, well, congratulations, Bill, That is awesome. And sounds like some good parenting taking place there as well with Hailey being able to continue to move into all the things we might traditionally indicate as markers of adulthood, so congratulations on that. Well, we've got another great show lined up here today, and we're going to be talking about the upcoming election, not the politics part per se about that, but just about how that may impact what's going on in the financial markets. And it seems like there seems to be a fairly strong connection these days to policies that are coming out from politicians and the federal reserve, and what happens in the financial markets.

And if there is a change in administration, which of course we're not going to know until election day, whether that happens or not, but vice president Biden has come out with what his economic policy might look like in terms of a position paper, so I think we want to touch on that here today. So this should be quite interesting to talk about how some of the policies of the politicians might be affecting the financial markets.

Bill Keen: It's interesting to know and think about the way this has snuck up on us as well with so much discussion about Coronavirus, and gosh, navigating the pandemic from all the different angles personally and financially and healthcare wise. And yeah, we look up and what are we, 100 days out until the election or something like that? I haven't really looked at it exactly, but it's not far from today. And we really thought that would make some sense. We get a lot of questions when we're talking with our clients about these things, and we share those many times in private meetings, but again, like you said, Steve sharing it today, I think could maybe answer some questions or at least put some things out there for folks to consider who are listeners of the podcast here.

Matt Wilson: Before we go into, I think the specifics on Vice President Biden, his tax plan, that's a big piece of what's already out there, so we can see how that would compare to current tax rates. I think it's helpful though to put some things in perspective too, because we've had elections for quite a long time and we've had financial markets for quite a long time. So, we have a lot of data to know, well, how does the market perform under different regimes? And so, we get that question a lot too, because a lot of times what's ever in the headlines today is really what we're focusing on. And we're not taking that broader picture and looking at well what's happened in the past because one, that's definitely not something that's on the financial media. They're not giving you the historical perspective, they're just telling you here's the tax policy or here's this or here's that and whatever agenda is associated with whatever news source that you're reading, spins it in that angle, so.

From a historic perspective, you look at whether we have a Republican or Democratic president, stocks have performed differently based on those scenarios, but the best situation, do either of you know what's the best situation for the stock market when it comes to president and Congress and vice versa, what makeup?

Bill Keen: I would just say gridlock, however you want to define that.

Matt Wilson: Yeah. Split Congress, gridlock. That is considered the best for stock market returns, but this is from LPL, one of the research providers that we read, the gross domestic product is the less, the return on GDP, so how much of the economy grows, stock market performs the best, but the economy performs the worst under a split Congress, which is interest.

Bill Keen: Again, showing that those two are not necessarily completely running in lockstep like we've said many times about the stock market.

Matt Wilson: That's right, there's a disconnect there. Now, the next best is a Republican Congress where we have GDP growth at 3%, so split Congress was 2.8. So what's it, we're not talking a huge difference, but on a $20 trillion economy, that 0.2 does add up. And then the next best makeup was a Democratic Congress and GDP growth was the highest at 3.3%. So, interesting to see that. Now, I didn't give you the percentage return and all of them are positive and all of them are above double digits.

Bill Keen: Well, we like that, don't we?

Matt Wilson: Yes. And I say that because we shouldn't have ... And actually Bill, you just had a Forbes article published in July 23rd that talked about not making investment decisions based on your political views.

Bill Keen: That's right. The title was, Why You Want To Keep Your Politics Separate From Your Investing, I was honored to have that, Forbes put that in out there and published that.

Matt Wilson: Yeah, because the data tells us that doesn't matter necessarily who's in charge, the market figures out a way to make a return. And what I focus on a lot when I talk about the economy and provide our outlooks is it's not about Congress, the makeup of our political structure, it is where are we in the business cycle, because that is more important on the returns and expected returns than it is on who's the elected officials.

Bill Keen: So you're saying, and would confirm probably a lot of folks thinking that sometimes these administrations inherit things that they may have not had a whole lot to do with that are playing out under their watch, and it's hard to really tell, was it them, or was it the prior or was it the two prior or what was it actually? And what you're saying today is that a lot of it is simply the business cycle. It is just the business cycle playing out.

Matt Wilson: That's right, yeah, and we have the Federal Reserve policy and they're supposed to be, not have a political view, appointed by the president and they serve terms that are separate than the election cycle. They have an impact on the market and the business cycle as well because they control interest rates and money supply. So, all these other factors that are combined give us the returns that the market provides. So, it's interesting to make sure that we understand from that viewpoint, we don't just make these all in all out decisions, especially when it comes to a diversified portfolio based on who gets elected.

Bill Keen: That's right. Now, I did see, while we're talking about that LPL study, I did see an interesting stat about how the stock market has predicted the winner of the presidential election 87% of the time. That was an interesting piece. So since 1928, 87% of the time, it's got it right, when the S&P 500 has been higher the three months prior to the election, the incumbent party usually has won. When stocks were lower the incumbent party usually has lost. And of course we instantly anchor back to 2016 when virtually no one expected Hillary Clinton to lose except for the stock market.

Matt Wilson: Yeah. They were.

Bill Keen: Uh-huh (affirmative).

Matt Wilson: And if this was to happen today, I mean, the market is, the S&P 500 is up just barely, which, that's a whole nother podcast surprising from where we were in March, April, but is just up just barely for the year.

Bill Keen: Well, you did a great job last podcast, Matt, where we repurposed your webinar, where you talked about the seeming disconnection between the market and the economy. So, if you haven't listened to that, I would highly recommend you go back and listen, or even better watch Matt's webinar that we posted here a few weeks ago.

Matt Wilson: Now, here's another point to that though, because the economy, whether we've had a recession or not, within the current year of the election or the year before also has a pretty good track record for predicting who wins the election. This is also from the LPL study. The economy has predicted the winning president every year, going back to president Calvin Coolidge when he won despite a recession within two years before his election.

We have two different things happening. We have the S&P, the stock market up, which is a good sign for the incumbent, but we have the recession here in the US that is happening right now that says the incumbent typically loses. Now, 2020 has been an interesting year. And so, you could maybe throw all that historical data out the window and just know that that's why we have elections, and we don't go by the historical data, but it's just interesting to just know what's happened in the past.

Bill Keen: In the article that I put out on Forbes, again, we talk about not letting politics steer your investments and things like, and even in my book on retirement that came out last September, I have a piece in there about this. There have been people that based on who was elected have sold all of their investments thinking that this person or party or belief system, or however we look at it, that they didn't agree with, they were going to protect their family from them, if you will.

And the times that we've seen that, it's been devastating to folks when they sell out their investments. So, we ask folks, please, do not make knee jerk moves like that. And it's just one of the things that we really try to help people think through, plan through, get perspective on, it's why we're doing this podcast today to bring that thinking and that advice and counsel to folks as we listen here.

Matt Wilson: Now with all that being said, there are situations with a change in administration, change in Congress that can provide tailwinds or headwinds to certain areas of the market.

Bill Keen: And I'll give you that. That is true. It's hard to argue that there would be certain sectors that would perform better or worse based on who's in there. And that there could be some thinking and some positioning around that, and that would not be considered in my opinion, knee jerk, emotional reactions. That would be considered looking at the data and being thoughtful, methodical, and intentional about those things that do make sense. So, I'm with you on that. I won't argue with that.

Matt Wilson: It's about making your prudent investment decisions based in the context of what's happening. Now, so what we wanted to talk about was what the vice president Biden, what he's, just real high level summary on his big changes, what he's proposed for individuals and for corporations. Now, also this is something that if the election happens in November and Biden becomes president, his policy doesn't just happen in November. The market might react in a good or bad way just initially, but policies take a long time to get hammered out. And I mean, even with president Trump, he got elected, he had a Republican Congress and it wasn't that he could just change everything that he wanted to do. It took some time to get things pushed through and some things didn't get pushed through. So, all of that still has to be put into context.

And these proposals, so here's a lot of times when it comes down to the sausage making, when it comes to putting the bill together, it doesn't look exactly the same way. The baby gets split in the middle, it doesn't necessarily go one way or the other. So, that's a little caveat to some of the proposals that are out there is that it's going to look different if this even comes into play with a new president. But here's what-

Bill Keen: You might as well go over some of Biden's tax plan, just to give us a baseline, and like you said, it's not this stuff would probably be somewhat different if he does win. And then if we could, it'd be nice to look at different scenarios. And what that could mean. And I know in the limited time that we have, we hopefully can do that here. We can look at Biden's plan and we can look at these different scenarios if they play out and just give our thinking on that.

Matt Wilson: Yeah. So, here's where on Biden's plan, so on the individual side, he is proposing an increase in the payroll tax, social security tax for individuals that have earned income over 400,000. And so, what that means is right now, payroll tax caps at 137,000. So, once you make that your payroll tax, the social security side, FICA, Medicare. So, Medicare's goes up indefinitely, but social security piece of that stops. He's saying there'll be a donut hole, so 137, it would stop, then it would start back up again, once you make over 400,000 and then that income going forward split between the employer and the employee.

Interesting. I mean, I don't know how much that actually generates in revenue, but it's a proposal. Now, he would remove the 37% bracket back up to 39 on income over 400,000, so that would revert back to what it was prior to the tax cuts and jobs act of 39.6. This is an interesting one, this next one, taxes on long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6 on income above one million. So, when people, if they make over a million dollars or have more than a million dollars in income, all of their capital gains and qualified dividends are going to get taxed at 39.6, not the 20%, which is for them, long-term capital gains rate.

Bill Keen: That's a, percentage wise, that's a pretty good hit. And remember, this hits folks, you hear somebody making a million dollars a year and you think, well, that's the very few and it is, it is a very few, but it might not be every year that someone makes a million dollars a year. Someone could have a large deferred cap payment that comes out, or they might need to take a lot of money out of an account to buy a home or to do ... There could be some unusual event, they sell up a business or something that pushes their income up over that million dollars mark for one year even. And that would definitely clip those folks, wouldn't it?

Matt Wilson: It would. I mean, and this is with the rest of these, the primary focus on the individual side and the changes that Biden is proposing is what he would consider the high income or the rich, so to speak, because all of this is focused on people with income over $400,000 for the most part.

Bill Keen: By the way, I've met plenty of people that have high incomes, but are not rich.

Matt Wilson: It's always interesting when it comes to those terminology. Yeah, so.

Bill Keen: Rich, but my point is they're not able to hang onto much of their income, so, but anyway, again, that's probably yet another podcast episode.

Matt Wilson: Another thing that they would do on income, if you're in the 28% tax bracket, they would limit some of your itemized deductions. So, right now you get a portion of your income tax free with standard deduction, and then if you have certain expenses, you can itemize those and have a larger deduction. But if your income's too high, they start to phase that out, so you don't get those deductions. They would also repeal some of the qualified business income where they've provided some relief for business owners with the tax cuts and jobs act, that if your income's over 400,000, they would eliminate some of that as well.

So, some interesting pieces there on the individual side. It is again, focused on the higher brackets and the higher income earners with those proposals. Now, more I think on the market impact would be on the business tax side of things. And it's because this relates to corporate earnings, and if you change tax rates, that changes earnings. And so, right now his proposal is to increase the corporate tax rate from 21% to 28%. That by and large by itself sounds like a lot. Now, again, there's a lot of deductions and things, so most businesses don't pay even 21%. So, whether that would be a significant impact is hard to say just yet, but they would have another piece to this though is like a minimum tax on corporations with profits over a hundred million dollars.

So basically, what they're saying is if you have a profit over a hundred million dollars, we don't care necessarily what your deductions are or your expenses, we're going to just tax you a flat rate. That's what that alternative minimum tax is. They would double the tax rate on income owned by form subsidies. Right now it's 10 and a half percent, they would double it to 21. And then, they would look at some tax benefits for businesses in manufacturing communities and what have you. So, those are a high level when it comes to his proposal on tax policy. So that's what Vice President Biden, so if he gets elected, that's the platform that he's proposing right now. Now-

Bill Keen: That doesn't seem too draconian to me, I'm just sharing that. I think that a lot of people might've suspected that it would have been more, more tax increases. It seems pretty moderate to me. What do you think, Matt?

Matt Wilson: Yeah, just from a high level standpoint, this is definitely not as a severe of a tax hike as what we would have seen under a Sanders or Warren, their policies were a lot higher on the tax side for both individuals and corporations. So, this is definitely a more moderate policy here. Now, again, this still has to get voted on if Biden wins the election, it still has to go through Congress. And so, that's I think a more, a bigger piece probably to this is what happens in the Senate, because if we have a blue wave and sound flips democratic, well, it could be easier for some of these policies to get pushed through.

And, some of them could be negative for certain areas, but on the democratic side, their stimulus packages and things that they've really focused on currently and in the past are infrastructure spending. So this goes to that tailwind side of things. There are tailwinds in certain sectors when it comes to that, whether it's consumer staple stocks, real estate stocks, utilities, you have industrials and materials. I mean, those are all businesses that would benefit from infrastructure spending.

Bill Keen: What about our engineering clients that would benefit from all that infrastructure creation?

Matt Wilson: Exactly. So, there are investment opportunities in those situations when that starts to arise. And then, there's areas that we wouldn't expect to perform as well, like consumer discretionary. Well, why is that? Well, because if taxes go up for individuals, there's less discretionary income for them to spend on those types of items. So, we would expect those positions not to perform as well. Certain businesses, there's always going to be well run businesses that will figure out any political regime, but by and large, they might lag. And again, it doesn't mean they're going to be down, they just might lag the overall market.

And the same with the tech sector. I mean, tech sector has been a very strong sector for several years. And, a lot of it was tax cuts since Trump. He had tax cuts which helped the tech sector, but he also allowed them to repatriate their foreign profits, so it brought that money over here, which is a lot on the tech side of the balance sheet, it's most of those tech businesses have those funds. So, that has fueled a lot of their growth last few years. So that, I don't expect that to continue, if we have a blue wave so to speak. So, again, it doesn't mean they're going to be bad investments, I just think they won't perform as well as some of the others.

Other sectors that might struggle a little bit are financials and energy. I would expect there to be a lot more red tape now, if we see a changeover. Now, this is, I think very interesting because two sectors that you would have thought would have performed well under a Trump administration were financials and energy. Because a lot of the red tape got removed in those areas, and I was looking at a chart from January one, 2017 through the end of January of this year, so before the COVID crisis. I don't want to lump that in and energy and financials, energy is actually down from a sector standpoint over that same period. Financials are up a little bit, but they have lagged the major indexes by a lot.

Just because there are policies that might be more favorable for those businesses, there's business cycle dynamics also at play and consumer trends as well that will change how those sectors even perform. So again, it's all about taking these things in context and being diversified, having a plan, having a strategy, being conscious of these things that could have some tailwinds and some headwinds, but these aren't all out, all in type scenarios. These are things to make tweaks, tactical adjustments to the portfolio based on a certain policies.

Bill Keen: Or remember back in the healthcare industry, going back a little bit now, but was radically transformed by the Affordable Care Act, signed into law in 2013. And despite those changes, including health insurance, marketplaces and state exchanges and expanding Medicare, the health care industry did not implode. In fact, it actually did pretty darn well over this last time frame and continues to evolve.

Matt Wilson: Yeah. I mean, that's one of the things with whether it's gridlock, so let's say Republicans maintain control of the Senate, or if the Democrats take over the Senate, the healthcare sector is probably going to continue to perform well, because we don't see a scenario where there's major changes to the Affordable Care Act.

Bill Keen: Right. Not to even mention what we're currently in this current landscape of pandemic-

Matt Wilson: Yeah, exactly.

Steve Sanduski: Well, guys, I find this all really fascinating. Earlier, you had touched on going back to the 2016 election when many people were expecting Hillary Clinton to win, and then when it became clear on election night that Donald Trump was going to be president, in the overnight futures market, as you guys well remember, the futures market were dropping significantly. And then all of a sudden before the next morning, they turned around as people began to realize, well maybe Donald Trump would actually be pretty good for the financial markets because he's about spending a lot of money and he's okay with debt and he wants low interest rates. And those can be very good for the financial markets.

And of course we've seen since his election, the stock market up until the beginning of the pandemic year had done fabulously well over his presidency. And now, at this point here, end of July, as we're looking at the polls, it's showing that Joe Biden has a bit of a lead right now, but the markets don't seem to be too concerned about that. And Matt, you were just mentioning how the position paper that vice president Biden has put out doesn't seem that bad necessarily in terms of raising taxes. And I think we've also seen here in the past couple of months with all of the spending to support the economy, to support people who have been impacted by the COVID-19 situation, that we're going to have annual deficit here in the United States of what, $3 trillion or more here in 2020?

But the market's not really concerned about that. And so, maybe we don't have to raise taxes as much. Maybe we can run higher deficits because the economy can support it with low interest rates. And so, maybe if Biden were to win, maybe the markets might not take that too poorly.

Matt Wilson: Yeah. And I think too, like you just said, low interest rates, and I mentioned the Federal Reserve. I mean, they know we're in the midst of a recession and with the pandemic. And so, if it flips on the president's side, I mean the Federal Reserve is still there and they've got their M.O ready. I mean, they're doing everything to provide liquidity. So, market's more reacting probably to that too than it is anything else that could be potential in the future, because it's like, well, we've got chairman Powell who's committed to providing liquidity. They're doing everything they can to have functioning markets, which is positive for the stock market.

Steve Sanduski: Yeah. Well, yeah, I think this has just really been a great conversation here. Lots to be thinking about, we're paying close attention to what's going on in the markets, what's happening with the polls and the odds of vice president Biden becoming president or the odds of the Senate flipping and what that may or may not mean for the financial markets. So, all interesting stuff for all of us. I know you guys are way on top of this and figuring out how that might impact your clients. And then also, I know you guys have a webinar coming up here with one of your favorite folks here, so maybe some final comments and then also mention the webinar that you have coming up here in August.

Bill Keen: Yeah, there's a couple of final takeaways I'd like to offer from our discussion today. First, the equity markets are very forward-looking. And again, we've talked about that many times, we were talking about that a lot in March and April here recently, which means the market may have already priced in the things you're worrying about. So almost by default, folks can consistently be one step behind, and so being conscious of that. Secondly, most importantly, I think politics matter less to your financial success than the decisions that you make every day, such as living within your means and saving and investing your money, living by a plan, being very proactive to your plan and not reactive to the headlines and what might be coming at us in the news every day.

And I would never ask an investor or anyone to abandon their political beliefs from either side, but for the sake of someone's financial future and the financial future of the family, all I ask them to do is keep these things in context, attempt to keep the politics separate from the investing and having it knock your plan off course, making knee jerk and emotional reactions based on politics can be harmful to someone's long term plan and financial health. You mentioned Steve, August 27th.

Now, some of you have seen our speaker in person, his name is Greg Valliere and he's a Washington insider. He's been, on every news channel even recently, but for 30 years, I would say. We had him come in just before the election fourish years ago, and we had him slated to come in for a private event, live event in August, and of course like everything else it's gone virtual, but we do have Greg Valliere and he will be speaking via a live webcast where we will be able to take questions and talk about the things that he's seen. And he is right in the middle of it. I believe Matt, he still lives at the ... What's his location? He always talks about it.

Matt Wilson: Watergate in DC.

Bill Keen: He lives at the Watergate complex there in Washington, and you won't be able to tell what side of the aisle he is on. He's very respectful, but he tells you like it is, he tells you what he thinks, what he's seen. And we found him to be a wonderful research source for us, and that's why about a year ago, we scheduled to have him on in person, like I said, just a few months before the election and we still have him. So he'll still be here, you'll be seeing an invite come out. I think we've already sent some save the date, so if you aren't on those lists, feel free to email us at info@keenwealthadvisors.com and we'll get you that invitation sent out to sign up for that webinar. It should be very informative. It starts at 6:00 PM, and it probably will go out until about 7:30 PM, so we'd love to have you all on there to bring a little more perspective to this discussion.

I appreciate you all listening very much. I think it's important and it's impactful to not try to be a financial advisor or a tax accountant or a estate planning attorney. We're not trying to turn you all into one of those, but we are trying to bring you good and solid wise counsel and information to work with your fiduciary advisor on and make smart decisions for you and your family in, I will acknowledge a very, very interesting and somewhat tumultuous time that we live in today.

Steve Sanduski: Well, fantastic Bill, and Matt, thank you as always. And we'll go ahead and wrap there. And if you have any questions, comments, feel free to visit the website at keenonretirement.com. That's K-E-E-Nonretirement.com. And as Bill said, if you're not on the list right now to get an invitation to the conversation with Greg Valliere, please reach out to us and either fill out the form on the website or as Bill said, you can send an email to info@keenwealthadvisors.com. That'll be coming up on August 27th. So guys, thank you, and we'll look forward to our next conversation here on Keen On Retirement.

Bill Keen: Thank you, Steve, thank you, Matt.

Matt Wilson: Thank you.

Bill Keen: Always a pleasure.