

KEEN ON RETIREMENT



Setting the Record Straight on Three Election Scenarios

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

- Steve Sanduski: Hello everybody and welcome back to another episode of Keen on Retirement. I'm your cohost, Steve Sanduski. And with me as always is Bill Keen and Matt Wilson. Gentlemen, how are you?
- Bill Keen: We're doing good here, Steve. Leaves are changing colors, Steve. It's that time of year.
- Steve Sanduski: It certainly is. We're here in October as we're having this conversation today and up here in my neck of the woods in northeast Wisconsin. And you were just asking before we hit the record button here, what the temperature is. It's a nice 63 degrees and sunny.
- Bill Keen: Wow.
- Steve Sanduski: And the leaves are definitely turning colors. It's one of those ideal fall days. And yet here I am working, recording a conversation with you guys instead of outside enjoying nature.
- Bill Keen: But Steve, this isn't work to you, you've told me that before.
- Steve Sanduski: No, this is fun. This is fun. I am looking outside so I get to see nature from my window here. I guess I have the best of both worlds.
- Bill Keen: Now, can you see the lake from your particular window you're at now or no?
- Steve Sanduski: Not this particular spot, but when winter comes and the leaves are gone, I could stand on our main level and look out and I can see a little bit of the lake from there. We have I'd call it a seasonal view of the lake.
- Bill Keen: Oh, very nice. Very nice.

Steve Sanduski: Well guys, I think we've got another great episode here. One that was prompted because you're getting a few questions about the upcoming election. And obviously this is something that has been in the news for many, many months and maybe some people are a little tired of hearing about it, but this election, like every election is an important one. But I think the additional thing that is happening with this particular election is there's more concern than usual about a contested election or a close election where we may not know who the actual winner is. And of course, we've got a lot of ballots that are being cast via the mail. And there's a question about when those are going to be counted so we may not know who the winner is on election night.

We really want to talk about that and run through a few different scenarios on what might happen and how you guys are taking these scenarios into consideration and how that may or may not affect what you're doing here on the portfolio side. Anything else, either Matt or Bill that you'd like to set up before we go through these three different scenarios?

Bill Keen: Some of these things, if we talk about them, we demystify some of the anxiety and I think that's important. And that's why we wanted to look at this and some of the last several podcasts as well, talk about what's happening not from a biased standpoint, but just a factual standpoint and help folks not have as much anxiety about the things that might happen. Although I think it's always good to look at what may happen and discuss those in detail here.

Steve Sanduski: Excellent. Well, Matt, why don't you walk us through here? What would you say is the first scenario that you're looking at?

Matt Wilson: We've been getting a lot of questions about what this election is going to look like. What are the investment implications? And as you mentioned, Steve, there's issues too, we are in the middle of a global pandemic and how people cast their votes could be a lot different this year than they have in previous years. But when you look at the data and actually kind of dig into last election, I don't know if you realize this, but 40% of all votes were cast in a mail in or early voting format.

Bill Keen: That was interesting when we saw that. I did not realize that was the case last time. Did you, Steve? 40% came in via mail or early last time.

Steve Sanduski: Yeah. I didn't know what the number was, but I know, I think at least for the last couple elections, I've done early voting, so I didn't do the mail in, but I actually voted a few days ahead of actual election day and I did that just because there's no line, so it saved time. I'm like, I'm going to go early and just get my vote in and I don't have to worry about standing in a long line on election day. Where we're living now, though, we will vote on election day in person. And it's so small up here that there's not going to be an issue with a line so we're comfortable voting day of here.

Matt Wilson: Oh, that's good. Yeah, it has been, that's been a growing theme, 60% are in person according to the 2016 election so we expect to see more of that. But then because of the pandemic, we also realize there could be logistical problems around, how long are these lines? And how far everyone's spaced out and what are the safety protocols? I think that adds more uncertainty than we would normally see on top of everything else. But the other piece of it too, we've had over the last five presidential elections, the difference between the two candidates and the popular vote was less than 5% in four of those five elections.

Bill Keen: And I believe in two of those, the popular vote lost out. Two of the five, the candidate that got the popular vote ended up losing.

Matt Wilson: Did not win, that's right. Yeah, the Electoral College ended up selecting the president in those cases. It does make sense that people would be concerned about this. We're having very close elections and now are there correct protocols in place to account for the situations we face with mail in voting and early voting? Trump has brought that up, that there's issues. And so people are concerned, is this going to be even a long and drawn out contested election? What we figured we'd do is kind of line out with the help of some of our research providers at LPL, we've kind of identified three different scenarios. And so the first one is delays due to the time that it takes to count the votes. Just the fact that we might see an increase in mail in voting, that it is going to take time for those states to count their votes.

Now, it's not like we're going to see significant delays, I think, but it could take a day or two beyond the actual election day to know what the actual count is. Some of the situations that might arise from that is those states might have early indications that Trump's winning or Biden's winning. And then as those mail in votes get counted, that might change. That adds some anxiety too. And just some facts that we may not know who the actual winner is come election night or in the early hours of the next day. It might take a few days with these mail in votes.

Bill Keen: And that's just the idea of getting those counted. You haven't mentioned yet a recount.

Matt Wilson: Yeah, that's the next scenario.

Bill Keen: 20 years ago, when we went through that and I was thinking earlier, it's been 20 years. Can you believe that since we had the Al Gore situation and that was the hanging chads, right?

Matt Wilson: Yeah, in Florida. And that's the next scenario. A vote recount where it's so close that we don't believe the results. We want a recount and that, of course, that's going to take time. In 2000, when that happened, we had former Vice President Al Gore, he eventually conceded, but he had to get the Supreme Court involved,

contesting this election. That's a scenario when we look at the market, what are the investment implications? Now, maybe there's something, there. There's some historical precedent that's not that old.

There's other times, 1960 was another period where the election was close, but never really had much of a market impact, a little bit of a recount, but then it really subsided very quickly. This was a little bit more drawn out, but still not a very drawn out process in 2000 with Gore versus Bush, but the market was down and it was down around 8% during that recount period. Now we also, we're beginning to see the market peak and the economy peak and begin a downturn in the business cycle so that might have more to do with it than just the election at that point. But again, there is a lot of eyes kind of wondering what's going to happen considering this is a contested election.

Bill Keen:

In many cases, we say that the economy drives the outcome of the elections, the outcome of the elections does not drive the economy. When we look back in history at how politics have affected the markets, in many cases, we see that a lot of this is just based on business cycle and where the economy is and presidents and different political parties, Congress, the control there inherits certain things that they have to deal with. And it's really hard to find any correlation sincerely between who's in power and what the financial markets are doing. Although we attempt to at least look at history and provide some data around those things.

Matt Wilson:

The next scenario, the last scenario that I think people are probably the most concerned about is that we're going to have a long legal battle after the election. And the concern is what does that mean? How does that work? I've seen comments, questions that people have posted online about, "Well, can Trump just say he's president for life and the Republican party agree with it and they pass all the rules to say he's president for life? Is that even a possibility?" And it can sound kind of crazy, but people are worried about that. Or at least what's the situation look like if this is a hotly contested, no party is going to give in? In Gore versus Bush, Gore conceded eventually. He just said, "Fine. I didn't win." He conceded the election.

There's thoughts, well maybe President Trump wouldn't be as easy to concede if he lost or Biden vice versa. I think though this is the least likely scenario, but it is a situation. There is an actual process to have a sitting president on inauguration day, whether it's still disputed or not. I figured it would be very helpful, like as Bill mentioned, help people get educated on, well, just how does this work? We're not just one, subject to what the media is telling us or what we're reading online. We're actually understanding, well, what are the rules in place that govern these types of situations?

Bill Keen:

If we're thinking about an economic disruption or a financial market disruption, if this, what we're calling least likely outcome of the election occurs, it reminds me of when back in 2011, when the Standard and Poor's downgraded US

government debt. I don't know if our listeners remember that I know you two do, and they downgraded the US government debt because of difficulties in partisan politics. It came very close to forcing the US government to default on its debt. Now, I don't believe we ever thought that was going to happen. It's this gridlock thing, this confusion that could cause partisan politics to interrupt the functioning of the different branches of government that could cause some temporary volatility.

Matt Wilson:

Exactly. And it just, it makes people feel there's instability within our government if we have these types of situations and that's kind of what the S&P pointed to is, well, we thought the US was the greatest in the world and very stable. Well, now we're seeing signs of instability. Now we're not, we're just taking it down one notch, not saying it's completely in chaos, but just, there's a little, little sign of weakness there. And that's why it's concerning I think to people to feel that, well, maybe there is some instability among some of these things. But when we go through the process and let's say the election is messy, it's contested. Well, the Constitution ensures that we have a president on inauguration day.

First, the states have more than a month to count the ballots. Right there, the states have one month to go through and count the ballots. And so that is very important to realize it's not that certain states are delaying, or the governors are saying, "We're going to take our time." That's all going to be posturing within, I think the media, the politics are going to posture that, but those are the rules they have. And then the states must place their Electoral College votes on December 14th. That's the road to 270, everyone's talking about how do we get to 270? Well, typically that's determined very quickly on election night, but in this situation where maybe it's contested, on December 14th, those votes have to be put in place for the Electoral College.

Whoever has, if any candidate gets at least 270 of the 538 Electoral votes, they win. That's it. It's over at that point. Well, let's say there's still issues and there is no clear winner. And it could be because we only have two candidates, but in 1980, it was a concern that between Reagan Anderson and the third party there, that not one of them would have 270 Electoral College votes. One of them might had the majority of them, but still not have the 270 needed to win. The 12th Amendment says that the House of Representatives elects the President and the Senate elects the Vice President, the new Congress that enters in January is the one tasked with carrying out the so-called contingent election.

Bill Keen:

Has this ever happened?

Matt Wilson:

It has. It's been a while. 1825, was the last time this happened and the winner was John Quincy Adams. But so to go back to this. House members have to choose among the three people with the most Electoral votes. Each state delegation gets one vote and 26 votes are required to win. That's for the

president. This is this contingent election we think is very unlikely to happen. But again, this is already predetermined. This is spelled out the process. It's not just the current president gets decide or whoever, it's just, here's the process. And then the Senate, so this is for the Vice President, the choice between the top two electoral vote getters and each Senator gets a vote with 51 votes required to win. That's the process for electing the new president and vice president.

Now what if that fails? The 20th Amendment comes into play. And it says that the vice president elect, acts as president until a president is picked. And if there's no vice president selected by inauguration day, then now there's a presidential succession act that comes into play.

Bill Keen: And what does that say?

Matt Wilson:1 The Speaker of the House of Representatives is now acting president followed by the Senate president and then lastly, a cabinet officer. They would keep voting on this until they came up with a winner. It's not just going to be held up in this legal battle in perpetuity.

Bill Keen: And I think probably our listeners and the public and US citizens would be concerned about what is happening to our country? What is happening to policy while all this is playing out? Whether it's Federal Reserve monetary policy or other to treasury policy or other things.

Matt Wilson: Nice thing about the monetary policy is they're independent so they'll be operating on their own. The treasury would be following the rules of the acting president. They would be the person in charge at that point until a new president is elected. Definitely again, I feel this is extremely unlikely scenario, so we're not trying to say this is going to happen. But the point of all of that was to say, there is a process that has thought through this. And it hasn't gotten that far before.

The last scenario when I said 1825, that was just when the House of Representatives at least voted and elected John Quincy Adams. It didn't get to the point where no one was selected and the House of Representatives was now, the Speaker of the House was the president. Has never happened before. Maybe 2020 is a new year and we'll have all kinds of new things this year. I truly believe we will have a winner. It might take a couple of days. Again, not to be a surprise because of the ballots, the mail in ballots, the early voting to determine who that is, but it might take a little bit of time, but we will have a winner within a few days of election day.

Bill Keen: I'm going to set my expectations a little wider so that I'm not concerned about it. I'm just going to say and share with my wife, Carissa, that we'll just know December 14th. How about that? I'll pick that date as the date.

Matt Wilson: You'll pick that date. Okay.

Bill Keen: I think it's important that there are policy issues that probably won't be altered much regardless of the election outcome. We talked just about Federal Reserve monetary policy. I think both parties anti-trust focused on the US technology giants. I know we have bipartisan support there and there's actually bipartisan support for more fiscal stimulus into this economy. Notwithstanding the fact that the priorities on the specific negotiations that are going on right now about where that money might go is definitely being negotiated. But there are things that actually the parties do agree on. I don't know that we talk about that much or the media talks about that much.

Steve Sanduski: Yeah. One thing I'd like to add here, and I'd love to get your guys' take on this, is when we talk about what may happen to the markets, depending on whether it's Republicans in power or Democrats in power. And Bill, I think you were just touching on this is the Federal Reserve has a lot of power here because they've flooded the system with a lot of liquidity and that's unlikely to change depending on whether it's Republican or Democrat. But then the other thing is that we've seen in recent years, that again, Bill, I think you're touching on this, whether you're Republican or Democrat, you want to spend money because spending money, gets you reelected and spending money, at least up to this point has helped the economy continue to grow.

It seems like both parties are much more open to spending a lot of money, particularly the Republicans than they have been in the past. And so the financial markets are responding to that and the financial markets have done incredibly well this year, despite what's happened to the economy itself. And I think part of that is they know that regardless of who's in power, that spigot is going to stay open. I'd love to get your take on that. You think that's accurate? Do you think that that may change depending on who's in power come January of 2021? What do you think?

Bill Keen: We were just talking about those things that we believe both parties agree on. There's bipartisan support for yet another one speaks to your exact issue. And we recently released a blog on modern monetary theory. And if you haven't seen that, go back to keennonretirement.com and you'll see that blog that we posted, but we're seeing now bipartisan support of modern monetary theory, Steve. Which is interesting because that speaks to the idea that we can, we don't run the US government like you run your personal balance sheet or a business runs its assets to debt ratio. I think you're exactly right.

Matt Wilson: I agree. That is what the market is looking at. We talk about the market being a forward-looking mechanism. This uncertainty around the election, this isn't new, we're not the only people that are bringing it as part of a talking point. This is something the market is very well aware of that we might have a contested election. It might take a little bit of time to settle who wins and the market isn't reacting in an extremely negative way. What it's more so reacting to in the very

short term is the talks around stimulus. That was in early October here, we've had Congress talking about stimulus and then the president saying no stimulus and then coming back saying yes, stimulus. And the markets kind of reacting to it.

Yes. And so that is really, I think, Steve, to your point, that is not something that we're seeing as a concern in either party winning, whether it's Trump continuing on for another four years or Biden becomes the new president. I believe the monetary policy is still going to continue and it's going to be about recovering out of this recession. Our outlook while there might be different sectors that perform better or worse than other sectors based on who wins, but there's still going to be an advancing market because of those policy metrics and the fact that the entire government and our society and the markets, they're all built on advancements in technology and improvements and capital allocation and those things don't change.

Even when we have higher taxes, not higher taxes, people are still in business to make a profit. Yes, there are some things that maybe feel like they're better for the markets than other policies, but in the grand scheme of things, we've gone through a lot of different regimes, a lot of different tax regimes, a lot of different fiscal monetary policies and the market's where it's at today, it's higher than it's ever been, or very near where the high that it's ever been.

Bill Keen:

I think a general belief out there is that Republicans are more pro-business. Maybe that's a broad and general statement. But if we go back and look based on a study done by Schwab and Bloomberg here, as of just up through the very beginning of October, and we never recommend jumping in and out of the market based on emotional reactions or biases to things. But for the purpose of this study, they looked and they said, "If an investor had invested \$10,000 starting in 1900, but only had it in the Dow when Republicans were president, it would now be worth nearly 99,000. But on the other hand, that same 10,000 would have grown to nearly 430,000 if it was invested only when Democrats were president." That kind of flies in the face opposite of what folks think Republicans are more pro-business or what maybe common sense might say. But let me tell you this, had you just stayed invested the entire time, which is the idea here, that same 10,000 since 1900 would be worth more than \$4.2 million.

Jumping in and out based on who the president is, and we have more detailed information. A couple episodes ago, Matt talked about who controlled Congress and some of the returns of markets and you might go back and listen to that as well. And how GDP fared. And his point back then was under all scenarios, the numbers were positive, and they were nicely positive actually. And in this scenario as well, it speaks to the fact in my opinion, that there's nothing here that would tell us when to get in or out based on who's in control of the White House or Congress and how that plays out.

And there have been a myriad of significant impacts on market performance that had little to no relationship to the party in the White House. World War II, the crash of 87, 9/11, the global crisis. There's many examples that we could go back to and say, "Those were things that happened to happen at a specific time when one of the parties was in office and the data got put into the record books, is that it was on their watch." But they had very little probably to do with it.

Matt Wilson: Yeah. I think it's a great point, Bill that you mentioned that study there. It's not a question of being in the market when Republicans are in power or being in the market when Democrats are in power, the point is be in the market period because that's how you're going to participate in the rise of business and the economy over a long period of time. I hadn't seen that study so I found that result very, very fascinating so I appreciate you sharing that.

Bill Keen: Well, for sure. And that's again, to Matt's point, it's not to say that there won't be headwinds and tailwinds for various sectors based on who is in power at certain times, but if you think about when Trump was elected, you would think, well, there would be less regulation on energy let's say, or the financial sector. Well, there was so much less regulation in the energy sector that prices came down so much that energy has actually been one of the worst performing asset classes since Trump has taken over. Now, if you're someone that's trying to posture, and selling all your investments in one sector based on the common sense of what you think might happen, you could be dead wrong with that. And I'm talking now about getting these all-in all-out decisions, which simply just to have proved over and over again, to not be helpful to a family's wealth.

Steve Sanduski: Well, guys, I've learned a lot in this episode and Matt, the great detail that you went through here with the three different scenarios and talking about what the actual process is if we have an election where we don't have a clear cut winner, come November 3rd or November 4th or November 5th. I really learned a lot there in terms of how thoughtful our forefathers were in thinking about a situation like that and having scenarios in place to determine who would be our president and vice president. It just helps me have even greater respect for just how forward thinking our early framers were in putting together how we would deal with those types of scenarios. Yeah, this has been a very educational session here today so I appreciate that. Matt or Bill, any final thoughts that you'd like to wrap up with here?

Bill Keen: I know that there's a lot to be paying attention to right now. There's a lot of anxiety. There's a lot of things that we're all navigating, whether it's been the debates and the coronavirus, how things are playing out, we have the October surprise. Hopefully we don't have another October surprise, but of the Trumps contracting COVID-19. Sometimes you just got to walk through things a day at a time and do the best you can with what you're you're dealing with. And it always leads back though, when we're talking about making sure that your family is taken care of and that you're making smart and prudent and

intentional decisions on your family's behalf. And that speaks to having a financial plan in place where you've thought through your specific scenarios and you've looked at the resources you're going to need to live on in the coming years. And you've pre-committed to what you might do when certain things play out.

Whatever tomorrow delivers to us, we're going to be prepared to make some decisions that are not knee jerk. They're not emotional, but they're thoughtful and they're tactical and they're within the confines of your specific financial plan. That's why we talk so much about sitting down and taking the time to have that plan in place and not being taken off guard by what tomorrow might bring. And I think our episode today was really good. Matt, you did a great job in looking at these different dates and these different processes to again, yet demystify some of these things that might come down the pike at us here and be able to put our heads on the pillow tonight and have a good night's rest and tomorrow night as well.

Steve Sanduski: Excellent. Well, I think we'll wrap there. And the only other thing I can say is, go Chiefs.

Bill Keen: Yes, sir.

Matt Wilson: Go Chiefs. We're going to keep it going, Steve.

Steve Sanduski: All right. Okay. Hey, thanks guys and we'll look forward to the next episode of Keen on Retirement. And for you listening, you can get all the details for this episode, as well as the past episodes and all the blog posts that we have by going to keenonretirement.com. That's K-E-E-N onretirement.com. Lots of great educational material there. Guys, thank you. Look forward to the next show. Take care.

Bill Keen: Thank you.

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