

Pearlstein's Corner





**Wealth Management
Dominion Securities**

Mark Pearlstein
Vice-President, Portfolio Manager
& Wealth Advisor

416-733-5257 | mark.pearlstein@rbc.com | www.markpearlsteinwealthmanagement.com

Should You Adjust Your Portfolio for the U.S. Election?

We are entering into the noisiest U.S. election ever. At the helm, a controversial president who seems to rule by tweet, fires up his base while antagonizing many others.

Whether you love him or hate him, there's no denying that the market has been on the longest positive business cycle ever – close to 11 years, until the COVID-19 crisis hit, adding more uncertainty as to whom will be in the White House come this November.

So, President Trump's fans will say he should get credit for keeping the market on the record-breaking upswing until recently, while detractors will claim he was lucky to inherit a booming market created by his predecessor. No matter where your political preferences lie, I would suggest that when it comes to your portfolio, you turn your focus elsewhere.

Do All Good Things Come to an End?

There are bigger factors at play than who happens to occupy the White House.

(Out of interest, when Bloomberg looked at the S&P 500 performance since 1929, under Republicans the market showed an average rate of return of 2.1%, while under the Democrats it showed a gain of 10.1%.)

If there's anything to be concerned about, I would suggest that from experience, we know the market runs in cycles. As the extraordinarily successful money manager Howard Marks said, "Just about everything is cyclical."

So, here we are at the end of the longest market upswing ever. For years, pundits have been calling for it to turn negative, but the market has simply kept growing with low interest rates providing a cushion – until this pandemic – an exogenous shock – seemingly came out of nowhere to impact the global economy as well as the capital markets. I'm with Howard Marks – the market is cyclical by nature, and it will continue to be so.

How Can You Prepare for Market Changes?

Let's take Howard's advice one more time. "You can't predict. You can prepare."

I often get asked how to prepare a portfolio for changes or turbulence in the market.

My answer has always been the same – I work with my clients to create



portfolios with asset mixes that are balanced to account for potential market changes, tied to the client's individual risk.

That doesn't mean you shouldn't review your portfolio periodically and perhaps make some adjustments. But I would suggest that any changes should maintain a well-balanced portfolio that reflects your goals, your timeline and where you sit on the risk / reward spectrum.

My formula for creating portfolios is the Pearlstein Relative Fixed Equity Ratio (PRFER) which is an asset allocation strategy that manages risk in good and bad times. It provides a framework for each individual's risk tolerance and timeframe.

So, no magic, no crystal ball predictions – just good practices based on years of experience.

Tune Out the Noise, Look at the Fundamentals

You already know that in the coming year the shrieking headlines from south of the border will take over the news cycles and dominate social media. At the same time (as of publishing), it may be too difficult to not stay connected due to COVID-19 coverage. Tuning out the political noise in the best of times is a challenge for many people.

My recommendation – resist the impulse to make major portfolio adjustments based solely on U.S. political developments. Keep your attention squarely focused on economic and corporate profit fundamentals.

It's the earnings reports, it's the bottom lines that are the crucial drivers of equities, rather than who's in the White House.

Time for a Portfolio Review?

If you're currently a client and would like a portfolio review, please get in touch at 416-733-5257 or email mark.pearlstein@rbc.com

If you're not yet a client, but would like to discuss your portfolio and your investment goals, please contact me and start a conversation.

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