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Of Presidents, Firings, Impeachments And Other Irrelevancies

WHAT FOLLOWS IS, I SOLEMNLY ASSURE the reader, not a political statement of any kind. Instead, it will turn out to be a rather impassioned defense of the thesis that the peregrinations of government in general, and the antics of presidents in particular, have historically been distractions at worst—and perfect irrelevancies rightly considered—to the patient, disciplined, goal-focused, long-term investor.

It will, however, make reference at greater or lesser length to Presidents Trump, Carter, Nixon, Clinton and Obama, in that order. If the reader is at all inclined to become choleric at the mention of any of these gentlemen, he/she may wish to leave off reading, and retreat to a "safe space." Please consider this fair warning.

It will be noted that our national conversation is currently, and one may even say morbidly, fixated on the actions, attitudes, policies and yes, even tweets of President Trump. There has lately been—and I will venture to speculate that there may yet again be—concern among investors that his behavior is meaningfully destabilizing to the values of, say, five hundred of the world's larger, more financially sound companies (commonly referred to collectively as "the stock market").

Parse him how you will, President Trump may, I think, be fairly characterized as an outsider who was elected to the presidency to "drain the swamp," as the phrase is. Instead, he has quickly run afoul of his own and his staff's inexperience (some would say incompetence) and perhaps of his own rather idiosyncratic personality. I will ask you calmly to consider that this is exactly what was being observed forty years earlier to the day about President James Earl Carter, Jr.

There is, however, one anecdotal comparison one might make between the early months of both presidents. And I suggest that it is a juxtaposition to which the long-term investor would be well advised to pay particular attention. To wit: **On the hundredth day of the Trump administration, the Standard & Poor's 500-Stock Index closed at about 2,400. Forty years earlier, on the hundredth day of President Carter's one term, it closed at 100.** (A little gentle rounding has been used here for effect; be assured that it does no violence either to the facts or to their implications.)

Now, I think friend and foe alike would allow that President Carter's term was, on balance, ultimately unsuccessful. It encompassed the second of two huge oil shocks, runaway inflation, a deep recession and—as he himself suggested, though not in this word—a pervasive national malaise. Friend and foe alike will similarly allow that the early indications on a Trump administration are by some measures at least equally unpromising. But that is to miss the point.

Which is, of course, that if you liquidated your long-term equity investments in 1977 in response to what you perceived as a presidency that appeared headed for disaster, you missed all or some part of one of the great accretions of equity values in history.

This realization might prompt one to look back over the unmitigated presidential/governmental crises of one's lifetime—for crises they surely were—and then to examine the subsequent behavior of the equity market. To cite but a few of the more extreme examples:

On Saturday night, October 20, 1973, President Nixon ordered the firing of the Watergate special prosecutor, Archibald Cox, and the abolition of his office. The attorney general declined to carry out this heinous order and resigned, as did his second in command. The solicitor general ultimately executed the order as acting attorney general; thus was precipitated what may have been the gravest constitutional crisis in American history. **On the following Monday, the S&P 500 closed at 109.**

On December 19, 1998—oddly, also a Saturday—the U.S. House of Representatives voted to begin impeachment proceedings against President Clinton, on charges of perjury and obstruction of justice. **On the Monday, the S&P 500 closed at 1,203.**

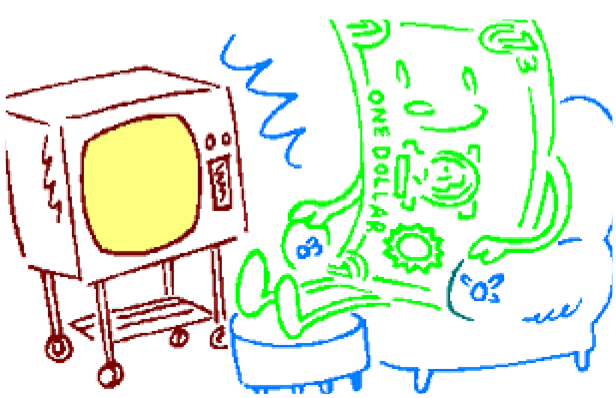
On October 1, 2013—after months of the most distressing brinkmanship between Congress and President Obama—the U.S. government shut down for want of an agreement on the funding of it. We had been assured all along that this unthinkable eventuality would have the most apocalyptic consequences: the United States would default on its debt, because interest wouldn't be paid and maturing bonds couldn't be redeemed nor rolled over; our brave men and women in uniform would go without their salaries; and Grandma would starve to death in the dark because her Social Security check did not arrive. **On that fateful first day of the shutdown, the S&P closed at 1,695.**

As I write, the S&P 500 has closed, however tentatively, above 2,400. Raise your hand if you're beginning to see a pattern here.

Dear reader, I suggest that these anecdotes, taken together, testify to the genius of the American economic system. What they say to me—and what I now say to you—is that if history is any guide, **rational capital ultimately outlasts irrational presidencies. And that fleeing the capital markets in reaction to distressing political events has in the past never proven to be a lastingly successful investment policy.**

Life doesn't imitate art, it imitates bad television.

Woody Allen



When everything is coming your way, you're in the wrong lane.

Steven Wright

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