



Frank McKinley
Financial Wellness Coach

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3 Mistakes Investors Make During Election Years

Mistake #1: Investors worry too much about which party wins the election.

Stocks have trended higher regardless of which party has been in office.

There's nothing wrong with wanting your candidate to win, but investors can run into trouble when they place too much importance on election results. That's because elections have, historically speaking, made essentially no difference when it comes to long-term investment returns.

Mistake #2: Investors get spooked by primary season volatility.

Markets often bounced back after the volatility of primary season.

Election year volatility can also bring select buying opportunities. Policy proposals during primaries often target specific industries, putting pressure on share prices. The health care sector has been in the crosshairs for a number of election cycles. Heated rhetoric over drug pricing put pressure on many stocks in the pharmaceutical and managed care industries. Other sectors have had similar bouts of weakness prior to elections.

Mistake #3: Investors try to time the markets around politics.

If you're nervous about the markets in 2024, you're not alone. Presidential candidates often draw attention to the country's problems, and campaigns regularly amplify negative messages. So maybe it should be no surprise that investors have tended to be more conservative with their portfolios ahead of elections.

How can investors avoid these mistakes?

Don't allow election predictions and outcomes to influence investment decisions. History shows that election results have very little impact on long-term returns.

Expect volatility, especially during primary season, but don't fear it. View it as a potential opportunity.

Stick to a long-term investment strategy instead of trying to time markets around elections. Investors who were fully invested or made regular, monthly investments would have done better than those who stayed in cash in election years.

*(Extracted from '3 Mistakes Investors Make During Election Years' by American Funds)