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Too early to play politics

Political backdrop remains totally unpredictable. In a true statement of the obvious, this is the most complicated election-year setup we could possibly have. There is incredible uncertainty in 1) how the voting process is going to work and insuring against possible voter fraud; 2) which candidate will win the presidential vote; 3) whether the Democrats sweep to take Congress, the Senate and White House; and 4) whether either side will concede defeat anywhere near election day. Now the nomination of the next Supreme Court Justice is already impacting an already fragile political environment. Frankly, the outcome of these issues are truly undefinable, and we believe making an investment decision based on the political landscape at this point would be simply guessing, so we remain focused on what we know — the continuing pandemic coupled with the lack of further fiscal action means the Fed is likely to reinforce or even accelerate its aggressive monetary policy accommodation for years to come.

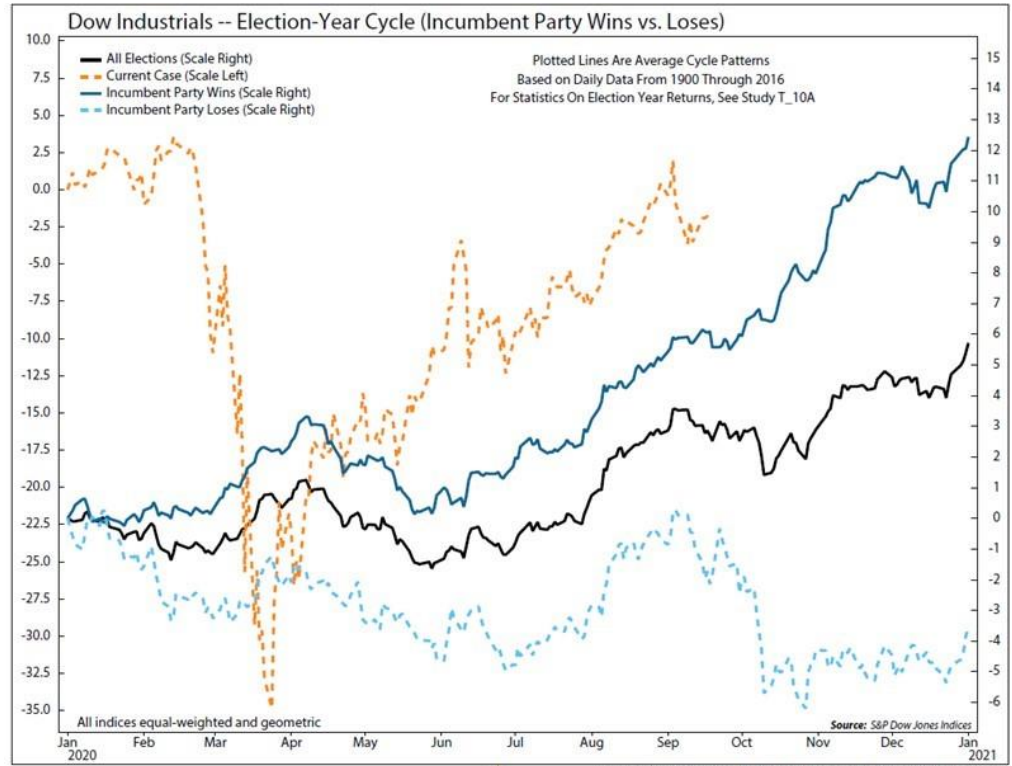
Expect higher taxes if there is a Democrat sweep. If the Republicans retain either the White House or Senate there is little risk of a significant change in the tax code; but, if the Democrats retain the House and win the Senate and Presidency we would expect a meaningful change in tax policy as already outlined by the Biden's team stated proposals:

1. *Increase the corporate income tax from 21% to 28%;*
2. *Double the minimum tax on the profits earned by foreign subsidiaries of U.S. companies from 10.5% to 21%;*
3. *Restore the top individual income tax rate to 39.6% from the current 37%;*
4. *Increase the Social Security earnings cap;*
5. *Tax long-term capital gains as ordinary income for taxpayers with over \$1 million in income and tax unrealized gains at death;*
6. *Tax capital gains as ordinary income for taxpayers with over \$1 million in income and tax unrealized gains at death;*
7. *Cap itemized deductions;*
8. *Phase out small business income deduction above \$400,000;*
9. *Miscellaneous other.*

Watching the market as guide given current extreme election year uncertainty.

Even if a sweep takes place, it is unclear how fast the Democrats would be able to move on the above policies and which proposed hikes might be modified. While all eyes are on who will win the White House and Senate, we are far more worried about whether either side will accept the outcome or if we might not even know the outcome for days/weeks after the election. As a result, it is impossible to make an investment decision on the outcome until after the election. The good news is that the market may give us a clue as to who may win in November. In studying the history of the market performance in Presidential election years since 1900, we found the Dow Jones Industrial Average (DJIA) tends to see a sharp drop BEFORE the election in years when the incumbent party loses versus typically moving higher throughout the second half of the year when the incumbent party wins (Figure 1). For now, we stay with our game plan of adding exposure in the economic recovery areas on corrections and wait until there is a more definable edge in the election framework before guessing with no definable edge as to the possible impact.

Figure 1 — Election year history based on incumbent party outcome vs. current year



Source: www.ndr.com / Canaccord Genuity



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Note: "Current Case" represents year-to-date performance of the DJIA (left scale). Plotted lines associated with the right scale are estimates based on average cycle patterns derived from daily data of election year returns from 1900-2016.

Past performance does not predict future results.

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Investment Recommendation

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Speculative Buy	125	14.50%	77.60%
	862*	100.0%	

*Total includes stocks that are Under Review

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