MarketWatch

Opinion: Why investing in 'Trump stocks' or 'Clinton stocks' is a wasted vote

By Chuck Jaffe
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Own shares of companies that can succeed in any political climate

Reuters

Democratic presidential candidate Hillary Clinton (L) and Republican presidential candidate Donald Trump

Many investors have taken to wondering how they might cash in on "Trump stocks" or "Clinton stocks." Truth is, trying to divine which stocks will benefit after November's presidential election is frivolous and even dangerous to your wealth.

The folly of trying to turn current events into investment hunches just played out on a grand scale in Great Britain, where bookies and investing experts alike were sure that the vote to leave the European Union would be defeated. Moreover, if Brexit passed, the British stock markets would tank.

The oddsmakers were wrong, and so were the market observers, because although Brexit triggered a knee-jerk downward reaction, the British stock market then raced off to record highs.

The Brexit investment-wager silliness subsided just as the Republican and Democratic presidential conventions ramped up, which is why the popular sport right now in the financial media and on the talk shows is to cover what stocks to buy for each presidential contender, and which industries are likely to prosper with their election.

Kiplinger's Personal Finance, for example, picked the seven "best stocks" for each candidate's potential presidency. Companies tied to Trump included Coach COH, -1.18% – because Trump plans to cut taxes on high earners, so they will have disposable income, and for-profit prison operator The Geo Group GEO, -1.75% (because of his law-and-order pledge) and gun-maker Smith & Wesson SWHC, -1.41%

Clinton stocks included HCA Holdings Inc. HCA, -0.36% SunPower and Wal-Mart Stores, due to her support of the Affordable Care Act, a pledge to install 500 million solar panels by 2021, and plans for tax cuts for low- and middle-income earners.

Likewise, S&P Global Market Intelligence issued a research report about how the election could disrupt certain sectors. While noting that neither candidate may have the juice after election to follow through on their campaign promises, the firm nonetheless tied key issues to market sectors.

Accordingly, consumer-discretionary stocks could be impacted by the outcome of minimum-wage legislation (more likely hurt by Clinton and helped by Trump), health care by the Affordable Care Act (helped by Clinton and hurt by Trump) and industrials, aided by defense spending (both candidates are seen as hawkish, thus good for industrial companies).

Purported analysis abounds, with some experts suggesting that it’s time to make moves now, because the swings that could occur once the outcome is clear could be major.

Market strategist Lawrence McDonald said this week on my show, “MoneyLife with Chuck Jaffe,” that we “must prepare ourselves for a Trump presidency.” He made it clear he was not making a political statement, but that he believes “social tensions are playing right into Trump” and that he expects the vote won’t be close. McDonald suggested that, among other things, a Trump win would trigger a major sell-off in Treasurys, meaning investors would “want to start getting out of bonds.”

By comparison, McDonald noted that a Clinton presidency, from an investor’s perspective, would offer “more of what you have right now.”

Buffett to Trump: 'Have you no sense of decency?'

(2:04)
Billionaire investor Warren Buffett introduced Hillary Clinton at a rally in Omaha, Neb. Monday, and compared Donald Trump's recent dispute with a fallen Muslim soldier's family to the McCarthy hearings of the 1950s. Photo: Fox

But for any long-term investor, the idea that you would overhaul a portfolio on the whims of the voters is ridiculous.

David Trainer, president of New Constructs Inc., an investment-research firm, called the political plays being discussed now, “Yet another baseless theme to encourage investors to trade on non-fundamental but entertaining factors. In the end, the result is mostly that unsophisticated investors further line the pockets of the more-sophisticated investors that create baseless trends to exploit them.”

It’s a bit like using the Super Bowl indicator — where the direction of the stock market for the year is supposedly foretold by the outcome of the game — and putting real money behind what amounts to a coincidence. Sure, history shows that this coincidence occurs about 80% of the time — there are some variations in how the Super Bowl indicator is tallied, giving comfort to true believers — but you still wouldn’t want to lay down big market bets after just three quarters, when the game is too close to call.

Making Trump or Clinton stock plays right now is no different; interesting to talk about, dumb to wager on, and dangerous as a basis to overhaul a portfolio now.

That said, there are plenty of studies to show that U.S. presidential election years typically coincide with favorable markets, and that the market’s long-term trends don’t seem to be affected by the party that holds the presidency.

Ignoring logic to invest on the outcome of a political event and its potential impact makes no sense. Investors would be better off looking at the fundamentals of the companies that pique their interest, although that takes work that betting on a political kick doesn’t.

“As a short-term trade you can find a reason to buy or sell anything, whether it’s a newly elected president or the NCAA tournament,” said Brian Frank, manager of the Frank Value Fund “Long-term, your buy valuation and fundamentals are the only thing that matter.”

So enjoy the conversations about which stocks may profit from politics, but don't bet on them without first removing your red- or blue-tinted blinders and making sure you invest in a solid business or industry that can succeed regardless of who is in the White House..

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