Mid-Year Comments

It’s a Pre-Election Year

As long term value investors, we try to ignore the short term distractions, like trade wars, interest rate swings, high debt levels, and so on. However there is one historical trend that is going to be interesting to see play out. That is the fact that this year, 2019, is a presidential pre-election year.

As shown below, this year, the third in the election cycle, is when the market is the strongest, as a first-term president looks to get re-elected.

S&P 500 Performance
Year Three of a First Term President

<table>
<thead>
<tr>
<th>President</th>
<th>Year</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franklin Roosevelt</td>
<td>1935</td>
<td>41.4%</td>
</tr>
<tr>
<td>Dwight Eisenhower</td>
<td>1955</td>
<td>26.4%</td>
</tr>
<tr>
<td>John F Kennedy</td>
<td>1963</td>
<td>18.9%</td>
</tr>
<tr>
<td>Richard Nixon</td>
<td>1971</td>
<td>10.8%</td>
</tr>
<tr>
<td>Jimmy Carter</td>
<td>1979</td>
<td>12.3%</td>
</tr>
<tr>
<td>Ronald Reagan</td>
<td>1983</td>
<td>17.3%</td>
</tr>
<tr>
<td>George H. Bush</td>
<td>1991</td>
<td>26.3%</td>
</tr>
<tr>
<td>Bill Clinton</td>
<td>1995</td>
<td>34.1%</td>
</tr>
<tr>
<td>George W. Bush</td>
<td>2003</td>
<td>26.4%</td>
</tr>
<tr>
<td>Barack Obama</td>
<td>2011</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Strategas, September 2012

Pre-Election Year History

The average annual percentage gain for the market from 1935 to 2011 was just under 10%, so the pre-election year performance has been extraordinary. The only exception was President Obama’s experience. The only thing we can figure is that, since he was such a good politician, bringing Hillary Clinton into his cabinet removed his re-election threat and he didn’t need help from the economy.
Every other president, to one degree or another, had a strong economy in the pre-election year working for them. The one closest to the present situation with President Trump, would be President Clinton. Both are very extroverted and hard-driving politicians. Clinton had going for him the advice of Wall Street insiders. Trump, on the other hand, is beating up on Fed Chairman Powell to continue to lower interest rates. There is probably a lot more in his bag and we will expect to hear more going into the election.

**Alternative Investing- Update**

It is hard to believe that it was only six months ago when we referred to the BlackRock study showing 68% of all institutional investors were shifting money into alternatives and out of equities under the guise of taking less risk\(^1\).

Here we are six months later and the market is up 17%, or 35% annualized. Meanwhile, it seems like many alternative investments have lagged behind.

The chart below shows the performance of the cash/bonds alternative to equities. You can see that money has kept flowing into cash/bonds even though interest rates have dropped to one of the lowest levels in history.

**Money Still Flowing**

Out of Equity Funds and Into Bonds

Source: Evercore ISI, 2019

There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend might begin.
Of the 68% of institutional investors reducing equities, 45% said they would be increasing their holdings in real assets, 40% in real estate, 20% in cash/bonds, and 47% in private equity, much of which is in real estate. Below are two examples of alternative vehicles that are not doing well compared to the equity market.

*Real Estate*

**Real estate investing in the country’s heartland might be doing reasonably well, but the story is different in New York.** *The New York Post* recently reported that 40% of the high end apartments on what is called “Billionaire’s Row,” featuring buildings that top out at 100 stories high, remain unsold. Even so, construction in the luxury housing market continues at a feverish pace in New York.

One of the real estate jewels in New York is the Chrysler Building. In 2008, the Abu Dhabi Investment Council paid $800 million for 90% of the skyscraper. Recently, 100% of the Chrysler Building sold for $150 million.

*Hedge Funds*

In 2009, Kentucky Public Pension Plans decided to invest a portion of their portfolio in the hedge fund/alternative market. The objective was to get better returns with lower risk. **This has not panned out and the funds are now looking at class action law suit from Kentucky pensioners.** They complain that the hedge funds generate excessive fees, poor returns, and ultimately losses. A suit like the one in Kentucky is probably not the last we’ll see.

**Summary**

If the Trump presidency doesn’t completely collapse, a compelling argument exists for a market much stronger than average this year because of 2019’s place in the presidential election cycle.

Forgetting the short term, for the long term investor there certainly seems to be enough reason for caution. Therefore sticking with stocks with attractive valuations and good dividend yields may be more timely than usual.

Jim Cullen
Past performance is no guarantee of future results. Market conditions can vary widely over time and can result in a loss of portfolio value. Individual account performance results will vary and will not match that of a composite or model used by the Adviser. Schafer Cullen Capital Management, Inc. ("SCCM") makes no representation that the use of this material can in and of itself be used to determine which securities to buy or sell, or when to buy or sell them; SCCM makes no representation, either directly or indirectly, that any graph, chart, formula or other device being offered herein will assist any person in making their own decisions as to which securities to buy, sell, or when to buy or sell them. All opinions expressed constitute SCCM’s judgment as of the date of this report and are subject to change without notice. The material is not intended to be relied upon as a forecast, research or investment advice and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any forecasts made will come to pass. 20190701.30011

Risk Disclosures: Investing in the stock market involves gains and losses and may not be suitable for all investors. The value of an investment may move up or down, sometimes rapidly and unpredictably, and may be worth more or less than what you invested.