The Optimistic Investor

FOCUS ON WHAT REALLY MATTERS

Overview

Welcome Back

Our focus this quarter is on the upcoming presidential election. As campaign season rolls into full swing this summer, there will be discussion of serious issues, plenty of strong opinions, and many predictions about the future. These next four months are therefore likely to see emotions run high and provide ample opportunity to test our mettle as investors.

The election environment also provides a great opportunity to weave together several of the themes we've developed over the last year and a half. Our hope is that the following discussion will help you maintain a healthy perspective in the coming months, so you can continue to make good investment decisions as Election Day comes and goes. Enjoy!

Seeing Beyond the Ballot Box

There has been a notable uptick in political buzz as we enter the early days of summer. Television ads, mail flyers, and text messages are all ramping up. And we can be sure the frequency will increase as Election Day approaches.

As usual, the rhetoric is overwhelmingly negative. President Biden and former President Trump both cast each other an existential threat to life as we know it, and they portray themselves as the country's only hope for preserving democracy and prosperity. Their marketing is often misleading and intentionally designed to stimulate fear, emotion, and voter conviction.

This creates a dangerous atmosphere for investors. The issues being discussed are important to our nation's future and deeply divisive. Many of us have strong opinions about the right and wrong way to address things, and debates are often (intentionally) framed as binary questions of morality and virtue rather than as policy questions with a potential middle ground. In such circumstances, it's all too easy to start viewing the election of our preferred candidate as a moral imperative. And, once that happens, it inevitably starts to ***feel*** like the fate of the country, and by extension that of the economy and financial markets, is hanging in the balance.

We see this happen every presidential election year, and 2024 is no exception. Over the past few months, clients have started asking how the election will impact their portfolios and whether changes should be made to protect their investments from undesired political outcomes. The goal for this essay is to show why we don't want to make the mistake of letting our politics drive our investment decisions.

We know that successful investing flows from consistently ***acting*** on our long-term plans over time, rather than ***reacting*** to current events (like political drama). Don't let the importance of the issues being discussed or the campaign rhetoric convince you that this election is somehow an exception to the rule.

This is a situation where it's helpful to remember that ***we invest in companies***. We don't "play the stock market" or make speculative stock trades. We build portfolios that are made up of ownership interests in the great companies of the world, and how our investments perform over time ultimately depends on how those companies fare.[1]

As we've discussed before, the companies we own are run by professional managers who are tasked with delivering (and growing) profits for shareholders like us. That responsibility is not dependent on election outcomes or the political cycle. The identity of the President and the party that controls Congress are only two of the countless factors corporate managers must deal with in pursuing profits. Legislation and policy initiatives can certainly provide headwinds or tailwinds, but over time corporate managers have to deliver results without regard to politics. They must adapt their strategies to the environment they face, and history shows they've been tremendously effective at doing so regardless of the political climate.

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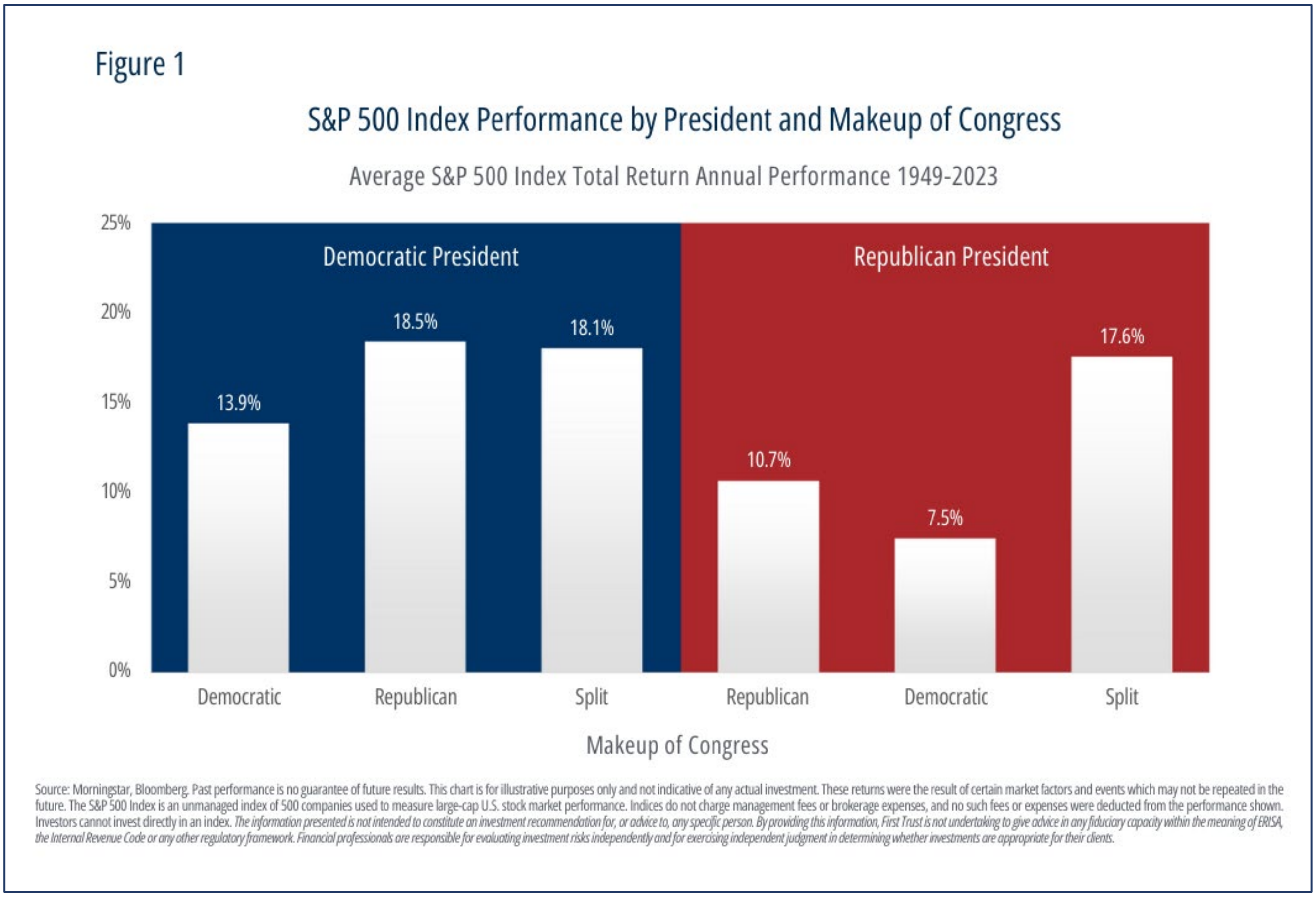
[1] The importance of understanding that we invest in ***companies*** was discussed at length in our June 2023 edition, which you can access here: https://www.kooman.com/pdf/optimistic_investor/OptimisticInvestor-Ed2_FINAL_6-29-2023.pdf.

Figure 1 (below) shows this track record in a clear and concise way. It breaks down the last 75 years of S&P 500 returns (*i.e.*, 1949-2023) based on whether the President was a Republican or Democrat, and then further based on which party controlled Congress.[2]



As you can see, the historical record establishes that the "other" party winning an election ***does not*** mean your portfolio is destined to suffer for the next four years. Managers and the companies they run have produced strong returns through all the various permutations of political control. And most of us would be very happy with any of the average returns shown in Figure 1.

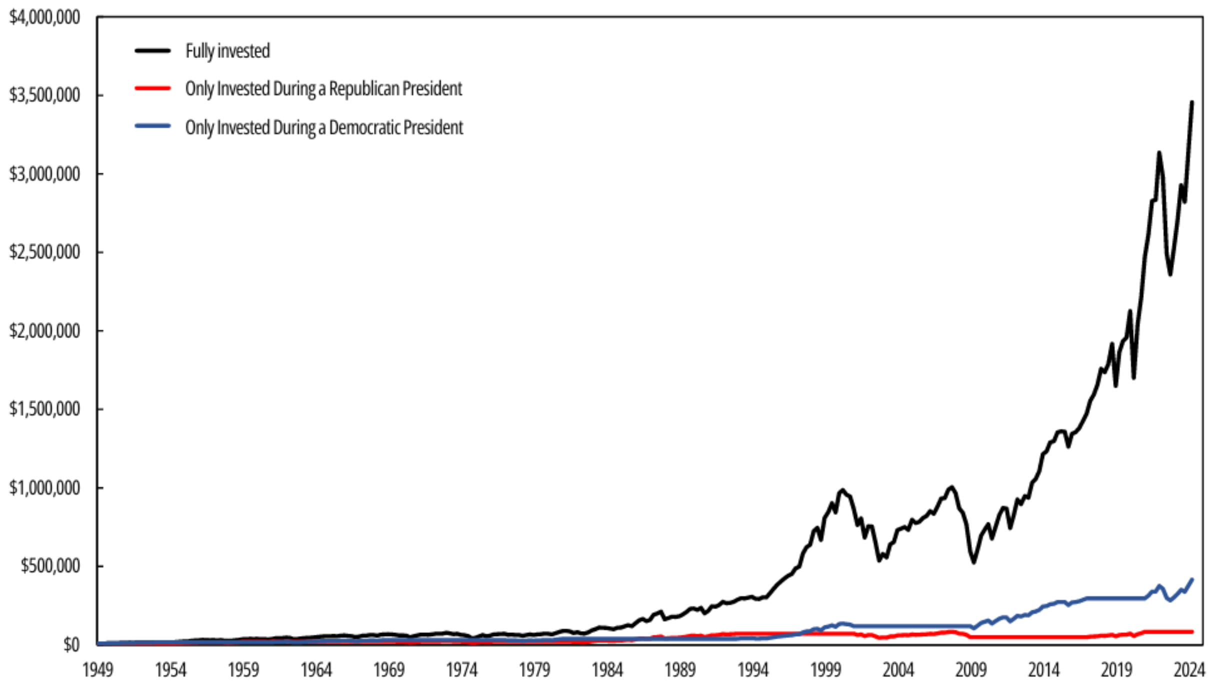
If that doesn't convince you not to base your investment decisions on politics, we hope Figure 2 will do the trick. It once again looks at the S&P 500 from 1949-2023, and it compares the growth experienced by a portfolio that was fully invested over that entire period with portfolios that only stayed invested during either Republican or Democratic presidencies. In other words, it shows how people who only invested when the President was from "their" party fared over

[2] Figure 1 comes from a great set of election resources prepared by First Trust, which you can access here: https://www.ftportfolios.com/Commentary/Insights/2024/4/4/election-client-resource-kit---march-2024. You can find Figure 1 and the corresponding disclosures on page 4 of the document.

time. Spoiler alert: they haven't done very well![3]

Figure 2

GROWTH OF $10,000 IN THE S&P 500 INDEX SINCE 1949



Source: Standard & Poor's, FT Advisors. Data is quarterly from 1949 – 3/28/2024. Past performance is no guarantee of future results. For illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. These returns were the result of certain market factors and events which may not be repeated in the future. *The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.*

This is a powerful visual. It clearly reinforces that setting a long-term plan and sticking with it over time has been a superior strategy to letting your political views drive your investment decisions.

This is precisely what Warren Buffet meant when he famously said that "you do not want to have a political view in investing."[4] If you watch the interview in which Buffet made that statement, you'll hear him observe that people who allowed their politics to determine when they invested "missed out on a lot of the party." That's exactly right, and we don't want you to end up in that situation.

Figures 1 and 2 are excellent reminders of two key principles of long-term investing that we've talked about before. The first is that we don't need to react to current events because the managers of the companies we own are reacting on our behalf. Whether we're talking about

[3] Figure 2 and the corresponding disclosures can be found on page 2 of the First Trust document linked in footnote 2.

[4] This quote is from an interview with CNBC that Buffet gave on February 25, 2019. You can access the video here: https://www.cnbc.com/video/2019/02/25/warren-buffett-you-do-not-want-to-have-a-political-view-when-investing.html.

demographic trends or the economic cycle or the constantly evolving political landscape, corporate managers adapt to position their companies to innovate and grow in the future. As a collective group, managers have done an excellent job of that over time. We just need to let them do their job and allow the process to play out.

Of course, it can be hard to stay patient and not react when the stakes seem so high. That leads us to the second principle, which is that we ***earn*** the premium return diversified equities have historically generated through our willingness to bear uncertainty. Sometimes that uncertainty is created by a shock to the economy or financial system, like a series of bank failures or a spike in inflation. In this case, it flows from a hotly contested election between two generally disliked candidates with very different platforms. Regardless of the cause, however, uncertainty is something we must tolerate as investors to earn the long-term returns we need to be successful.

Early November will inevitably bring disappointment for roughly half the country's voters and citizens. But, if we can stay focused on our long-term goals and maintain our resolve as the political process plays out, we can all avoid being disappointed investors and keep our plans on track for the future!

Innovation & Good News

1) Last week The Economist published two great articles on the exponential growth of solar power and the tremendous potential it holds for the future. Solar energy capacity is doubling every three years, and by the mid-2030s solar power will be the world's largest source of electricity. This transition will make the world less dependent on unstable and/or hostile regimes, and it should facilitate tremendous economic growth as billions of people around the world gain access to the reliable electricity they currently lack.

2) On a related note, the WSJ recently documented the notable progress that's been made developing solar-powered planes. Such aircraft can fly through the night (with batteries that charge during the day) and are better suited for some applications than both balloons and manned aircraft.

3) Trials are underway for a personalized mRNA vaccine to treat melanoma. The vaccine is customized for each patient and trains their immune system to hunt down and kill their specific cancer cells. Some experts believe this "game changing" innovation could *permanently* cure cancer in the future.

4) A recent study found that weight-loss drugs are significantly reducing the risk of obesity-related cancers in patients.

5) A different approach and new treatments for Alzheimer's are helping patients maintain their lifestyles for longer periods. This article also includes some great tips for maintaining good brain health!

6) This spring the EPA released pollution data for 2022. Greenhouse gas emissions were down almost 17% against 2005 levels, and toxic chemical releases were down 21% since 2013.

Team Kooman Corner

On June 17th,Terri Rhone joined Team Kooman as our new Client Concierge!

Welcome Terri!

Have a happy 4th of July and enjoy your summer!

KOOMAN & ASSOCIATES

Important Disclosure Information

This memorandum is not intended as a substitute for personalized investment advice from Kooman & Associates, LLC ("K&A"). To the extent you have questions about the applicability of any specific issue discussed herein to your individual situation, you should consult with a professional advisor of your choosing.

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All investments and investment strategies involve different risks and there can be no assurance that any specific investment or investment strategy, including those recommended or undertaken by K&A and/or discussed in this memorandum, will be profitable or suitable for your portfolio or individual situation. Moreover, due to various factors, including changing market conditions and/or applicable laws, the foregoing content may no longer be reflective of our current opinions.

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A copy of the K&A's current written disclosure brochure (Form ADV Part 2A) discussing our advisory services and fees is available for review upon request or at www.kooman.com.

Please remember to contact us in writing:

- If there are any changes in your personal/financial situation or investment objectives, so we can review, evaluate and/or revise our previous recommendations as needed; or
- If you would like to impose, add or modify any reasonable restrictions on our investment advisory services.

Unless and until you notify us, in writing, to the contrary, we will continue to provide services as we do currently.

Please also remember to advise us if you have not been receiving account statements (at least quarterly) from your account custodian.