DON'T Wait Until After the U.S. Election to Buy Stocks!

Description

If you visit investing communities online, there's a good chance you've heard the advice "wait until after the U.S. election to invest." The sentiment is appearing across social media, forums, and subreddits and is by no means limited to U.S. investors. Recently, a poster on the "CanadianInvestor" subreddit asked whether it would be best to wait until after the U.S. election to buy stocks, citing the "crazy situation" in that country. Similar questions are appearing all over social media.

To be completely blunt, the answer to that question is no. The idea that you should wait until after the election to buy stocks is built on a number of unwarranted assumptions. Further, it's contrary to generally agreed-on investing strategy. There may be some full-time professionals on Wall Street with the skills needed to accurately bet on election outcomes, but they're few and far between. Attempts to do so by retail investors are not advised.

The problem with market timing

When you get right down to it, "waiting until after the election to invest" is a form of market timing — that is, waiting for the "right time" to make moves in the market.

In general, market timing is not supported by academic research. In the legendary book *A Random Walk Down Wall Street,* economist Burton Malkiel argues that nobody can predict what's going to happen in the markets. Drawing on decades of research, he advocates for long-term passive investing plus occasional re-balancing at market highs. If Malkiel is right, then market timing is a waste of time for most people. And his thesis does enjoy broad academic support.

Why election timing is market timing

The fact that “waiting for the election” is a form of market timing is easy to prove. Market timing is buying assets because you think that at time X they have a good chance of rising in the future — typically, the near future. If you think that after the election is a good time to buy, then you’re timing the markets.

The problem is that there’s no way to know whether stocks will actually rise from November 4 onward. Maybe the markets will keep rising up until November 4 and then fall after that. Maybe they’ll trade sideways. Nobody really knows. But if you set up election day in advance as a time to buy, then your thinking implies that you do know.

You might counter that you’re not specifically planning to buy on November 4, but just waiting until then to decide whether you’ll buy at all. That attitude is probably a little wiser. But it still implies that you may make a decision to time the markets on November 4. If you choose to do so, then you’re market timing.

A solid election-proof pick

While timing the markets after the election probably isn’t a good idea, it’s reasonable to want some portfolio assets that won’t be affected by the election one way or the other. Undoubtedly, the election of a U.S. president will have some impact on stocks. We just don’t know what it will be.

If you’re looking for a stock that wouldn’t be too impacted by the election outcome, you could consider a utility like **Fortis** (TSX:FTS)(NYSE:FTS). Utilities provide staple services that bring in dependable revenue regardless of political factors. In Fortis’s case, that revenue is spread out across Canada, the U.S., and the Caribbean. It does have U.S. operations, but its services there are through U.S. subsidiary companies, not exports from Canada. So, it wouldn’t be affected by Trump’s trade wars.

If Biden gets elected and raises the corporate tax rate, then that would impact Fortis’s U.S.-source income a little. But because the company is spread out across three regions, not all of its revenue would be affected. So, this company is well positioned to sail through the election without a major setback.

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Date
2025/09/13
Date Created
2020/10/23
Author
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