4 Investment Mistakes to Avoid During Election Years

Description

The U.S. presidential elections are just around the corner, and if you are feeling anxious about the outcome you may be tempted to go into defensive mode and protect your portfolio. However, making investment decisions based on the political outcome is not an advisable strategy. Here we look at a few investing mistakes that can be avoided during election years.

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Exiting the stock market temporarily

The elections south of the border make investors and Wall Street nervous, so investors tend to cash out equity investments as election day approaches. While the outcome of the elections could cause a dip in equity markets in the short-term, we know that investing in stocks is a long-term play where you can benefit from compounded returns.

Waiting until elections to invest

It is not advisable to time the market irrespective of any reason that includes a presidential election. Waiting until the election to invest is not a winning game plan. For example, investing a lump sum amount after an election would have produced significantly lower returns in 16 of the past 22 elections over a four-year holding period.

Focusing on short-term volatility

Stock markets are extremely volatile in November and December immediately after an election. However, short-term volatility has minimal impact on long-term investors which means you need to avoid the urge to sell if the stock market turns bumpy.

Changing investment strategies

The election might change individual lives in several ways. However, the outcome of the results will not have a huge impact on your portfolio. Regardless of whether a Democrat or Republican wins the election, stock market returns are below historical average in the first two years and above average in the last two years.

This means you need to keep adding quality stocks such as **TC Energy** (TSX:TRP)(NYSE:TRP) to your portfolio. This diversified energy giant is largely insulated from volatility in crude oil and commodity prices. Further, it generates 95% of earnings from regulated assets or long-term contracts.

This low-risk business model has allowed TC Energy to increase dividends for 20 consecutive years. It also expects to grow dividends at an annual rate of 8% and 10% in 2021 and between 5% and 7% annually post 2021.

This means a $25,000 investment in TC Energy stock will generate $1,475 in annual dividend payments, given the stock's forward yield of a tasty 5.9%. These payments will increase to $2,500 at the end of 10 years after accounting for reinvestments and considering an annual increase of 6%.

TC Energy's capital expenditure investments will be a critical driver of its earnings and dividend growth. It aims to spend $37 billion in expansion programs by 2023. Its debt to EBITDA multiple of 4.6 is in line with peers and it has a payout ratio of less than 50%.

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Further, the stock's forward yield is significantly higher than its 10-year average of 4.1%. TC Energy stock is trading 20% below its 52-week high and is expected to touch $72 in the next 12-months as per Bay Street estimates, indicating an upside potential of 30%. After accounting for dividend yields, total returns in the next year might be closer to 36%.

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