Investing in Businesses, Not Politics

As significant political and economic events approach, we're often asked for our perspective on how these occurrences may impact the markets, or more specifically, our portfolios. While we are, of course, keenly interested in these outcomes, we consistently return to our foundational principles. As long-term investors working to preserve and grow wealth on behalf of our clients, we are not in the business of predicting political trends.

Our primary focus is on thoroughly understanding each underlying issuer or company from a qualitative standpoint. We assess a range of potential economic scenarios, evaluating how various outcomes—best, worst, and base cases—may affect the core economics of these businesses. Part of this process involves continually reassessing these assumptions against the current valuations of our investments. If we feel that the risks are not adequately balanced for the worst-case scenario, we reassess the investment thesis, always in search of better risk-adjusted opportunities. At our core, we prioritize maintaining an appropriate margin of safety to provide downside protection when things don't go as planned.

However, depending on the sensationalism surrounding a political or economic event, many investors feel compelled to steer their investments toward an expected or hoped-for outcome. This is not our approach at FGP. We view this type of strategy as laden with risks, as it demands accurate predictions not just of one outcome but of a series of interconnected events, each requiring the previous and subsequent prediction to be correct.

With the upcoming U.S. election capturing widespread attention, we want to share our perspective on how we view such risks and how our disciplined, consistent approach to investing may better serve our clients over both the short and long term.

The Risks of Making Investment Decisions Based on U.S. Election Scenarios

Investors are naturally inclined to capitalize on opportunities and protect themselves from risks. However, predicting political events and their subsequent market impact is fraught with uncertainty, and attempting to do so can increase risk rather than mitigate it.

To make profitable investment decisions based on election outcomes, investors need to correctly forecast three major elements: the election result; the timing of market reactions; and the impact on asset prices.

1. Predicting the Election Outcome

Elections are inherently unpredictable, despite polling data and expert opinions. For instance, while polls may show one candidate leading, surprises such as last-minute shifts in voter sentiment, unexpected events, or higher-than-anticipated voter turnout can dramatically change the outcome. Looking back, it might seem "obvious" why a candidate won - factors such as economic performance or social issues may have tipped the scale in the winning candidate's favour. However, in advance, these outcomes are rarely clear. Investing based on an election scenario runs the risk of relying on predictions that can easily be wrong.

2. Predicting the Timing of Market Reactions

Even if an investor correctly predicts the outcome of an election, the timing of the market's reaction is another challenge entirely. While elections have fixed dates, the market response to a new administration's policies may not be immediate. Policy changes often take time to implement, and market sentiment can evolve based on global events, negotiations in Congress, or economic shifts. If investors position their investments based on an anticipated market rally or downturn tied to an election, they might face long periods of uncertainty during which time they may miss other opportunities while capital is tied up in unproductive assets.

3. Predicting the Impact on Asset Prices

Even with the election outcome and its timing correctly predicted, the actual impact on asset prices is far from guaranteed. Markets often "price in" expected election results well before the votes are counted, meaning that by the time the results are announced, the market reaction may be muted or contrary to expectations. For example, investors may assume that one party's victory will lead to favorable business policies, but other factors—such as global economic conditions, geopolitical tensions, or inflation—can overshadow the anticipated benefits. Additionally, markets can behave irrationally or unpredictably in response to election results, making it difficult to turn political insights into profit.

Conclusion

In our view, making investments based on election scenarios often leads to disappointing results and heightened risk. Instead of attempting to outguess the market based on political outcomes, we advocate a long-term investment strategy focused on high-quality, growing businesses with strong fundamentals and attractive valuations. By staying invested in these companies, we aim to compound wealth over time and maintain a lower risk profile for our clients, regardless of elections.

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