



Market Commentary: Market Risk Due Elections (Delay/Fraud Accusations) Material *July 2020*

327 votes were the difference in the 2000 presidential election. As hanging chad and Palm Beach County butterfly ballots were analyzed, Bush’s lead in Florida dwindled from 600 votes as of election night to 327 by the time, one month later, the Supreme Court ultimately weighed in with opinions negative for Gore and remanded the case to the Florida Supreme Court “for further proceedings.” That led Gore to concede as his prospects dimmed. Florida gave Bush the edge and history was made.ⁱ

Unfortunately, that election may be a case in civility compared to what may go down this November (and December, possibly January as well). It is hard to see the election going smoothly regardless of the vote count or electoral results, given the claims of fraud already being made.

Over the last 10 days of July, President Trump warned 6 times that the election would be inaccurate and fraudulent due mail-in voting. Regardless of where this country stands on election night with respect to COVID, a statistically significant number of votes will have been cast by mail. As seen below, over 20% of the country voted by mail in 2016. In fact, five states now conduct all elections entirely by mail (Colorado, Hawaii, Oregon, Washington & Utah).ⁱⁱ Even if all constituents in the US felt comfortable physically going to the polls, ballot by mail would probably be close to 25%. In our new COVID reality, ballot by mail may approach 50%, possibly higher.

Historically, there has been no real party bias in the mail-in vote as compared to the in-person vote.ⁱⁱⁱ Additionally, our understanding based on a number of conference calls we have participated in discussing the elections and potential financial impact is that:

- Republicans have historically built a very strong mail-in voting platform
- President Trump’s tweets are complicating and confusing on-the-ground Republican operators and constituents



Donald J. Trump @realDonaldTrump · 7/21/20

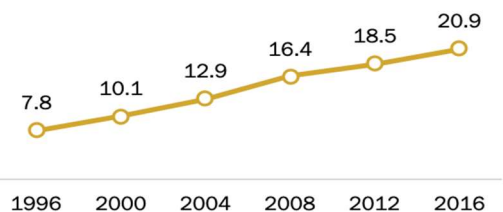
Mail-In Voting, unless changed by the courts, will lead to the most **CORRUPT ELECTION** in our Nation’s History!
#RIGGEDELECTION

66.2K 54.1K 174K

Source: [Twitter](#)

Share of voters casting ballots by mail has steadily risen since 1996

% of U.S. voters who cast a ballot by mail

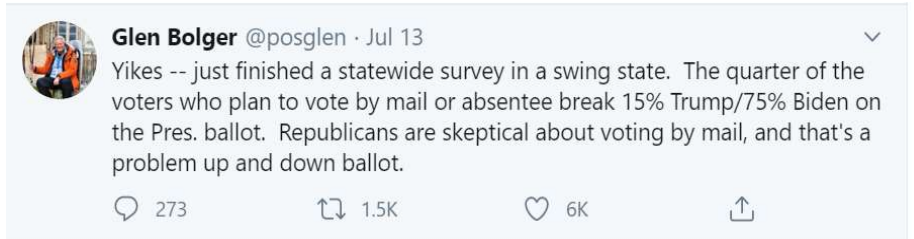


Source: Pew Research Center analysis of 1996-2016 Current Population Survey November Supplements (IPUMS and U.S. Census Bureau).

Source: [Pewresearch.org](#)



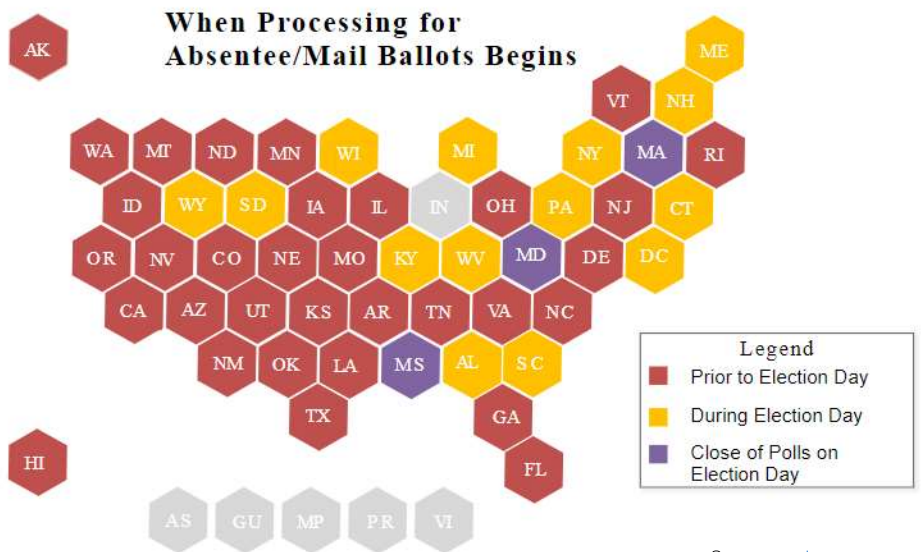
Which brings us back to the Twitter universe (see image on right). If Glen Bolger’s survey work holds true for the country and is even in the ballpark of accurate, then mail-in ballot results will materially differ from results in past elections as well as materially differing from in-person voting. This fact pattern may seem to illustrate fraud despite it simply being a function of the party’s leader, the President, effectively telling his party not to vote by mail.



Source: [Twitter](#)

In the last election, results were known in the wee hours of the night. Most people woke up and knew who won the election (The rest stayed up late enough to know the evening prior). That will most likely not occur this time around. As a note of warning about how long it may take, the New York Democratic primary has still not been decided after six weeks. It is a close race with over 1,000 ballots in dispute, primarily related to whether they were postmarked on time and therefore whether they can be included.^{iv}

The graph on the right highlights when mail-in votes can be processed - which generally means they can be verified and set up to be counted. Pennsylvania, Wisconsin and Michigan are considered battleground states. Staff in these states cannot even begin processing votes until day of election. At least half of states do not allow counting until election day. For example, while Florida allows for signature verification to begin 22 days prior to election day, they only allow counting to begin after the polls close on Election day.



Source: [ncsl.org](#)

Complicating the expected material increase in mail-in votes, is the fact that the post office is now a political lightning rod. Financial issues at the post office has led to the political parties arguing over whether to provide further funding / bail out (Democrats: Yes; Republicans: No). Adding fuel to the fire is the fact that the head of the Post Office is a large donor to President Trump. The two prior Postmaster Generals were career mail people who came up through the post office. Political appointment of the Postmaster General was the norm up until 1971 but has not been since.^v As touched on above,





if mail is not postmarked or delivered on time, depending on the state, that vote may not count. It is all very murky which emboldens claims of fraud on all sides.^{vi}

Everything considered, there is a decent chance that we will not know who our president is on election day (or the day after for that matter). And even when we do have an answer, the loser and their respective party may not accept that result. It is problematic. We hope we are wrong.

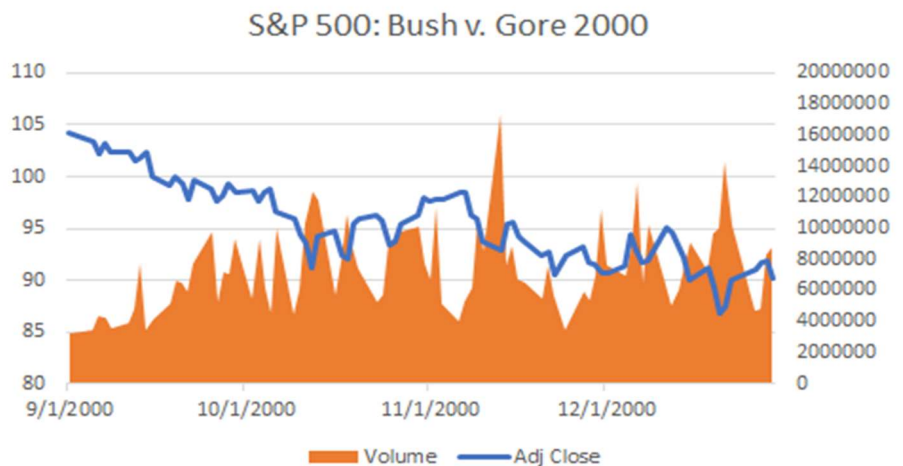
How to Prepare

Financial markets are incredibly complex so while participants enjoy attributing a move to one element or another, it is incredibly hard to provide full confidence in the theory. In 2000 the market was firmly in a bear market due the bursting of the technology bubble. As can be seen in the chart below, there seems to be a drop in value of the S&P 500 (a good representation of the market) on high volume the day following the election. Furthermore, the S&P 500 dropped around 7% in the month following election day prior to popping 3.5% the day following Gore's concession. What would the market have done otherwise? How did we know when it would pan out? It is all conjecture.

We do believe and hope that eventually we will have a President accepted by all and ultimately any volatility is a short-term event, but it is a part of a larger disturbing trend that is taking place in the US - something we may discuss in further detail in the forthcoming Exploration.

What Happens Though When a President Does Take Office?

- If Biden is elected, and especially if the Democratic party sweeps, then the markets will most likely decline short-term due to expected tax increases. This is not so much a stance on whether taxes are good or bad but rather simple math. If a company pays more taxes, then they earn less money, which makes them less valuable - it is that simple. Depending on what those taxes are ultimately used for, higher taxes can eventually create positive value and/or provide more comfort in our debt exposure, which can have longer-term positive effects on the stock market.
- If Trump is elected there may be a rally due to relief over taxes remaining the same and expectations of continued deregulation - both positives for companies.
- To end on a positive political note, though at the expense of one particular country, both political parties are in agreement that China is a problem! They are the new Russia (though much stronger financially and weaker economically).





IMPORTANT DISCLOSURE

The information contained in this report is informational and intended solely to provide educational content that we find relevant and interesting to clients of Fountainhead. All shared thought represents our opinions and is based on sources we believe to be reliable. Therefore, nothing in this letter should be construed as investment advice; we provide advice on an individualized basis only after understanding your own circumstances and needs.

ⁱ <https://www.britannica.com/event/United-States-presidential-election-of-2000>

ⁱⁱ <https://www.ncsl.org/research/elections-and-campaigns/absentee-and-early-voting.aspx>

ⁱⁱⁱ <https://fivethirtyeight.com/features/there-is-no-evidence-that-voting-by-mail-gives-one-party-an-advantage/>

^{iv} <https://www.ncsl.org/research/elections-and-campaigns/absentee-and-early-voting.aspx#process>

^v <https://about.usps.com/who-we-are/postal-history/list-of-postmasters-general.htm>

^{vi} some good sites to learn more about the nuances among states: <https://www.ncsl.org/research/elections-and-campaigns.aspx>, <https://ballotpedia.org/Elections>

