



Majestic Oak Financial
A Registered Investment Advisor

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October 9, 2019

If we're feeling fall here in Texas, then all of us must be! I hope you find some relaxing moments between summer fun and the soon-to-be-here holiday season.

Impeachment & the Stock Market

One question that's been floating around, and rightly so, is what kind of impact impeachment drama might have on the stock markets. It's an interesting question, so I dug in to see what history could tell us.

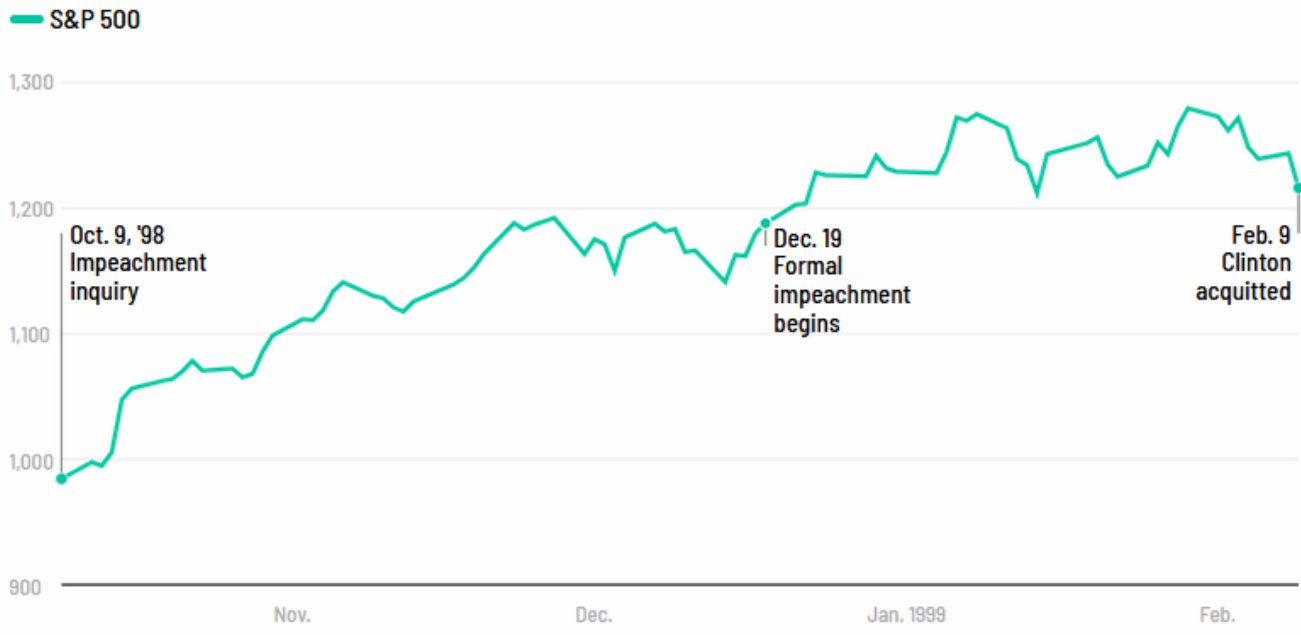
First, we need to understand that impeachment is a multi-part process and it doesn't necessarily mean that a sitting president is removed from office. The process starts in House of Representatives where an impeachment resolution must be introduced. The speaker of the House directs a committee to hold a hearing on the resolution to determine if it is worthy to be put before the entire House for a vote – only a simple majority of this committee is needed to move forward. If it is approved, it goes before the full House to vote to approve the article of impeachment. If a simple majority of those present vote yes, the president is impeached. Done.

But there's more... From here, the process moves to the Senate where a "trial" is held to determine if the president did, in fact, commit a crime. The crime must fall under the categories of treason, bribery or "high crimes and misdemeanors" which is left extremely vague in the Constitution. I say "trial" because there is no set procedure for this trial – it is left up to the Senate leadership to determine how it is conducted. Members of the House serve a role in this trial similar to a prosecuting attorney, presenting evidence in the trial. The president has council represent him and the chief justice of the U.S. Supreme Court presides over the trial. The entire Senate acts as the jury and votes on the guilt or innocence of the president. It takes a two-thirds vote to find the president guilty. The only punishment is the president's removal from office. If the president is acquitted at the Senate trial, then the president finishes out his term as if nothing has happened.

Historically, only two presidential impeachment trials in the Senate have occurred: the first for President Andrew Jackson in 1868 and again for President Bill Clinton in 1998. Both presidents were acquitted in the Senate trial so neither was removed from office. Impeachment proceedings commenced for President Richard Nixon in 1974 but he resigned before the vote in the House of Representatives so technically he was not impeached.

Because there was no stock market in 1868, we obviously cannot use Andrew Jackson's impeachment to draw any conclusions. We can use the market activity in the 1973-74 period of the Nixon drama and 1998-99 of the Clinton proceedings to investigate. But, no matter what might be concluded, two points in time do not provide much predictive power.

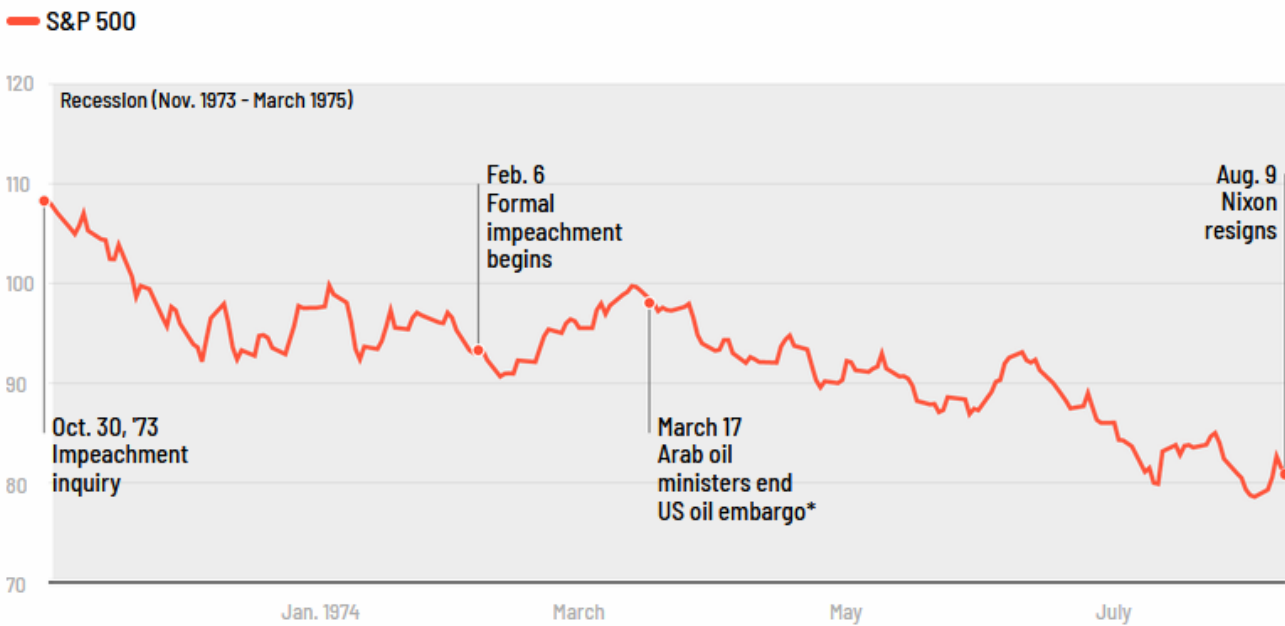
Let's start with the era of the Clinton proceedings – not so long ago that we can't remember. The graph to follow shows the performance of the S&P 500 from the date of the impeachment inquiry until Clinton was acquitted.



Source: Yahoo Finance
Graphic: Anneken Tappe and Tal Yellin, CNN

From this chart, one might conclude that impeachment is actually good for the stock market. Remember though, this was the time of the beginning of the dot-com bubble. The Federal Reserve was cutting interest rates, unemployment was low, productivity was skyrocketing. The economy was humming along and investors were happy.

What about the Nixon years? Can we see the same trend?



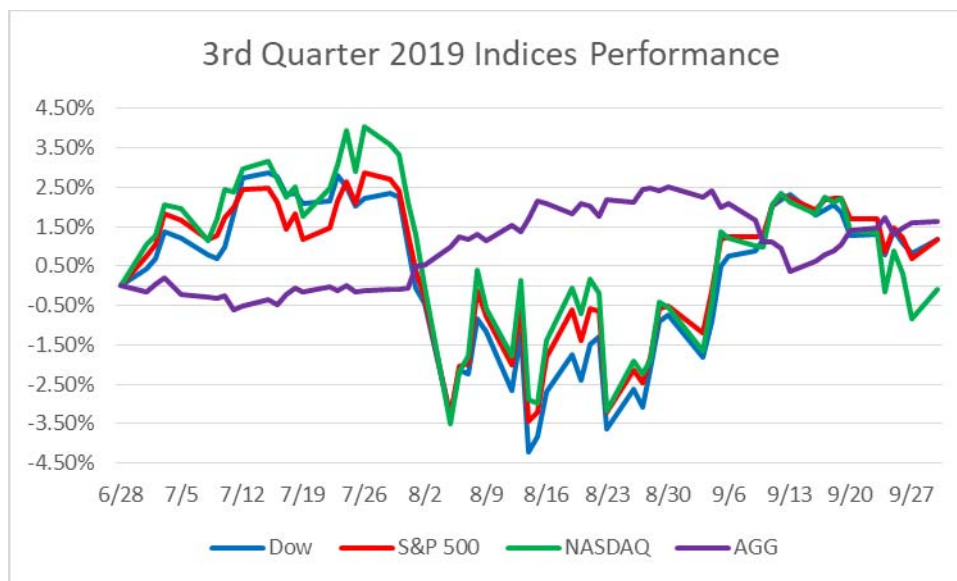
Note: *Excludes Libya
Source: NBER, Yahoo Finance
Graphic: Anneken Tappe and Tal Yellin, CNN

Not so much. Can we conclude that the markets surged on the idea of getting rid of Clinton but fell on the prospect of removing Nixon? Probably not. In contrast to the booming Clinton years, Nixon's term was marked by 8.5% unemployment, a shrinking of economic output, and high inflation. The economy was miserable and investors were hurting.

Perhaps, we need to turn this trend on its head for its predictive power. Perhaps what we need to be asking is whether the state of the economy and the feeling in the market is predictive of whether a president might be removed from office due to impeachment proceedings rather than the other way around. If times are good, everyone is employed, prices are under control, and our 401ks are cushy, we don't care about presidential hijinx. When times are bad though, we've found our scapegoat? Again, with only two data points to examine, the crystal ball is unclear. All I can tell is that both periods were volatile in the stock market, but that's nothing new for us these days anyway.

3rd Quarter 2019 Market Performance

<i>Index</i>	<i>9/30/19 Ending Value</i>	<i>3Q 2019 Performance</i>
Dow Jones	26,916.83	1.19%
S&P 500	2,976.74	1.19%
NASDAQ	7999.34	<0.09%>
Lehman Aggregate Bond	113.17	1.63%



Your Individual Investment Reports

The following reports for Year-to-Date 2019 are provided for your review:

- **3rd Quarter 2019 Portfolio Performance** – Compares the 3rd Quarter month-end percentage performance of the S&P 500 & Lehman Aggregate Bond Index with your portfolio performance.
- **2019 Year-to-Date Portfolio Performance vs. Inflation** – Performance of your investment portfolio compared to the rate of inflation as measured by the Consumer Price Index (CPI) for both the since inception period of your accounts and year-to-date 2019.

- **Account Summary** – Current market value of each asset within your accounts as of 09/30/19
- **Investment Billing Statement** for the 4th Quarter 2019**: Investment advisory fees for the period of 10/01/19 through 12/31/19 (based on 09/30/19 values). *This is an informational billing only.* Your account is automatically debited unless other arrangements have been made.

Please remember that this investment reporting is for informational purposes only. You should also refer to the monthly account statements you receive from TD Ameritrade Institutional.

If you happen to know anyone who might benefit from the services I provide in assisting you in managing your investment portfolio and reaching your financial goals, I would enjoy speaking with them. Don't keep me a secret! ☺ And as always, please do not hesitate to contact me if you have any questions about your reports or wish to discuss any other financial matters.

Sincerely,

Anna M. Popke, CFP®, RICP®

*Index performance is provided as a benchmark only. The performance of your individual investment portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.

****PLEASE NOTE:** Clients who hold “cash reserves” within their brokerage accounts will have slightly different portfolio balances depicted on the Statement of Assets Summary and the Billing Statement. This is because “cash reserves” are excluded from the advisory fee. However, cash held awaiting investment in the upcoming quarter *will* be subject to the normal quarterly fee.

Investment Advisory Fee Calculations:

Fees are paid in advance on the 7th (or prior closest business day) of the month following the end of the quarter. The amount due is calculated by applying the prorated annual fee percentage to the previous quarter-end account value(s). Fees are further prorated for accounts opened after the beginning of a new quarter. Fees may be paid directly from the investment account(s) or consolidated and paid from a specified account. Money market/cash reserves are excluded from totals. Statements have been prepared by Majestic Oak Financial from information provided by TDAmeritrade and while deemed reliable, are not guaranteed.