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Stock Market Investing Tips, Techniques, and Resources



Stock Market Response to Election Uncertainty

By www.ProfitableInvestingTips.com

The presidential election promises to be close again this year. What will be the stock market response to election uncertainty? Traditional thinking is that Republicans are pro-business and that Democrats are not. Thus, you might think that the stock market would fear a Biden presidency, welcome four more years of Trump, and move accordingly as polls indicate. But, our sister site, *Profitable Trading Tips* noted, in an article about [how the market will respond to a Biden presidency](#), that the market is more likely to go after a Democratic victory than a Republican one. But, what happens when the election is going to be close?

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Market Watch wrote recently about what happens in [close versus predictable presidential elections](#).

In our call of the day, Deutsche Bank global chief strategist Binky Chadha said in a close election U.S. stocks typically rally after the result, regardless of the winner.

In the 10 postwar "close elections," which include all of the last five - defined as elections where the polls were consistently tight or fluctuating widely, making the result unpredictable - the result has been followed by an average 5% rally to year-end, the bank's strategists said.

"While predictable elections were nonevents, close elections historically have seen equities begin to go sideways starting in July; then rally strongly after on a clear win, independent of who won," Bandha said in a note.

The rationale that explains is this. The market loves certainty and hates uncertainty. Investors can make money with either a Republican or Democratic administration but the strategies may be different. Knowing what approach to take removes the uncertainty which is why there is typically a rally from Election Day until the end of the year after uncertain elections.

In the meantime, history tells us that during the approach to a close election, the market is relatively flat. This reflects the uncertainty that investors hate which is followed by the certainty that they like.

What Will the Election Mean to Your Investing Strategy?

Depending on who wins the presidential election and if they take Congress as well, things may not change very much or there could be a wholesale overhaul of how the country operates. As the big tech FAANG companies become more and more dominant, the odds of the next "trust buster" taking them apart goes up. Tax laws that favor the preservation of multigenerational wealth may be weakened as well. On the other hand, long-overdue investments in American infrastructure could result in a big increase in middle class jobs and a long-overdue equalization of wealth across America. Investors who pay attention will be able to develop new strategies accordingly.

As noted in the *San Diego Union-Tribune*, Biden wants to strengthen US manufacturing, beef up infrastructure, and invest in both education and research.

Democratic presidential candidate Joe Biden released his \$700 billion economic plan last week that is largely aimed at boosting U.S. manufacturing.

Under his plan, the federal government would spend \$400 billion in government purchasing of U.S.-based goods and services over four years and \$300 billion in research and development for new technologies and clean-energy initiatives.

Paying for it is a little up in the air with Biden's campaign directing The Wall Street Journal to Biden's previous tax plan that would raise taxes on corporations and the wealthiest Americans.

Higher corporate taxes may not sound like such a great idea for many investors but a wholesale revitalization of American industry and its R&D should help many focus where their investments will go over the next years.

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