SEIA
Signature Estate & Investment Advisors, LLC®
*Established 1997*
Quarterly Newsletter Bringing You Financial Insights From The Leaders | VOL 11 | ISSUE 2
THE SEIA REPORT

# WHAT TO EXPECT FROM MIDTERM ELECTIONS

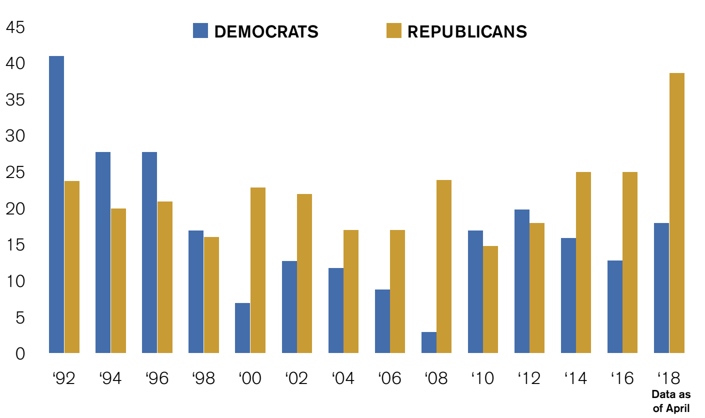
BY **Deron T. McCoy**
CFA®, CFP®, CAIA®, AIF®, *Chief Investment Officer*

**Sam Miller**
CFA®, CAIA®, *Senior Investment Strategist*

## With midterm elections coming later this year, investors have begun to focus on potential outcomes and the likely impact of each scenario on the financial markets.

A record number of House Republicans and an elevated number of House Democrats have chosen to not seek reelection in November (Exhibit 1), meaning there is much at stake for future policy direction in Washington as well as the markets as new representation replaces old.

**EXHIBIT 1: U.S. House of Representatives Who are Not Seeking Reelection**

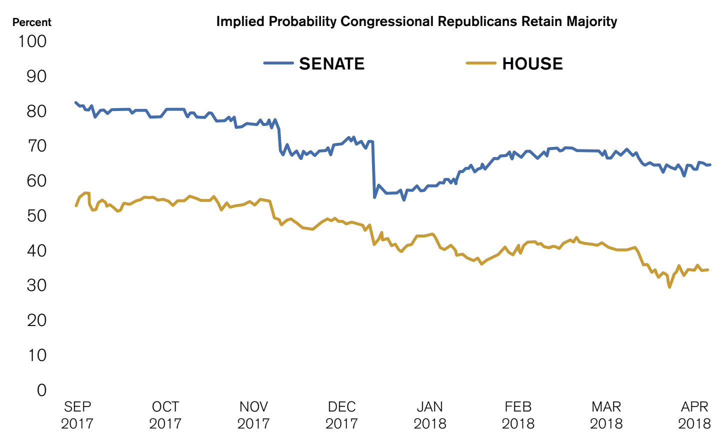



*Source: Brookings Vital Statistics on Congress Database, DB Global Markets Research*

### What's at Stake?

The biggest question in both the House and Senate is the balance of power: whether Republicans can hold their majority in both chambers. In the Senate, Democrats are defending more than two dozen seats (including ten in states President Trump carried in 2016) whereas Republicans have just eight seats up for re-election. In the House, however, it wouldn't take a substantial swing to change control given the relatively slim 23-seat majority Republicans currently hold. According to prediction markets, at this time Democrats appear to be positioned to take over the House majority, while Republicans look likely to hold the Senate (Exhibit 2). But as mentioned previously, a record number of House Republications are not seeking reelection. And in the past, widespread retirement announcements by the party in power have typically preceded substantial midterm losses.

**EXHIBIT 2: Prediction Markets Imply a Divided Congress in 2019**




*Source: PredictIt, Goldman Sachs Global Investment Research*

Additionally, special elections held over the past year might also provide some clues as to what might transpire in November. On average, Democratic candidates have outperformed Republican candidates in special congressional elections over this period by an average of 17% – far exceeding the 2012 and 2016 presidential election years.[1]

### What's In Store For Markets?

We have noted in previous publications that regardless of whether the stock market (represented by the S&P 500®) ends the year in positive or negative territory, over the course of an average year it will experience a 13.9% decline[2]. The year-to-date lows established in early February and tested more recently represent only a 10% pullback for the index.[2]

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> Successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

**Brian D. Holmes**,
MS, CFP®, CMFC, AIF®, *President & CEO*

**ABOUT SEIA**

**Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to meet the client's goals.**

## THE 8 MOST IMPORTANT DATES THAT WILL IMPACT THE POLITICAL LANDSCAPE IN COMING MONTHS

| | |
|---|---|
| **JUN 5** | Montana and New Jersey primaries |
| **JUN 12** | Nevada and North Dakota primaries |
| **AUG 2** | Tennessee primaries |
| **AUG 7** | Michigan and Missouri primaries |
| **AUG 7** | Ohio special House general election |
| **AUG 14** | Minnesota and Wisconsin primaries |
| **AUG 28** | Florida primaries |
| **NOV 6** | General election |

# THE DEPARTMENT OF INVESTMENT MANAGEMENT & ECONOMIC STRATEGY (DIMES)

As you are well aware, the financial world is awash in jargons and acronyms. For your benefit, we try to speak plainly and avoid industry jargon whenever and wherever possible. When talking about DIMES and the group's impact on your continued investment success, however, we make a rare exception. Let's take a closer look at this vital department by breaking down its two essential components – our Economic Strategy which in turn drives our Investment Management.

### Economic Strategy

From high-level macroeconomic discussions about global asset allocation and risk management to detailed conversations about specific investment opportunities, senior members of DIMES provide essential thought leadership to our Investment Committee.

As clients of our firm, you see a physical manifestation of that thought leadership in our Tailwinds and Insights quarterly publications – both authored by our DIMES team and spearheaded by SEIA's Chief Investment Officer Deron McCoy, CFA®, CFP®, CAIA®, AIF®.

### Investment Management

DIMES also translates that same insight and thought leadership (in conjunction with the SEIA Investment Committee) into actionable strategies for our clients in the form of a globally allocated and risk managed discretionary portfolio solution we call the Signature Allocation Series.

As an SEIA client, you and your advisory team can draw on the expertise of DIMES for specific market insights as well as ad hoc portfolio analysis whenever additional input and guidance are desired. For any structure to endure, it must be built upon a strong foundation. Within SEIA, that is the sole purpose and intent of the DIMES team – to establish a robust investment foundation that will serve to strengthen and fortify long-lasting relationships across generations.

### Meet the Team

**Deron McCoy**, CFA®, CFP®, CAIA®, AIF®
*Chief Investment Officer*

Founder of DIMES and the main architect behind the Signature Allocation Series, Deron leads the SEIA Investment Committee. He serves as Head Portfolio Manager for the firm's discretionary accounts as well as leading the research team in developing our global macro strategy and incorporating it into our investment models and asset allocation strategies.

**Howard Chen,** AIF®
*Director of Investment Services*

Howard is a standing member of SEIA's Investment Committee. He oversees the day-to-day operations of the DIMES department. With extensive experience as a Portfolio Manager and Research Analyst, Howard lends his expertise in both capacities. He earned a B.A. in Economics and two Minors in Global Studies and Chinese from UCLA and is a CFA level II Candidate. As a Southern Californian native and Eagle Scout, he enjoys being in the outdoors and exploring camping/hiking trails in our many national parks.

**Sam Miller**, CFA®, CAIA®
*Senior Investment Strategist*

As one of the senior members of DIMES and a standing member of the SEIA Investment Committee, Sam contributes thought leadership and expertise in due diligence, portfolio

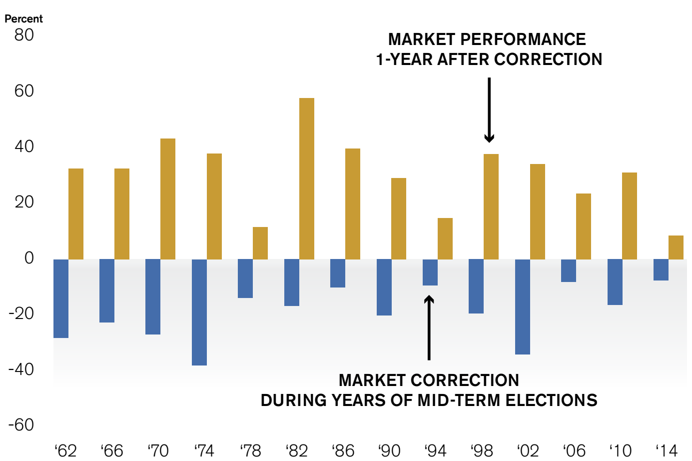
*continued on page 5...*

While never fun, intra-year pullbacks and corrections are part of normal functioning markets. Unfortunately however, midterm election years have historically been the weakest of the four-year presidential cycle, with markets on average experiencing larger corrections due to increased policy uncertainty. The average S&P 500 decline in midterm election years is 18% (Exhibit 3), more than four percentage points higher than the typical year.[3] So using the past as a guide, we may be in for more volatility between now and year-end.

After an unusually tepid 2017, volatility reared its ugly head in February and appears poised to stay – fueled by geopolitical uncertainty, trade wars, and a rising potential for regulation in the technology sector. Add policy uncertainty around midterm elections, and we shouldn't be surprised if the market declines further than the lows that were tested in early February.

Looking on the bright side, midterm election sell-offs have historically proven to be terrific buying opportunities; with stocks up an average of 36% one year later (Exhibit 3). Additionally, the S&P has NEVER declined in the 12 months following a midterm election year since 1946.[3]

**EXHIBIT 3: Market Corrections during Years of Midterm Elections**




*Source: Strategas Research Partners*

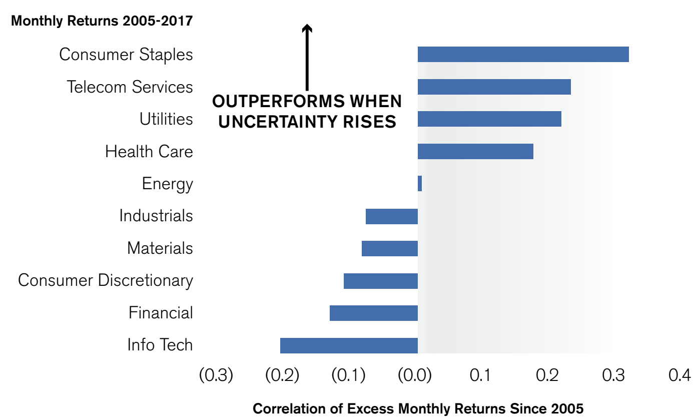
What's the reason for this strong performance after midterm elections? One obvious answer is that the cloud of uncertainty lifts; allowing markets to move forward with one less worry (a relief rally). Another potential explanation is that because the sitting president's party usually loses seats during his first midterm election, it often serves as a catalyst to deliver a large fiscal stimulus package to help shore-up equity markets prior to his reelection year. Equity markets price in this stimulus in Year 3 and then the president benefits from the growth effects of the stimulus in his reelection year.

Keep in mind, however, that should control of both houses transfer to the Democrats (except for 2010 the Senate majority has shifted every time the House has changed hands), it would be much more difficult for the president to push through another fiscal policy package, and we could potentially see a partial unwinding of the recent tax reform – an action which the markets would not view favorably.

## Which Sectors Might Benefit in a Midterm Year?

When policy uncertainty rises, defensive sectors like Consumer Staples, Telecom, and Utilities tend to outperform while Technology and Financials often lag (Exhibit 4). Similarly, lower beta stocks have typically outperformed in previous midterm years: large caps over small caps, value over growth, high quality over low quality, dividend payers over non-payers, etc. Who would be the likely winners or losers resulting from a divided government post-election? Despite the last several years of partisan gridlock, it's possible that some bipartisan cooperation could coalesce into legislative action around infrastructure investment, in which case infrastructure stocks might benefit.

**EXHIBIT 4: Sector Correlation with Policy Uncertainty**




*Source: Economic Policy Uncertainty, FactSet, Goldman Sachs Global Investment Research*

While the safest bet at this point seems to be elevated uncertainty and increased volatility leading up to November, the tailwinds of economic growth, tax cuts, and increased corporate buybacks should help to limit losses. Although likely in the latter stages of this economic cycle, we believe there is still room to run given the healthy backdrop. Election uncertainty and volatility may provide buying opportunities along the way, which we will seek to take advantage of in client portfolios. Savvy investors would be wise to heed the advice we've repeated over the last several years: "Avoid viewing the world through a red or blue lens but rather through a profit-making green lens." With such a politically charged atmosphere, removing emotions from investment decisions may prove more valuable than ever.

Source Material: [1]Goldman Sachs Global Investment Research. [2]Yahoo Finance. [3]Strategas Research Partners.

# WILL "SOCIALLY CONSCIOUS" INVESTING HURT MY RETURNS IN TODAY'S MARKET?

BY | **Paul Taghibagi**
CFP®, AIF®, *Senior Partner*

**Few eras in American history have produced more "movements" than the 1960s and 1970s, including those committed to protecting the environment, and those crusading to shield consumers from corporations that seemed to put profits ahead of their customers' wellbeing.**

A popular saying of the time was, "As General Motors goes, so goes the nation," meaning anything that threatened GM—like political activism and the safety regulations it spawned—was basically un-American.

Still, the torch was passed to a new generation, one that did eventually cut its hair, get a job and prove to be breathtakingly good at…making money. Only, there was a twist to that goal, which posed the question:

Is it possible to make money as a company or an investor and at the same time be environmentally, socially and corporately responsible?

This was a radical idea for a time when the bottom line still reigned supreme. But the idea took root, primarily among investors who employed a negative screen: Do not invest in a specific list of offending companies or categories: alcohol, tobacco, oil and gas, gambling, weapons or firms that are blatant polluters and/or exploiters of labor.

> In the early 2000s, corporations and investors awoke to the fact that being responsible was... good for business.

This exclusionary approach came to be called socially responsible investing, or SRI. Since many of the stocks SRI investors loathed made their holders lots and lots of money, the conventional wisdom was that SRI investors had to forego some returns to follow their moral compass. But, then, a little over a decade ago, a new movement appeared.

In the early 2000s, corporations and investors awoke to the fact that being responsible was . . . good for business. This new sensibility caused a disruption in the corporate world, which changed societal thinking and policies, and produced countless new opportunities for SRI investors. This new standard came to be known by three letters: ESG, standing for Environmental, Social and Governance.

**COMPANIES ONBOARD WITH ESG:**

Committed to **environmental** protection, by shrinking their carbon footprint, reducing greenhouse gas emissions and not practicing resource depletion.

Committed to a better **society** through social justice, embracing diversity in their workforce and avoiding countries that allow slavery, child labor and life-threatening working conditions.

Monitored the **governance** of their corporate structures, and inappropriate political lobbying and donations.

En route, these companies discovered that good governance is good for business. For example, applying ESG principles filters out risks that could lead to negative publicity, and negatively affect a company's valuation. One could make the argument, that companies following a sustainability-based approach are likely to be more profitable over time, and deliver better shareholder returns.

Today, given the much broader universe of investment vehicles, including mutual funds and ETFs focused on this space, investors no longer have to make a binary choice. The new ESG sensibility has produced a near-limitless list of SRI opportunities, including impact first investments that address specific social or environmental concerns using market based solutions.

As a firm, we believe that the focus and client demand for ESG capabilities will only continue to grow in importance. We have dedicated resources to researching and building portfolios that allow our clients to express specific or broad themes that they view as important in this area.

Not surprisingly ESG investing has grown by more than 97 percent globally in the past 20 years. In dollar value, the number has gone from tens of billions to trillions, and the number of investment funds has increased from 10s to 1,000s.[1] You might say that ESG has taken SRI investing from exclusionary to inclusionary, to a paradigm of active engagement rather than retreat.

 [1]Forbes.com: In ESG We Trust.

construction and investment selection processes. He works closely with SEIA's Investment Committee to formulate and communicate research on the economic and investment environment. Sam is married and currently enjoying his life as a new dad.

**John Rasic,** *Research Analyst*

His expertise in portfolio construction has become a tremendous resource for the DIMES team and made John the primary point of contact for ad hoc client portfolio reviews. He's also a specialist in Real Estate, Municipal Bonds, ESG and Value Funds. An athlete in college, John's an avid fan of the Dodgers, Lakers and Rams, a recreational golfer and beach lover.

**Charley Edson,** *Junior Research Analyst*

Charley has very quickly become one of the most knowledgeable team members on the subject of ETFs, and also covers the Energy sector (including Master Limited Partnerships). He runs the DIMES internship program, providing guidance and support to these budding analysts. Born and raised in the South Bay, Charley earned a B.S. in Finance from Arizona State University where he played club hockey for the Sun Devils.

**Joshua Woodard,** *Junior Research Analyst*

Josh covers Private Debt as well as Growth and Value Funds for DIMES. He also maintains model portfolios that track our discretionary portfolios, providing invaluable insights into our portfolio construction and risk allocation decisions. Born and raised in Los Angeles, Josh is a CFA Level III Candidate and enjoys watching basketball, reading and exercising.

**Jack Chen,** *Portfolio Manager*

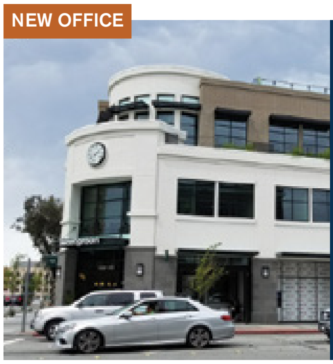
Jack has worked with SEIA since 2013 and is a member of our Investment Committee. He oversees the monitoring, trading and manages our Signature Allocation Series accounts, and involved with operations and data management across several departments within the firm. Jack holds a B.S. in Mathematical Economics from UCLA, is pursuing his MBA, and is also a CFA Level II Candidate. He's an avid photographer and a sharp shooter behind the three point line.

**Ryan Luna,** *Portfolio Manager*

Ryan handles portfolio management and trading for the Signature Allocation Series platform. Previously with Nuveen Investment affiliates for over a decade, he helped manage more than $40 billion in Institutional assets. He holds B.A's in Political Science and History from UC Riverside, an MBA in Finance from USC, and is a level II candidate in both the CFA and CAIA programs. An outdoor enthusiast and PADI certified Rescue Diver, you can typically find Ryan either hiking or camping.

Thanks to the expertise, insight and close collaboration of our DIMES team and Investment Committee, for over two decades SEIA has helped clients successfully navigate a wide range of economic cycles and market conditions – proactively monitoring, assessing and responding to our ever-changing global economy.

**NEW OFFICE**



WE ARE PROUD TO HAVE A NEW OFFICE SERVING THE SAN FRANCISCO BAY AREA & SILICON VALLEY

**3 East Third Avenue | San Mateo, CA 94401**

# HAPPY SUMMER!

Before you pack your bags and turn on your email out-of-office message, here are six tips to make your vacation one for the books:

**1 | Make Copies of Your ID and Passport**
Make two photocopies of your license or passport in case either is lost or stolen. Bring one copy and store it separately from your original, and leave another with a friend or relative.

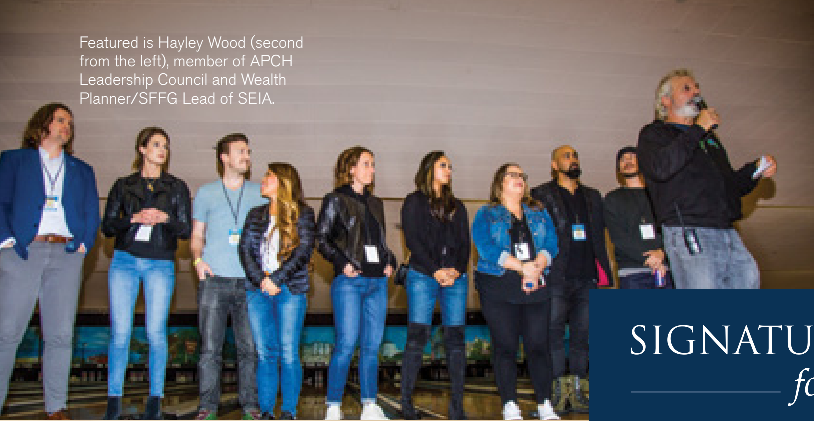
**2 | Streamline Your Wallet**
Lost wallets are the leading cause of identity theft. Only carry the card(s) you plan to use on your trip, and leave your checkbook and the rest of your cards at home.

**3 | Check Out Guides**
Before you book that zip-lining, parasailing or river rafting trip, check online for any customer reviews.

**4 | Travel like a Local**
When visiting any location, know your surroundings and plan your route in advance.

**5 | Check the Weather**
Into every life—and vacation—a little rain must fall, so take steps to protect yourself from severe weather by monitoring the local weather and packing the appropriate gear.

**6 | Avoid Oversharing Online**
Posting photos or checking in on social media sites advertises your absence from home. Real-time updates can be tempting, but wait until you return safely home before sharing your adventures.





# SIGNATURE FUND *for* GIVING

## The Signature Fund for Giving continued its support of A Place Called Home's (APCH) 12th annual Stars & Strikes Celebrity Bowling Event held at PINZ in Studio City, CA.

The event raised over $48,000 allocated toward free programs and services for youth at APCH including art, athletics, educational services, counseling, nutrition and agriculture, digital media, life skills, along with job training. Over 300 of Los Angeles' community attended the event along with 30 members of APCH and celebrity guests Normani Corder, Far East Movement, Travis Mills, Ryan Cabrera, and many more.

"SEIA has been involved with A Place Called Home for over 6 years and has supported the agency in many forms, such as: employee volunteerism, donation drives, and support for some of our major fundraisers. Through the years, SEIA has sponsored APCH's Stars & Strikes Celebrity Bowling Event as a lead sponsor. Through SEIA's investment, APCH has been able to provide unique and life changing experiences for its members. With SEIA funding, members have attended the Grammy Museum for a full day of immersive programming and have visited USC's Wrigley Institute's state-of-the-art research center in Catalina Island. Additionally, we've been able to feed over 400 children for 5 months, and provide northern California college tours. SEIA's Hayley Wood has been an integral part of APCH's Leadership Council, a board comprised of young professionals that partner with APCH to provide much-needed resources for funding programs and other initiatives. APCH is grateful for all of the support provided by SEIA and we look forward to a continued relationship for years to come." - Gilbert Radillo, External Relations & Special Initiatives Director, A Place Called Home.

**For more information on APCH, please visit apch.org. If you'd like to learn more about how you can be involved with SFFG, please reach out to Hayley Wood at hwood@seia.com - we welcome our clients engagement as part of our commitment to our communities youth.**

*From everyone at SEIA wishing you and yours a wonderful summer!*


SEIA

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