15 November 2016

As much as the pollsters would like to have us think that they had a handle on what was going on, the result of last week's presidential election largely undermined their credibility. They all blew it.

As the evening went on and the numbers came into focus, the market futures plummeted – to a drop of over 800 points at one point. And then they rebounded sharply, winding up the next trading day with a triple-digit gain. Prior to the election, the betting line seemed to have been on continued moderate market progress if there had been a Clinton win. But at the same time, suggestions of a Trump win typically were followed by hints of Armageddon on Wall Street.

Days passed and cooler heads prevailed. The feared plunge never happened. Indeed, a surprising new wave of optimism swept Wall Street. There were expectations of better things to come and, of course, a holiday season that was just beginning.

Even so, it's essential for investors to remember that properly constructed portfolios focus on the longer term. The kinds of events that take place from day to day or week to week have little or no bearing on the results that they are likely to achieve on the way to their goals.

The temptation to be resisted is the thought that actions must be taken to respond to changes have taken place. With few exceptions, however, the best course of action is to do nothing.

Over the years, there have been numerous instances of important events that have had a major impact on stock prices. Those events included wars and other shocking developments that were downright scary. But the upshot in almost every case was a big drop that made prices even more attractive.

Indeed, if in one day prices on average dropped by 10%, would a reasonable person believe that underlying corporate profits dropped by 10%. Of course not. Yet emotion causes people to act in unfortunate ways. Those who see the picture more clearly often have better results.