

## OUTSIDE THE FLAGS

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# Feeling the Heat: News and Markets

Not for the first time this year, a significant news event has confounded the expectations of many pundits. How should investors respond to the outcome of the US election?

The election of Donald Trump as the next President of the United States, like the decision of Britons to vote for the UK's exit from the European Union, ran contrary to what most pollsters and journalists had said was the most likely outcome.

At times like this, people will turn to the media for interpretation of the events. In watching all the coverage and analysis, however, there are a couple of things you should keep in mind.

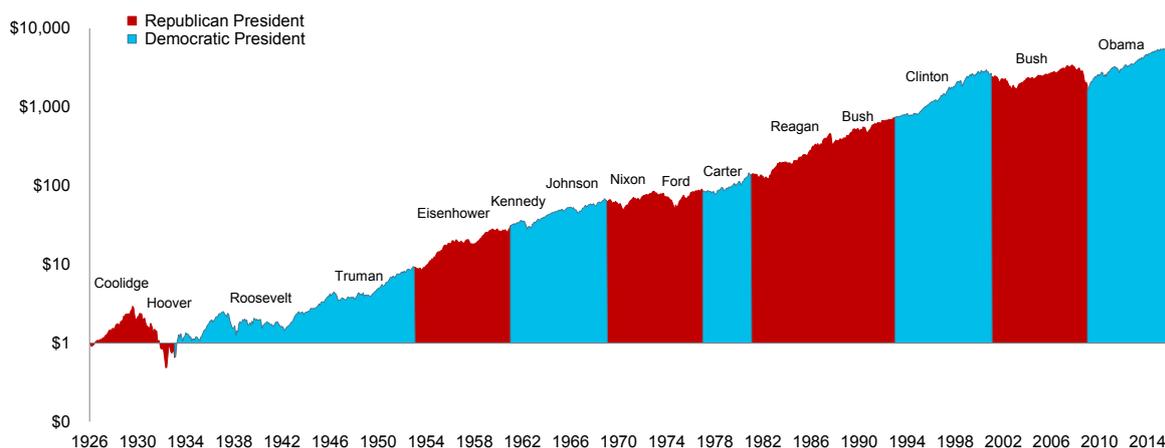
Firstly, many of those sharing their views about the likely repercussions of the election result are the same ones who told you this was unlikely to happen.

You may remember that a day before Brexit in late June, many polls and pundits said the referendum was unlikely to be carried. When it went contrary to expectations, both sterling and the FTSE-100 index were pummelled. By October, however, the UK index was at record highs.

This is not to suggest that markets will behave in a similar way following the Trump win, but it does offer a caution against making long-term portfolio decisions on the basis of breaking news.

The second thing is that history shows no obvious long-term link between market returns and who is occupying the White House. Markets are influenced by multiple factors, politics being only one.

## GROWTH OF A DOLLAR INVESTED IN THE S&P 500 JANUARY 1926–JUNE 2016



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We can't control the ups and downs of markets. And we've seen that basing an investment strategy on the prognostications of media pundits is not exactly a rock solid idea either.

So as investors, we have to focus on what we know. We can stay focused on our long-term goals, diversify around the known dimensions of returns, rebalance occasionally to stay within our chosen limits and be mindful of costs and taxes.

Most of all, we need to exercise discipline and keep our heads. Over the long-term, markets have rewarded investors who have stayed true to an appropriately diversified plan built for them around the long-term drivers of return.

A new presidency will bring new policies and uncertainties, to be sure. But markets will work through those as they do with all news. All opinions will be accommodated in prices and there is little that any one person can do to change that.

Ultimately, when the news environment is at its hottest, successful long-investors must be at their coolest.



*"Outside the Flags" began as a weekly web column on Dimensional Fund Advisors' website in 2006. The articles are designed to help advisors communicate with their clients about the principles of good investment—working with markets, understanding risk and return, broadly diversifying and focusing on elements within the investor's control—including portfolio structure, fees, taxes, and discipline. Jim's flags metaphor has been taken up and recognised by Australia's corporate regulator in its own investor education program.*

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