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Should election year change investment strategy?

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My conversations with clients during July and August were dominated by issues surrounding the federal debt ceiling and how politicians in Washington blew an opportunity to make an impact. The resulting stock market volatility after S&P downgraded the AAA credit rating of the U.S. really raised the ire and passion of investors. This process captured their minds and wallets with responses such as: "Just wait until next November!."

The 2012 presidential elections will stack up to be one of the most important in our history. Topics important to investors such as the debt ceiling, budget deficits, economic growth, taxes, unemployment, the direction of interest rates, health care and other entitlement programs will be at the forefront.

Do presidential politics have the ability to move markets? Absolutely. Will certain sectors of the market do better than others? Definitely. Should investors do anything different because we are coming into an election year? Probably not.

Markets hate uncertainty and the election process is sure to bring confusion, resulting in volatility and uneasiness for investors. To counter this, investors should get back to basics. Some steps:

- Sit down with your investment advisor to make sure you have an investment strategy that you understand.
- Create a plan with short, intermediate and long-term goals and objectives in mind.
- Pay down high-cost debt such as credit cards, and refinance mortgages if possible to take advantage of lower interest rates.
- Build a cash reserve that is equal to six months worth of living expenses.
- If you are retired, keep two to three years of living expenses in short-term bond funds.
- Tailor your asset allocation to match your risk tolerance levels.
- Globally diversify your investments.
- Set realistic return assumptions
- Rebalance your investment portfolio and review your household finances annually.

For decades, Wall Street has been trying to predict the stock market's reaction to major events. In fact, studies show that the stock market performs well during election years. Then again, those on Wall Street tend to be a superstitious bunch, creating theories to explain almost any time stocks go up or down.

Do markets perform better when Republicans or Democrats are in office? I say it doesn't really matter. After watching markets pre- and post- elections, I have the following observations:

The markets adjust to whomever is elected and investment opportunities will always present themselves.

Corporate fundamentals and valuation ultimately override investments made due to political party analysis.

Investments are much more impacted by other factors, including monetary policy, geo-political issues, economic cycles and the legislative process.

The best way to outperform during the upcoming presidential election year is to tune out the "noise" and stay focused and disciplined based on the strategic plan you and your advisor created.

Investment strategies should be dictated by your time horizon and need for funds, not by the term any one politician or party has in office. Over time the patient investor will be well rewarded.

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