The SmartMoney Report

Vote for Change? Portfolio Tweaks To Make (or Not) Before Nov. 6

By Catey Hill

The presidential campaign has exposed how sharply President Barack Obama and former Massachusetts Gov. Mitt Romney differ on issues ranging from tax policy to health care to the environment. But are those differences big enough to justify making big changes in an investment portfolio, depending on who captures the White House?

Perception and history sometimes clash on this topic. While Republican presidents are generally viewed as more business-friendly, stocks have historically performed better under Democratic presidents.

Still, advisers say the country's current fiscal and economic challenges are leading some voters to think this election will have a significant impact on the markets.

In one recent survey by financial services company Allianz Life, for example, nearly 40% of respondents aged 55 to 65 said the presidential election would lead them to change their investment mix. Within that group, voters who identified themselves as Republicans or Democrats generally said they were likely to invest more conservatively if the opposing party won the White House; many Republicans also said they would invest more aggressively if Mr. Romney won.

Some financial advisers say that—within limits—the stakes are high enough this year to justify making those kinds of adjustments. Larry Rosenthal, president of Rosenthal Wealth Management Group in northern Virginia, argues that taxes would likely rise in a second Obama administration. That would make municipal bonds more attractive, Mr. Rosenthal adds, because those bonds get favorable tax treatment compared with many other investments.

Other advisers see the election results through the prism of the outlook for stocks. Bob Phillips, managing principal at Spectrum Management Group in India[napo]lis, believes that with a [M]r. Romney stocks in general "will rally in the short-term," in part because many investors have more confidence in Mr. Romney's ability to deal with the federal budget deficit. Over the longer-term, he predicts, health care and financial stocks will rally, since those industries would be likely to face fewer regulations. Mr. Phillips thinks stocks would fare less well in a second Obama term, turning 30-year Treasury bonds and gold into better bets for investors.

Ambitious portfolio moves can have significant drawbacks, however, including transaction costs that can eat into investors' returns. Many advisers argue that keeping an asset allocation in line with one's age and risk tolerance ultimately trumps any election outlook.

If anything, some pros say, investors overestimate the impact a president will have on assets and companies. Rick Salmeron, the founder of Salmeron Financial in Dallas, recalls seeing peers pull out of energy stocks after Mr. Obama was elected in 2008, believing his green-energy platform would hurt the oil industry; those investors ultimately missed out on significant gains. "Making a move like that could possibly do more damage to your portfolio than a president could do by signing a bill into law," Mr. Salmeron says.

Partisan Portfolios

How a group of older investors said they planned to react to the presidential election results:

What Republicans would do if Obama wins

- **43%** keep their strategy the same
- **15%** invest more aggressively
- **42%** invest more conservatively

What Democrats would do if Romney wins

- **58%** keep their strategy the same
- **12%** invest more aggressively
- **30%** invest more conservatively

Source: Allianz Life/Ipsos
The Wall Street Journal