MERITAS ADVISORS

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Insights

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Impeachment economics

As the impeachment process gets underway in the House of Representatives, President Trump has famously tweeted that the U.S. stock market will experience a severe decline if the process goes much further. This has led many money managers and financial planners to take a hard look at history.

There is no guarantee that history will repeat itself, of course, so this may be a futile exercise. And in modern times there have only been two impeachment processes (Bill Clinton and Richard Nixon), which is hardly a large sample size or significant track record.

To make matters more complicated, the two impeachments produced very different market outcomes.

Let’s start with the impeachment of President Clinton in starting in December 1998. The Senate acquitted Clinton in February of 1999. Stocks fell in anticipation of the release of the Starr report which detailed the case against the President; from July 17 through September 9, the S&P 500 dropped 19.4%. After that, however, during the actual trial, there was a significant rally. The entire decline had been recovered by November 28, 1998. In all, from the date the House voted to start impeachment proceedings on October 8, 1998 to the Senate’s acquittal on February 12, 1999, the S&P 500 posted a remarkable 28% gain.

So, impeachments are great for the market, right? Not necessarily. The downfall of Richard Nixon took the markets in the opposite direction. From the date that the newspapers reported the Watergate break-in on June 17, 1972 until the President’s resignation on August 8, 1974, the S&P 500 tumbled 23.7%.

It can be persuasively argued that economic conditions had more to do with the upturn and downturn than the political process of impeachment. In the 1973-4 period, the global monetary system was falling apart as the U.S. left the gold standard. Oil prices were spiking, leading to stagflation. Heading into the Clinton impeachment, meanwhile, the U.S. economy was booming and the market was flying high amid the tech boom, the advent of the Internet and a balanced federal budget.

President Trump may believe that the stock market is all about him, and previous Presidents may have thought so too. But the reality is that economic forces have much more influence on stock movements than the winds of politics.

Sources:

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The market at a glance

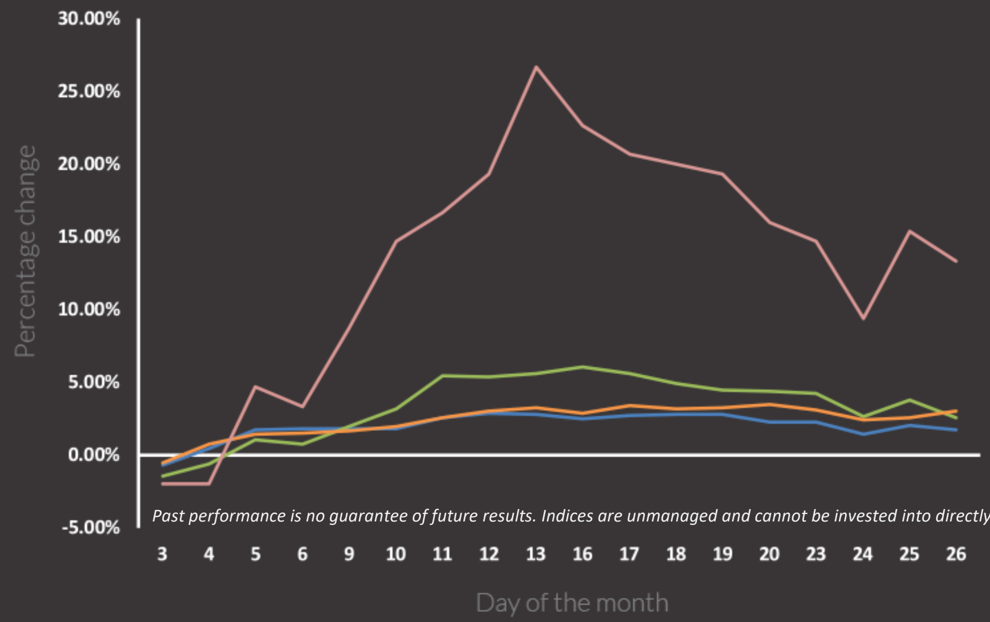
September

U.S. Large Cap
(S&P 500)
2,976.74 (1.72%) ▲

U.S. Mid/Small
(Russell 2000)
1,523.37 (1.91%) ▲

International Large
(NYSE International 100)
5,398.82 (2.42%) ▲

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
1.68 (12.00%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- The Federal Reserve lowered interest rates in an effort to prolong economic expansion moving forward. Its target for the federal funds rate was lowered by a quarter percentage point, now falling in a range of 1.75 percent to 2.0 percent. This marked the second rate drop of 2019 so far.

- American commercial real estate and shared workspace provider WeWork announced it has withdrawn its highly anticipated S-1 filing for its IPO. Since the release of its S-1 filing, the company has been criticized for being overvalued and has seen co-founder and former CEO Adam Neumann step down.

- Transportation service company Uber has laid off 435 employees from its product and engineering teams, following its dismissal of 400 marketing employees in July. Since its IPO in May, Uber has lost more than 20 percent of its value, though shares were trading up four percent following the news.

- Teenage clothing retailer Forever 21 announced it has filed for bankruptcy. The chain, which currently operates 800 stores, said it will be closing between 300 and 500 locations to help cut costs. These closings will add to the running total of the more than 8,200 U.S. retail store locations closed in 2019.

Post-death **planning**

Have you ever wondered what happens to your unpaid bills after you die? You might be surprised to know that it depends on what kind of debt is still outstanding.

In most cases, your estate will have enough assets to pay off all bills—assuming you have a positive net worth at the time of death. But understand that life insurance proceeds, retirement and annuity accounts and brokerage accounts are left outside the estate—and therefore cannot be forced to pay off debts. Your estate's actual net worth may not be as great as you think it is.

Your executor will review the assets and debts in your estate and prioritize the debts according to some fairly straightforward rules. Certain creditors, like those who issue medical or mortgage bills, must be paid first. A probate court will decide which remaining debts go in which priority, unless there are clear directions in your will.

Mortgage debt normally passes to the spouse or partner whose name is also on the loan documents, but if there is no joint mortgage holder, and the estate has insufficient funds to pay the mortgage, whoever inherits the home can usually move in and resume making the mortgage payments. The rules are different with home equity loans; with these, the bank can demand that whoever inherits the home (and the loan) immediately repay the outstanding balance. However, this is not required of the lender; in many cases, the bank will agree to let the heir continue to make the loan repayments on schedule.

Auto loans work similarly to mortgages; the estate handles payments if the money is available. If not, whoever inherits the car has the option to continue making payments or selling the vehicle to cover the cost of the auto loan.

What about credit cards? Any joint account holder is liable for the debts after the co-account holder dies. But if you're the sole account holder, the credit card cannot go after any unpaid debts from your estate when you die. Spouses who live in community property states may or may not be liable for the outstanding debt.

Student loans are typically paid out of the estate, but if those funds are not available, the loan provider cannot force anyone to pay off the loans, since they are unsecured. However, if there is a co-signer for the loan, that person is liable for repaying the debt. Once again, however, a spouse in a community property estate may be liable for student loans incurred during the marriage.

Many financial planners will recommend a term life insurance policy for a specified time for people who are still building their financial lives, to avoid burdening the family with debt in the event of a premature death. And, of course everybody should have a will, and the will should clarify where the existing financial accounts reside, and how to access them. A little upfront planning can save having to deal with a mess later on.

-Bob Veres

Source:

https://www.thestreet.com/personal-finance/debt-management/what-happens-to-your-debt-when-you-die-15106476?puc=yahoo&cm_ven=YAHOO&yptr=yahoo

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