

2020 ELECTION SERIES: PART 1

# Election 2020 Uncertainty: What you can proactively do for your client

You may feel that the 2020 elections are still too far away to necessitate any investment planning, or you may feel it's unnecessary. While Innovator doesn't have an opinion on who will win, markets generally favor "knowing over not knowing." With the range of issues that Democrats and Republicans have to tackle, uncertainty in concert with market volatility is likely to continue.

Headlines are dominated by U.S.-China trade tensions and a possible impeachment trial for President Trump. On the other side, Elizabeth Warren and Bernie Sanders are emerging as leading Democratic presidential contenders, but their anti-business rhetoric has not inspired much goodwill in the markets. In this environment, there is an opportunity to help clients seeking to mitigate losses from inevitable market swings and downside events.

For historical perspective, from the table below, since 1928, the broad S&P 500 index has been positive 19/23 election years. Moreover, if we examine the past three years since President Trump has been in office, the average level of the CBOE Volatility Index (VIX) has been at 14.49, while the S&P 500 has had an annualized return of 13.37%. Immediately preceding this period, during President Obama's second term in office, the average level of the VIX was at 15.2, while the S&P 500 had an annualized return of 11.1%. This is not to say, however, that there has not been noteworthy intraday (e.g. the Dow plunged 8% on a single day, August 14, 2019) or intramonth volatility (the S&P 500 was up or down more than 1% nine times in December 2018: CNN).

S&P 500 STOCK MARKET RETURNS DURING ELECTION YEARS<sup>1</sup>

YEARS	RETURN	CANDIDATES
1928	43.6%	Hoover vs. Smith
1932	-8.2%	Roosevelt vs. Hoover
1936	33.9%	Roosevelt vs. Landon
1940	-9.8%	Roosevelt vs. Willkie
1944	19.7%	Roosevelt vs. Dewey
1948	5.5%	Truman vs. Dewey
1952	18.4%	Eisenhower vs. Stevenson
1956	6.6%	Eisenhower vs. Stevenson
1960	0.5%	Kennedy vs. Nixon
1964	16.5%	Johnson vs. Goldwater
1968	11.1%	Nixon vs. Humphrey
1972	19.0%	Nixon vs. McGovern
1976	23.8%	Carter vs. Ford
1980	32.4%	Reagan vs. Carter
1984	6.3%	Reagan vs. Mondale
1988	16.8%	Bush vs. Dukakis
1992	7.6%	Clinton vs. Bush
1996	23.0%	Clinton vs. Dole
2000	-9.1%	Bush vs. Gore
2004	10.9%	Bush vs. Kerry
2008	-37.0%	Obama vs. McCain
2012	16.0%	Obama vs. Romney
2016	11.9%	Trump vs. Clinton
2020	?	Trump vs. Undetermined

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. ONE CANNOT INVEST DIRECTLY IN AN INDEX.

**"In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus, for most investors, market timing is a practical and emotional impossibility"**

—BENJAMIN GRAHAM, *The Intelligent Investor: A Book of Practical Counsel*

As we know, historical returns do not provide a guidepost for the future. Instead, Innovator has a future-focused solution for your clients that allows them to "stay out of the fray" and focus on their long-term financial goals, without getting caught up in timing election noise.

Innovator believes staying invested in the US Large Cap market, through the Innovator S&P 500 Buffer, Power Buffer, or Ultra Buffer ETF, may be beneficial where the downside buffer level, upside growth

potential to a cap, and outcome period are all known, prior to investing. Innovator issues these ETFs monthly, and with varying levels for the downside buffer (9%, 15%, and 30% respectively). The ETFs reset annually and can be held indefinitely. Further, unlike other options-based strategies available in mutual funds or other vehicles, Innovator believes the Defined Outcome ETFs can be an attractive alternative due to its transparency, intra-period liquidity, and the potential for more tax-efficiency in the ETF wrapper.



Innovator sees the next 12-15 months marked with uncertainty and volatility. Depending on your clients' situation, we recommend these specific solutions:

ETF NAME	TICKER	STARTING BUFFER LEVEL	STARTING CAPS	OUTCOME PERIOD END DATE	CLIENT CONCERN
Innovator S&P 500 Buffer ETF	BNOV	9%	14.03%	October 31, 2020	Desires to be out of the market before election night
Innovator S&P 500 Power Buffer ETF	PNOV	15%	8.75%	October 31, 2020	
Innovator S&P 500 Ultra Buffer ETF	UNOV	30% <sup>2</sup>	7.83%	October 31, 2020	
Innovator S&P 500 Buffer ETF	BDEC	9%	13.35%	November 30, 2020	Desires to be in the market through election night, but exit a few weeks after
Innovator S&P 500 Power Buffer ETF	PDEC	15%	8.63%	November 30, 2020	
Innovator S&P 500 Ultra Buffer ETF	UDEC	30% <sup>2</sup>	7.35%	November 30, 2020	
Innovator S&P 500 Buffer ETF	BJAN	9%	TBD <sup>3</sup>	December 31, 2020	Desires a buffer against market volatility and losses for a full calendar year
Innovator S&P 500 Power Buffer ETF	PJAN	15%	TBD <sup>3</sup>	December 31, 2020	
Innovator S&P 500 Ultra Buffer ETF	UJAN	30% <sup>2</sup>	TBD <sup>3</sup>	December 31, 2020	

**Innovator is committed to helping investors better control their financial outcomes by providing investment opportunities they never considered or thought possible. For additional information, visit [www.innovatoretfs.com](http://www.innovatoretfs.com).**

<sup>1</sup> Source: Dimensional Funds Matrix Book (Stock Market Performance in Presidential Election Years)

<sup>2</sup> The Innovator S&P 500 Ultra Buffer ETF is designed to deliver a defined buffer level against a decline in the S&P 500 from -5% to -35%, over the outcome period.

<sup>3</sup> The Cap for each Fund will be set at the beginning of the Outcome Period, and is dependent upon market conditions at that time. Periods of high market volatility could result in higher caps, and lower volatility could result in lower caps.

The VIX is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

**The funds seek to generate returns that match the S&P 500 Price Index, up to the Cap on potential upside returns, while limiting downside losses over a 1 year period, before fees and expenses.**

Investing involves risks. Loss of principal is possible. The Funds face numerous market trading risks, including active markets risk, authorized participation concentration risk, buffered loss risk, cap change risk, capped upside return risk, correlation risk, liquidity risk, management risk, market maker risk, market risk, non-diversification risk, operation risk, options risk, trading issues risk, upside participation risk and valuation risk. For a detail list of fund risks see the prospectus.

**FLEX Options Risk.** The Fund will utilize FLEX Options issued and guaranteed for settlement by the OCC (Options Clearing Corporation). In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund could suffer significant losses. Additionally, FLEX Options may be less liquid than standard options. In a less liquid market for the FLEX Options, the Fund may have difficulty closing out certain FLEX Options positions at desired times and prices. The values of FLEX Options do not increase or decrease at the same rate as the reference asset and may vary due to factors other than the price of reference asset.

These Funds are designed to provide point-to-point exposure to the price return of the S&P 500 via a basket of Flex Options. As a result, the ETFs are not expected to move directly in line with the S&P 500 during the interim period.

Investors purchasing shares after an outcome period has begun may experience very different results than funds' investment objective. Initial outcome periods are approximately 1-year beginning on the funds' inception date. Following the initial outcome period, each subsequent outcome period will begin on the first day of the month the fund was incepted. After the conclusion of an outcome period, another will begin.

Fund shareholders are subject to an upside return cap (the "Cap") that represents the maximum percentage return an investor can achieve from an investment in the funds' for the Outcome Period, before fees and expenses. If the Outcome Period has begun and the Fund has increased in value to a level near to the Cap, an investor purchasing at that price has little or no ability to achieve gains but remains vulnerable to downside risks. Additionally, the Cap may rise or fall from one Outcome Period to the next. The Cap, and the Fund's position relative to it, should be considered before investing in the Fund. The Funds' website, [www.innovatoretfs.com](http://www.innovatoretfs.com), provides important Fund information as well information relating to the potential outcomes of an investment in a Fund on a daily basis.

The Funds only seek to provide shareholders that hold shares for the entire Outcome Period with their respective buffer level against S&P 500 Price Index losses during the Outcome Period. You will bear all S&P 500 Price Index losses exceeding 9%. Depending upon market conditions at the time of purchase, a shareholder that purchases shares after the Outcome Period has begun may also lose their entire investment. For instance, if the Outcome Period has begun and the Fund has decreased in value beyond the pre-determined buffer, an investor purchasing shares at that price may not benefit from the buffer. Similarly, if the Outcome Period has begun and the Fund has increased in value, an investor purchasing shares at that price may not benefit from the buffer until the Fund's value has decreased to its value at the commencement of the Outcome Period.

***The Funds' investment objectives, risks, charges and expenses should be considered before investing. The prospectus contains this and other important information, and it may be obtained at [innovatoretfs.com](http://innovatoretfs.com). Read it carefully before investing.***

Unlike mutual funds, the Funds may trade at a premium or discount to their net asset value. ETFs are bought and sold at market price and not individually redeemed from the fund. Brokerage commissions will reduce returns.

Innovator ETFs are distributed by Foreside Fund Services, LLC.

Copyright © 2019 Innovator Capital Management, LLC | 800.208.5212