



Monthly Update

April 2020



The Big Bear of Q1 2020

Carl W. Hafele, CFA, CPA

Co-Chief Investment Officer, Principal

The worst quarter since The Great Recession is now behind us – good riddance! The first month and a half saw an increase of 5% through February 19th before falling 35% in just a month from the high, bottoming at 2237 on March 23rd. Fiscal and monetary bazookas propelled an increase of over 15% off the lows as the Coronavirus climbed the curve. So the quarter ended down 20% – an extremely quick bear market.

I wrote *A Perspective on Crises* on March 13th and *Where's the Bottom?* on March 20th. The latter suggested the bottom in the short run could be around 2200 or an average 35% decline from the peak – not too bad! We thought a recap of the first quarter and a look at past bear markets may be of interest to our fellow investors.

Bear Market History

There are various classifications of bear markets. There have been 18 bears over the last 100 years prior to the COVID-19 bear of 2020.

Classification	% Decline	Number	% of Bear Markets	Comments
Normal	< 30%	7	39%	Part of Capitalism
Big Bears	30-50%	5	28%	Painful
Polar Bears	~50%+	5	28%	Includes 2000 and 2008
Great Depression	80%+	1	5%	Minimal Financial System Knowledge

Sources: Ibbotson Data; Bank of America

IF we have seen the worst on March 23rd, this COVID-19 crash would be characterized as only a big bear. Feels a lot worse than that as we all quarantine ourselves at home.

History suggests bear markets tend to hang around a bit longer than a few weeks. Statistically, bears last 10-20 months depending on which time period is chosen and one's bear market definitions. During the 2000-2002 decline, there were three advances of ~20% before the bear ended. In 2007-2009, there were two. In basketball terminology, those were head fakes! The advances since March 23 could be one.



Estimates of Q2 GDP of negative 25%+ and earnings decline not seen in my lifetime are alarming. When you think about the economic impact of not flying, not going to sporting events or concerts, avoiding restaurants and backyard barbecues for vacation – that’s a mammoth headwind!

Unprecedented fiscal and monetary policy moves will unquestionably “ease the blow,” but nobody knows to what extent. Markets are discounting entities, and they eventually look to the intermediate and longer term future. Only containing the virus and how successful we will be in “flattening the curve” can predict when we will look beyond this crisis.

Not to sound like a broken record, your risk appetite and tolerance are built into your asset allocation targets. The first three rules of investing – diversify, diversify and diversify – help mitigate portfolio risks most of the time. In times of severe crises, it is possible diversification is not as effective as we would like. However, preliminary first quarter results reiterate the three rules.

Carl W. Hafele, CFA, CPA, is Co-Chief Investment Officer and Principal at Lanier Asset Management. He is also an instructor in Finance and Economics for the MBA program at Bellarmine University.

Past performance is no guarantee of future results. Investing entails risk, including possible loss of some or all principal. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges. It should not be assumed that your account holdings correspond directly to any comparative indices.

Lanier Asset Management, LLC (“Lanier”) is an SEC registered investment adviser located in Louisville, Kentucky. The firm’s CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Certain representatives of Lanier are also Registered Representatives offering securities through APW Capital, Inc., Member FINRA/SIPC. 100 Enterprise Drive, Suite 504, Rockaway, NJ 07866 (800) 637-3211.

Building Confidence and Security in Your Financial Future

Proprietary and Confidential