

## In the Markets Now

Nervous investors? Higher returns.

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

**PWM Equity & Fixed Income Research**  
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August 2021

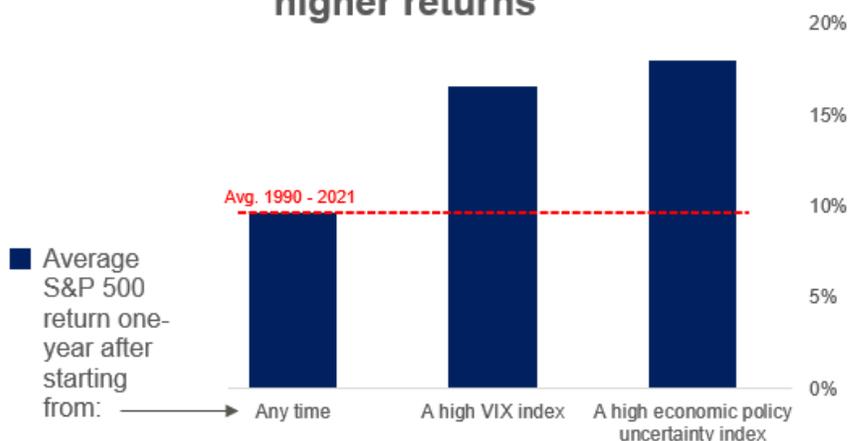
### ON OCCASIONAL CONTRARIANISM AND SENTIMENT AS AN INDICATOR

There's an old investing adage that goes, "buy when there's blood in the streets, even if it's your own." It's a bit dramatic for my taste, but there's still wisdom in those words: focusing on the longer-term (even if you're staring down chaos), being patient and resolute, sticking to a plan, and even being contrarian when the opportunity calls for it.

I was reminded of the importance of some of these ideas when parsing through the most recent [Strategas Market Gauge](#). The gauge—a broad appraisal of key market conditions—recently turned positive after shifting "Sentiment" from a negative to a positive. Now, "Sentiment" is a funny indicator—it really only becomes a positive when it is getting worse, i.e. when investors are becoming more scared or defensive. And on the flip side, investor overconfidence (as represented by aggressive inflows, euphoric sentiment, bullish positioning, etc.) can actually be reason for pause. It's a contrarian indicator through and through.

And while being a contrarian all the time isn't the money-making endeavor one might think, occasionally swimming against the tide can be valuable in investing. Consider that forward returns for the stock market are much higher when beginning from a place of elevated fear (as measured by the VIX) or uncertainty (as measured by numerous policy uncertainty indices). Our chart to the right shows how the S&P 500 outperforms when starting from a top quintile VIX or Economic Policy Uncertainty Index reading; said simply, **when many are nervous or uneasy, it can be a good time to dip one's toes in the water.**

### Fearful starting points often lead to higher returns



Or what about the bear market of 2020? Hard to think of a scarier or more negative time in recent memory than the early days of the Covid-19 pandemic. However, we now know that the moment of peak fear would ultimately prove to be a generational buying opportunity. From the depths of the Covid-19 bear market through today, the S&P 500 has roughly doubled (!) for one of the strongest stock market rallies in a century. Buying stocks then was not only contrarian but required genuine fortitude.

In the end, the world remains an uncertain place. But as the wall of worry builds (inflation, China, Covid-19, geopolitics, taxes—you name it) and investors get more defensive, just remember that being a contrarian in times of uncertainty and fear can be a winning strategy. At the very least, take solace that today's environment is not one of unbridled optimism and investor euphoria, and that "Sentiment" is again an asset on the side of the long-term investor. Reach out to your Baird Advisor to talk about this, or any other topic, today.

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