

In the Markets Now

The high cost of certainty

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.

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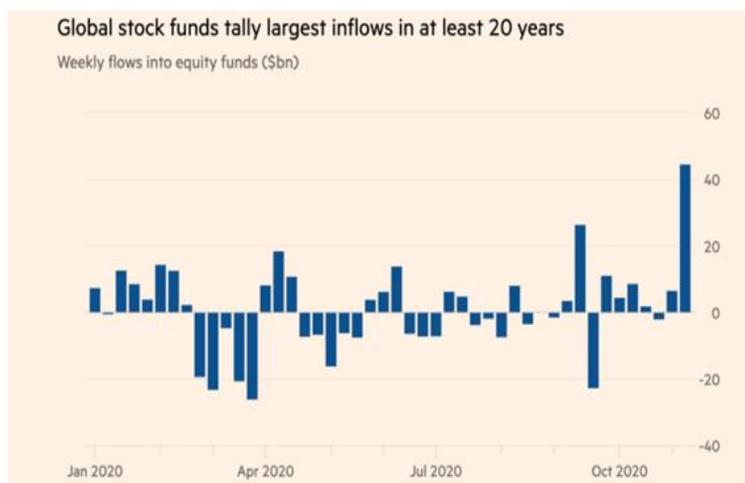
November 2020

ON INVESTING IN AN UNCERTAIN WORLD

For the entire year, two items hung over investors like a dark cloud above a Sunday picnic: the 2020 election (which was as contentious and hotly contested as expected) and the coronavirus pandemic. Both produced tremendous uncertainty as to what the world might look like over the coming years. And in a twist of irony only 2020 could pull off without seeming over the top, both were resolved over just a handful of days this month—a new President-elect and two vaccine candidates so effective that even their creators were surprised. For a moment, the dark cloud of uncertainty seemed to have passed.

This moment of increased clarity led to a veritable gold rush of stock-buying. Citing data from EPFR, Bank of America said inflows into global stocks in the last two weeks soared to \$71.4 billion, the biggest ever. Relatedly, survey data now reveals a historically high percentage of bullishness and put/call ratios show increasingly aggressive positioning.

On the Monday morning of the Pfizer vaccine news (after the presidential contest was called on Saturday), the S&P 500 was already 60% off of the March lows, up over 10% for the year, and flirting with all-time highs. While there's nothing wrong with investing near new highs (as we've noted), this mad dash into stocks proves that uncertainty kept many from participating in this year's historic rally.



Source: Financial Times

The idea of certainty in investing is just a facade anyway. The reality is that we live in a world where the only certainty is uncertainty (besides maybe death and taxes). Geopolitical tensions, financial crises, political squabbling, economic upheaval—all have been mainstays of the last 75 years, and yet the S&P 500 total return over that time was ~300,000% anyway. In truth, by the time investing feels safe, most of the gains have probably already been made.

I'll end with this great summarizing quote by poker champ Annie Duke: "What good poker players and good decision-makers have in common is their comfort with the world being an uncertain and unpredictable place. **They understand that they can almost never know exactly how something will turn out.** They embrace that uncertainty and, instead of focusing on being sure, they try to figure out how unsure they are, making their best guess at the chance that different outcomes will occur."

Investing under uncertain conditions can be scary, but it is critical to participating in long-term stock market gains. Work with your Baird Advisor today to craft a robust plan built to weather the uncertainties ahead and help you reach your financial goals.

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IF2020-1123

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