BAIRD
Private Wealth Management

In the Markets Now

On being patient while markets bottom, and prepared when they rally

The volatility of the last few months has been nearly unprecedented. Here, we aim to recap the action and hopefully provide some perspective to investors.

PWM Equity & Fixed Income Research
Ross Mayfield, CFA
Investment Strategy Analyst, 502-585-8994

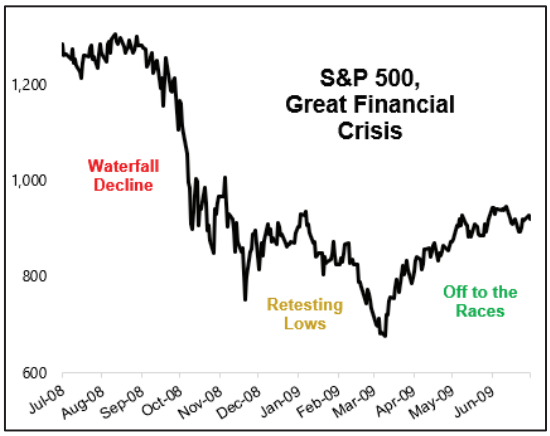
April 2020

THE BOTTOMING PROCESS

What a month, huh? I have zero doubt that March 2020 will be remembered as one of the most volatile and unique periods in market history. But enough ink has been spilled over the insanity of last month. April is here, and we move forward.

So now that the violence of the initial selloff has subsided, we can look to the future – namely: **How does a market bottom? Has it already happened?**

Stocks recently went through what our Chief Investment Strategist Bruce Bittles calls a "waterfall decline" (defined as a 20%+ fall over a very short period, populated by brief, erratic rallies). Thankfully, the rampant selling was broken by a sharp rally in late March. But halting the downward momentum was only the first step in a bottoming process that can be both painfully long and highly volatile. The three most recent bear markets all went on to new lows following their initial plunge. Bittles writes that this happens ~70% of the time.



This is frustrating, but it is the reality of most bear markets. Uncertainty overwhelms, leading to higher volatility and frequently erratic trading. The dot-com crash alone included four separate ~20% gains, all in the midst of a gut-wrenching, multi-year drawdown. Other bears acted similarly. Some of these moves were steep and short-lived, but others looked like they had real legs before eventually running out of steam and turning lower. Because of this sideways volatility, the head-fake rallies followed by deeper declines, these markets often test an investor's mettle more than the initial selloff.

Sure, we have an idea of what we'd like to see to begin feeling optimistic – broad, sustained upside participation (more individual names making gains, not just the index), fewer stocks making new lows (even if the index does), and less downside volume, among other things. But while many of these indicators have improved recently, the market and economy remain at the mercy of COVID-19. **This is a health crisis first and foremost**; the financials cannot begin to recover until there is solid evidence that the coronavirus pandemic is under some semblance of control.

Therefore, particularly in this environment, trying to call the market bottom is practically impossible. But that is why patience is a virtue – because when stocks do eventually make a bottom, they tend to revert to big gains, and quickly. In fact, a large share of a new bull market's return piles up in its infancy, precisely at the point of highest pain, when investors can be most fearful and least likely to want stock exposure. Perhaps this moment has already happened.

I don't know what the future holds. There is still tremendous pain yet to come, both on a human and economic level. Whether the market has ultimately bottomed or not, volatility will likely remain elevated for the foreseeable future. Thus, we conclude as we often do, by encouraging investors to reach out to their Baird Financial Advisor. It is in these times that revisiting your financial plan, risk tolerance, and asset allocation is the most beneficial.

Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

For investment advice specific to your situation, or for additional information, please contact your Baird Financial Advisor and/or your tax or legal advisor.

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB, and is a company authorized and regulated by the Financial Conduct Authority. For the purposes of the Financial Conduct Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Conduct Authority ("FCA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FCA requirements and not Australian laws.