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VIEWS FROM THE BRICK

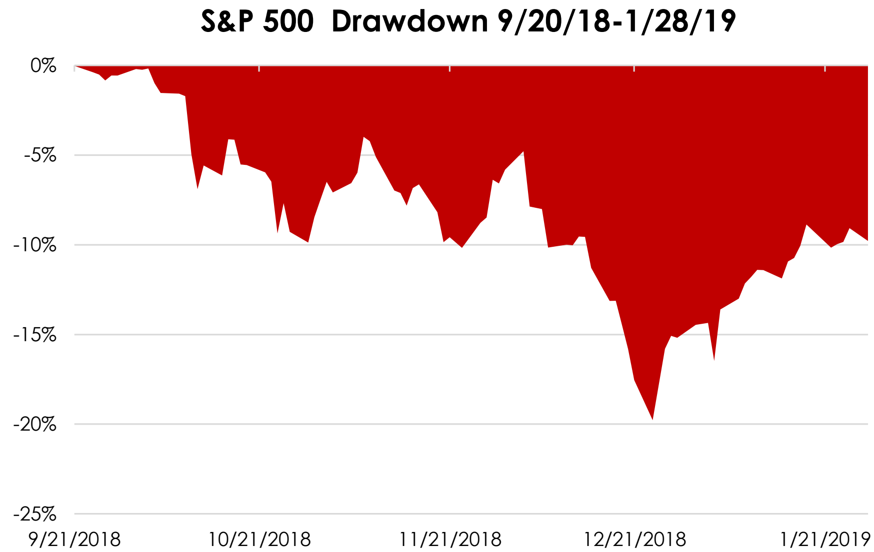
PUMP FAKES

The pump fake. A move designed to shake a defender from your side in attempt to create an opening, it's something of an art form in the world in sports. Basketball and football players specifically have adopted the strategy as a way to keep defenders honest. The execution of a good pump fake when the defense is feeling overly confident can throw a wrench in the rhythm of the game, completely shifting momentum. Knowing this, defenders must keep a disciplined approach in trying to shutdown prolific scorers. If not, they run the risk of looking like this, and a lot less like this. Investors are oftentimes in the position that many defenders are in when it comes to playing this game with Mr. Market. Keeping your head on a swivel is close to the only thing you can do as an investor. Studying fragile environments can help prepare yourself for the likelihood that you find yourself in one.

SHOOTERS SHOOT AND CATS BOUNCE

In basketball, an effective pump fake oftentimes doesn't need to be sold in order to be believable. The defender's opinion on the player they're guarding along with the shooter's reputation can often lead to defensive overreactions. Steph Curry perhaps is the greatest shooter in the history of the NBA. A guy who's capable and willing to pull-up and shoot from just about anywhere on the court and make it. If you're attempting to guard him, you're going to be anxious when trying to determine the appropriate time to try to contest a shot. His reputation, accuracy, speed of release and mechanics all help increase the likelihood of a defender leaping out the gym for all the wrong reasons.

When you're in a market environment that has seemed impervious for so long, investors can grow comfortable with certain routines. What we've seen for several years is the routine of buying the dip (#BTFD) when markets have taken a breather. However, with the dip that began last September, market participants who've been quick to buy what looked like sustainable rebounds have found out what a dead cat bounce can look like[1]:



Since the drawdown just 82 trading days ago, there've been two separate 5%+ rallies after the S&P 500 hit correction territory at the 10% drawdown mark. Since the -20% intraday low back in December, investors are now seeing a 12% rally off the bear market lows through Thursday (1/17/19). So, is the market about to shoot its shot?

BIG MOVES POPPIN

These bounces in price are what you get when you're dealing with a market that is in an unhealthy state. Taking a look back at the last 10 bear markets since 1950, large moves to the upside are often outnumbered by moves lower, but they're significant in size when they happen.

Bear Markets Since 1950 Peak to Trough: Max Daily Moves

Begin	End	Drawdown	Trading Days	Max 1 Day Move	Max 2 Day Move	Max 3 Day Move	Max 5 Day Move
7/15/1957	10/22/1957	-20.7%	71	1.7%	2.2%	2.1%	3.5%
12/12/1961	6/26/1962	-28.0%	136	4.6%	7.4%	7.0%	3.7%
2/9/1966	10/7/1966	-22.2%	168	2.1%	3.4%	4.3%	5.3%
11/29/1968	5/26/1970	-36.1%	370	2.1%	3.9%	4.5%	4.4%
1/11/1973	10/3/1974	-48.2%	437	4.1%	5.2%	6.3%	7.6%
11/28/1980	8/12/1982	-27.1%	431	3.3%	4.6%	4.8%	5.8%
8/25/1987	12/4/1987	-33.5%	72	9.1%	14.9%	10.4%	12.3%
3/24/2000	10/9/2002	-49.1%	638	5.7%	7.2%	8.5%	13.2%
10/9/2007	3/9/2009	-56.8%	356	11.6%	13.2%	13.9%	19.1%
9/20/2018	1/17/2019	-20.2%	65	5.0%	5.9%	5.7%	6.8%
Average		-34.2%	274	4.9%	6.8%	6.8%	8.2%
Long Term 3SD + Move				*2.9%*	*4.2%*	*5.1%*	*6.6%*

The biggest one, two, three and five-day moves within the context of a 20% drawdown have all exceeded what would register as a 3 standard deviation positive move for the entire period from 1950-2019 when looking at the S&P 500[2].

SOURCE: This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.[2] Data from Bloomberg, tables made by GFG Capital.

Bear Markets Since 1950 Peak to Trough: Average Positive Moves

Begin	End	Drawdown	Trading Days	Positive 1 Day Move	Positive 2 Day Move	Positive 3 Day Move	Positive 5 Day Move
7/15/1957	10/22/1957	-20.7%	71	0.54%	0.91%	0.94%	1.02%
12/12/1961	6/26/1962	-28.0%	136	0.60%	0.89%	1.01%	1.01%
2/9/1966	10/7/1966	-22.2%	168	0.53%	0.53%	0.97%	**1.55%**
11/29/1968	5/26/1970	-36.1%	370	0.49%	0.74%	0.94%	1.25%
1/11/1973	10/3/1974	-48.2%	437	**0.81%**	**1.22%**	**1.52%**	**1.97%**
11/28/1980	8/12/1982	-27.1%	431	**0.69%**	**1.02%**	**1.24%**	**1.58%**
8/25/1987	12/4/1987	-33.5%	72	**1.56%**	**2.66%**	**2.81%**	**2.43%**
3/24/2000	10/9/2002	-49.1%	638	**1.04%**	**1.41%**	**1.57%**	**2.11%**
10/9/2007	3/9/2009	-56.8%	356	**1.46%**	**2.12%**	**2.21%**	**2.36%**
9/20/2018	1/17/2019	-20.2%	65	**1.04%**	**1.32%**	**1.70%**	**2.32%**
Average		-34.2%	274.4	**0.9%**	**1.3%**	**1.5%**	**1.8%**
Long Term Average Positive Daily Moves				*0.7%*	*1.0%*	*1.2%*	*1.5%*
Average Spread as % of LT Average				*34%*	*34%*	*22%*	*17%*

On average, the positive moves over the one, two, three and five-day periods all exceed what the long-term average positive moves come in at as well, at a modest spread.

What's most interesting about these tables above is this: yes, all of these large moves higher are more significant than historical norms. But they're all being registered ***before*** the bottom in the selloff was put in. Meaning those rallies all were erased by significant moves lower, very shortly after the all clear signal had appeared to be flash.

Clearly, there's no shortage of pump fakes investors must try to not fall victim to in these environments. And trying to figure out which move higher, is the last one, before we're out of the woods. That's a task no investor should try to invest too much time in doing, as no bear is the same. The circumstantial evidence that accompanies each market is often unique to the economic environment in which it's occurring.

Bear Markets Since 1950 Peak to Trough: Rallies After 20% Drawdown Before Bottoms

Begin	End	Drawdown	Trading Days	Lows After 20%	Days After 20%	Largest Rally After Bear, Before Bottom	Trough to Even
7/15/1957	10/22/1957	-20.7%	71	1	1	--	237
12/12/1961	6/26/1962	-28.0%	136	14	21	7.4%	299
2/9/1966	10/7/1966	-22.2%	168	3	29	7.4%	203
11/29/1968	5/26/1970	-36.1%	370	29	82	6.1%	451
1/11/1973	10/3/1974	-48.2%	437	173	213	4.2%	1462
11/28/1980	8/12/1982	-27.1%	431	56	114	8.01%	58
8/25/1987	12/4/1987	-33.5%	72	2	34	14.9%	414
3/24/2000	10/9/2002	-49.1%	638	24	396	21.2%	1166
10/9/2007	3/9/2009	-56.8%	356	24	168	24.2%	1021
9/20/2018	12/24/2018	-20.2%	65	0*	18*	12.1%*	
Average		-34.2%	274	36	118	11.70%	590

What's been relatively consistent is that new lows are set, and retested, following the initial 20% decline. On average, there have been 36 additional lows set by the S&P 500 following the initial perceived 20% low[3]. The two events in our sample size (which is admittedly small) that occurred outside of a recession were the lone events that saw single-digit additional lows in the route. But new lows, nonetheless.

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Is the current march higher the beginning of the end of this bear? We could spend an entire separate conversation on each of these Bear's bottoming process. But we know we'd be looking at 10 very different pictures.

There is no playbook for these types of situations. Just like how there's really no playbook for guarding a prolific scorer like Steph Curry. You can only hope to contain players like Curry, not shut him down.

For investors, the defense in these markets is largely being played against themselves, not Mr. Market (a real Fight Club conclusion, we know). It's easy for investors to dismiss broad, steep selling within the market as irrational. But the quick and vicious bounces higher can't be perceived as any less irrational. Therefore, knowing you're in a unique environment while digesting the data we're given as investors is key to survival.

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