

Rosefinch Research | 2022 Series # 13

Uncertainty of the Bottom



In a short month, the trending topics amongst the Shanghai investor forums are not about some star fund manager nor Hang Seng Tech Index, but how the quarantined CIO is missing the ordered chicken, or the manager mobilizing neighbors for Group delivery of daily bread. Back in Jan, it was a completely different scene: market was still focusing on new energy stocks, value-investors were concerned with its high valuation, while the growth-investors were beating the drum on the rosy outlook. And now with the wave of correction in 1Q22, both camps have quieted down. With the Ukraine conflict still ranging after two months, the external uncertainties weigh on investors' minds and risky assets are sold off across the board. The sell-off does release some risk factors, but just as Chinese market thought the bottom is near, the pandemic swept through Jilin Province and Shanghai, giving more anxiety, fear, and pessimistic future expectations. As Black Swans keep coming one after another, one has to ask: what if it's not the darkest hour before dawn? What if there's more darkness behind? Will there be more Black Swans coming?

The pessimism is spreading much like the pandemic. With future trends unclear, many investors choose to wait on the sidelines. In the past month, the Shanghai stock index has been trading sideways near the lows. It's quite taxing on the mind when the market is being dragged across the lows. One would almost prefer to have a large correction: a rollercoaster ride will have its dramatic drops, it pumps up our adrenaline, causes a lot of screams, and then it's over quickly with the ride back up again. Market sentiment will recover quickly, and so will the investors' confidence. But the sideways grind near the bottom is a different story: no one knows where the bottom is, and no one knows if the drop is coming. Yet everyone is asking: are we there yet? How much longer before we see the bottom? Many sell-side

analysts are pulling out various historical charts to find the patterns that may give the market comfort. The most important question to ask is: what does the market bottom mean? And is it that important? Howard Marks answered this exact question in his “The Market Cycle”.

To paraphrase Howard Marks: we strongly reject the thought that we should only buy after we’ve reached the bottom. First of all, we have no way of knowing when the market has reached the bottom. There is no neon lights that welcomes you to the bottom of cycle. It’s only after the bottom has passed that we know that was it, because the bottom’s definition is the low before the rebound. Second of all, it’s only during market sell-off that we can buy the most of what we want, because that’s when the sellers are really surrendering their positions and liquidating their holdings. In Howard’s view, investor can at best judge where we are in the cycle. We can use two sets of descriptions for different market situations. If the market fits most of the descriptions on the left, then it’s risky and you should cover your wallet; but it fits most of the description on the right, then do the opposite.

市场评估指南

经济现状	生机勃勃	停滞不前
经济展望	正面有利	负面不利
贷款机构	急于放贷	缄默谨慎
资本市场	宽松	紧缩
资本供给	充足	短缺
融资条款	宽松	严格
利率水平	低	高
利差水平	窄	宽
投资人	客观 自信 渴望买进	悲观 忧虑 无心买进
资产持有人	乐于持有	急于卖出离场
卖家	稀少	众多
市场	人群拥挤	乏人问津
基金	申购门槛高 每天都发新基金 基金管理人说了算	向所有人开放申购 只有最好的基金才能募资 基金投资人有话语权
近期业绩表现	强劲	萎靡
资产价格	高	低
预期收益	低	高
风险	高	低
流行风格	激进 四处投资	审慎且自律 精挑细选
易犯错误	买进太多 高价追涨 承受太多风险	买进太少 离开市场 承受太少风险

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Source: Market Cycle, Rosefinch

From behavior economic theory, the most useful thing the bottom gives people is not the low point, but the certainty. Humans desire certainty, lacks patience, and does not carry well extended period of uncertainty. **Peter Lynch have said that: in the stock market, the most important organ is your stomach. It's not the brain.** Everyone has the smarts to make money in the stock market, but not everyone has the stomach or the patience for it. And patience is exactly what you will need to withstand the sideways trading at the bottom of the range. The Black Swans are also reminding us that an orderly & high-growth world is not a matter of course. **Disorder is more likely the usual state of the world, so we will need enough patience to face the uncertain world. If the crisis has already happened, then keeping our patience is perhaps the most effective response.**

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