Good morning friends!

*Welcome to the first installment of a chat with FatCat. Given the amount of interest from ya'll in the mysterious realm of finance, I thought it prudent to write a series of briefs on how to interpret the market from a top-down perspective. I will do my best to keep within the confines of a layman's-brief format, please do not hesitate to jump on me if I step out of line. As always, this comes from a place of love. Sit back, relax, and do as a sponge does: Absorb!* 😉

The Bears and The Bulls!

As a slight preface to what these market types mean, it is important to understand an important concept: The market is built on the expectations of pessimists and optimists. Deeply psychological in nature, these forces have a profound impact on how the market interprets and prices in (reacts to) news. It is helpful to think of market participants (investors) as belonging to one of four categories: 1) Folks who always view the glass as half empty; 2) Folks who always view the glass as half full; 3) Folks who flip-flop between the two; and 4) Folks who observe the flip-floppers. Our goal is to always be a four; never quite pessimistic, never quite optimistic, but always weighing the sentiment of others.

You might ask, "why this is important?" Simple, when there are many pessimists a bear market will prevail and when there are many optimists a bull market will prevail. Let this serve as the first lens with which to observe the market. A healthy, objective view of the market is our goal and this is the first step towards achieving it. There are many complex forces acting on the market at all times and unpacking their interpretation is lengthy and difficult. For now, a simple view of these market types is our only concern.

The Bears!

A bear market is a condition where "securities prices fall and widespread pessimism causes the stock market's downward spiral to be self-sustaining. Investors anticipate losses as pessimism and selling increase." (Investopedia.com) To provide a more quantitative (math-based) measure, a bear market is a downward trend of greater than or equal to 20% from market tops over a two-month period. Any of the major indices can be used for this calculation: Dow Jones Industrial Average, S&P 500, Nasdaq, Russell 2000, etc.

The importance of recognizing a bear market for yourself is to understand how to properly interpret news. Specifically, the market's reaction (direction and magnitude) to the news. In a bear market, investors will shrug off or ignore good news, while focusing keenly on and reacting to bad news. Recognizing an early stage bear market may allow you to take steps to avoid giving back your gains or taking loses. If you anticipate or recognize a developing bear market there are a few options available to you:

1. Start to sell out of or downsize your positions
2. Buy downside protection through the purchase of put options (We can discuss these in detail more thoroughly later)
3. Liquidate (sell everything at whatever price if offered) your entire portfolio and exit the market all together

Each of the above options have their advantages and disadvantages. For instance, if we follow option three and are wrong we may miss out on any subsequent rallies. If we look at 2017 for example, there were plenty of well-versed market pundits who drifted into pessimistic territory and exited the market. They ignored general market sentiment and then proceeded to miss out on a year in which the Dow rose by 30%! I am sure you'll have questions as to the pros and cons of the other options, but remember, the purpose of this brief is to serve as an introduction which precedes our future conversations together.

## The Bulls!

Ever seen negative news in the papers, only to watch the market to proceed to new highs? Welcome to the essence of a bull market. Bull markets generally exist more frequently and last longer than bear markets do and "are characterized by optimism, investor confidence and expectations that strong results should continue." (Investopedia.com)

Earlier in 2017, North Korea was launching rockets and it seemed the situation might escalate with a nuclear war close to follow. How did the market respond? It didn't! The market largely ignored news coming from the Korean peninsula and continued to push towards all times highs. When optimism is this present in the market, it takes a very serious set of events to turn the tide.

In bull markets there are never a shortage of market pundits looking to call tops and gain fame. In my opinion one of the best indicators of a continuing bull market is the dismissal of bad news. So long as bad news doesn't derail the markets momentum, then the market will likely push higher. In bull markets don't let "all time high numbers" dissuade you from interpreting the tea leaves. We can look the DOW surpassing 26,000 earlier in 2018 as an example. Folks went so far as to have "Dow 26,000" hats made. But what does that number mean in reality? Absolutely nothing except for the psychological impact those big, round numbers have on investors.

When recognizing a bull market, it is important to remain exposed to the market (buy and own stocks). There are many avenues with which to achieve this goal:

1. Individual stocks
2. Exchange Traded Funds (ETFs)
3. Mutual Funds
4. Buy Call options

Each of the above options have their advantages and disadvantages. For instance, if we follow option one and buy stock of a company that is performing poorly, we could lose money while the rest of the market does well. General speaking, ETFs and mutual funds are designed to aid us in side-stepping this mistake as they essentially invest in a basket of stocks on our behalf. We can delve into these options more deeply another time though, for now simply remember the bears and the bulls.

## Final Note!

It is incredibly tempting to label market news and subsequent stock movements as "bad" or "good." Instead, every piece of news or movement should be viewed as a piece of the puzzle worth understanding. Once digested, we can position ourselves to capitalize on both the up and down movements of the market.