

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Instant Thoughts

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Fear Strikes

- **Rattled by the Fed's signal to lance the QE boil, risk assets are ending the week poorly. Chance are a retest of lows will follow.**
- **The bottom line is, we don't believe we're on the cusp of financial crisis. Key members remain keen to draw a line between taper and rate hikes. Having the market debate taper ad nauseam, at some point, market will get bored and move on.**
- **While buying is a more exciting process, selling is another source of excess return in its own right, not merely a way to raise cash.**

Perfect calm is never meant to persist. Rattled by the Fed's signal to lance the QE boil, the second law of thermodynamics – things tend toward disorder over time – becomes the order of the day. As tragedy would have it, what was supposed to be a trickle became a tidal wave. Sea of red is flickering like a Christmas tree on screen.

No one has a crystal ball. A cursory look at history, however, reveals the stomach-churning possibility in the aftermath of an extended bull run: no story seems too bad to be true. Odds are a retest of lows will follow.

Despite that, as philosopher William James reputedly said: "The art of being wise is the art of knowing what to overlook." There are good reasons not to panic in this dark hour. Conversations in 2014 proceeded in exactly the same way, positioning was similarly lopsided. Then, inexplicably, comes the yield flash crash, not a yield spike, in October. Fast-forward to today, key FOMC members remain equally keen to separate between taper and rate hikes. Having the market debate taper ad nauseam, investors will eventually get numbed and move on.



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The bottom line is, we don't believe we're on the cusp of financial crisis. Oft-ignored, while buying is a more exciting process, selling is another source of excess return in its own right, not merely a way to raise cash. Perhaps investors, with the right ingredients, could emulate Hercules. The Greek hero grappled with Nereus, who while wrestling could change shape from lion to snake to a tree. But Hercules never let go. Rather the Greek hero adjusted his hold through thick and thin. In the end, Hercules prevailed.



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