ANSWERING YOUR INVESTING FAQS

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**Investing FAQs**

The Coronavirus (COVID-19) and its impacts are shaking up financial markets and the economy. It can be tough to keep up with all the terminology being used, and what it all means for you and your investments. Below, we answer some of the most frequently asked questions about current economic events.

**What is a bear market?**

There is no official definition of a bear market. Everyone from investment managers, to the government, to the financial media have their own definitions. Typically, a bear market is defined when an asset falls by 20% or more from its all-time high. Some groups use intraday highs and lows to declare bear markets, and others use a daily or monthly official close.

We believe that getting caught up in the definitional intricacies for exact highs, lows, and closing prices misses the point. We believe real bear markets are sustained for lengthy periods of time. They are characterized by investor pain that is significant enough to reset the business cycle, and over the long-term, they often present attractive buying opportunities for active investors.

**Does the market trade outside operating hours?**

The US stock market trading hours are between 9:30 am and 4:00 pm EST, Monday through Friday. While typical trading hours are in that narrow window, many investors want to trade 24/7.

Electronic trading exchanges allow investors to trade securities, often futures, anytime. Unlike normal trades which are effective immediately, futures are agreements to execute the trade at some point in the future, with the time and price predetermined. These agreements can be made on a wide array of securities, including stocks, bonds, indexes, currencies, and more.

**What does limit down mean and why do markets sometimes halt trading**?

The SEC's limit rules are designed to minimize excessive volatility that can sometimes occur during particularly stressful market moments. There are different procedures depending on the time and security type.

During normal trading hours, there are automatic trading circuit breakers that kick in if securities fall below certain thresholds. The first trading curb halts markets for 15 minutes should equities fall below 7%. After reopening, if selling continues past 13%, trading will again shutdown for 15 minutes. The last breaker kicks on at 20%, and if triggered, this final measure shuts down trading for the remainder of the day. There are minor exceptions for end-of-day trading.

During off trading hours, there are different rules for stock market futures contracts. Futures contracts have a hard upside and downside limit of 5%. Once price movements hit these thresholds, they cannot rise or fall any further until markets open.

**What happens if the stock exchanges close their trading floors? Is M&N affected?**

If the stock exchanges were to close their physical locations, there would be a negligible impact on our ability to manage accounts. The major stock exchanges, such as the New York Stock Exchange (NYSE), can continue to conduct operations even if the physical location is shut down.

Markets have evolved over time, and today, the vast majority of equity trading is conducted electronically, including exchanges beyond the NYSE such as the electronic-only NASDAQ. Either way, the NYSE is prepared and capable of trading without having in-person traders at its physical location.

Lastly, it should be mentioned that the Chicago Mercantile Exchange (CME), the largest futures exchange in the US, already closed its trading floor last week. For the CME, in-person trading was already only accounting for a small percentage of overall trading, making it easy to shut down in-person operations.

**What is liquidity and why is it important?**

Liquidity describes the ease of trading certain assets. It measures the ease with which assets can be bought or sold at fair prices and can change with market conditions. Cash, for example, is the most liquid asset and has value in all market environments. Assets such as real estate have low liquidity, and their liquidity can change at different times. Stocks and bonds typically have good liquidity, since they can usually be sold or traded within a few days at a fair price in most market environments.

Liquidity is important because, should someone need to quickly sell an illiquid asset, the price may need to be reduced below what it would otherwise be worth. Maintaining a certain level of liquid assets is vital for individuals and businesses to meet immediate needs and wants, such as debt payments and purchases, and especially during periods of market stress.

**What is quantitative easing and why is the Fed returning to it?**

Quantitative easing (QE) is a form of monetary policy, where a central bank, such as the Federal Reserve, buys securities from the market. QE is typically deployed during a low or zero interest rate environment.

The purpose of QE is to increase the money supply to support financial market liquidity. QE can increase the value of financial assets and lower interest rates, making it easier for consumers to borrow. It also acts as forward guidance that rates will not change for a while, as well as incentivizes investors to reallocate positions into riskier securities.