

MARCH 16 2020

INVESTMENT PORTFOLIO STRATEGIES: OUR INVESTMENT RESPONSE TO THE NOVELCORONA VIRUS (COVID-19) - "A RIFLE SHOT, NOT A SHOTGUN"

Financial Effects of COVID-19

- Consumers will spend far less on certain discretionary items like eating out and travelling but will also likely spend more on other items like Netflix and hand sanitizer. They will also be unable to afford mortgages if employment contracts are terminated or their number of hours are reduced. There will be a "knock-on" effect of COVID-19 through the banking system and credit card systems.
- Corporations will have trouble with the supply of parts for their products. They will reduce or eliminate some employment - even if temporarily. They will also reduce or eliminate capital projects for the foreseeable future. Revenues will fall faster and further in some industries than in others. In some industries, revenues may rise. The banking system will have "knock-on" effects through loans to businesses.
- I re-read our 2015 quarterly newsletter, which opened: "Global oil prices plummeted by 50%". We have seen markets like this before.
- This has positive implications for consumers and negative effects on oil producers.
- The banking and financial systems will have the largest impact on the stock and bond markets and will feel the credit squeeze more typical of an economic slowdown in the business cycle.
- Central banks will respond with lower interest rates, but the weight of the response will be on well-managed government initiatives and spending. The critical word is well-managed. Most people have confidence in the Canadian healthcare system but a lot fewer have confidence in the US federal government's capability to contain the virus.

Implementing Investment Portfolio Decisions

- We have sold McDonalds and Encompass Health in the US because we believe they are particularly vulnerable to the short-term financial effects of the potential impact of the virus
- We have sold CAE, the global leader in Boeing aircraft simulators.
- We have sold Parkland Fuel, even though it was a recent purchase, because of the disarray of oil prices.
- We have sold Descartes Group, a strong Canadian company in the field of supply chain logistics.
- We have sold Riocan real estate because of the short- and medium- term potential credit issues with commercial real estate rental markets.
- In a typical economic slowdown, your portfolio is balanced to your risk tolerance and other individual financial circumstances. We stay fully invested in these circumstances.

- In the case of COVID-19, there will be an economic slowdown different from a general slowdown.
- Your portfolio may carry 12-18% cash for this reason.
- We do not hold any Canadian or US banks nor do we hold Visa.

Summary

- We remain positive on the underlying strength and position of the financial markets particularly in the US.
- We can reasonably expect the financial markets to rise by 15-20% by year-end 2020 from this low point.
- We will continue to work with you on achieving your goals and remaining on plan throughout this short-term market downside.

If you have any questions or concerns, as always, please reach out to me at any time. We're here to help.

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