Manulife Securities

ROYDS REPORT

2nd one for Mar 2020

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Announcement

Effective Fri Mar 13, Jordan and I are suspending face to face meetings and will cease going to conferences and seminars in person, webinars and conference calls will have to suffice. We will be available by phone for you, or Skype if you prefer. We will just have to do paperwork by email and mail.

We hope that you understand this is the best way to keep you and us safe and help Canada curtail COVID-19.

E-mail Problems

Particularly in turbulent times, we get more than 100 e-mails a day each. Many are fund companies announcing information conference calls or sending updates on their funds. It is easy enough to miss seeing an e-mail from you in all this, but to add to that Elaine has been having some e-mails not arrive, particularly from people who just respond to an email from us that has a newsletter attached. So, if you want to write us a) please start a new email to us, rather than respond to this email, and b) if you don't get a response from us within 24 hrs of writing an e-mail to us (excluding weekends), then please e-mail again or call us. Also, if you e-mail both of us, at least one of us should get the e-mail, and we can respond. Sorry for any inconvenience. We really don't want to miss your communications and would like to get back to you in a timely fashion. Our security screening software may be overly sensitive, or there may be another problem!

Words About the Market

When we last wrote, most stock markets were down about 15%. This week we passed the -20% mark, which turns this from a correction into an official Bear Market. As I write this, the market looks to be down more and we expect it to fall in the 25-40% range, which is not that unusual from a historical perspective. Part of the fall may be because some stocks had been getting expensive. Part is because COVID-19 will disrupt some companies' trade and profits. The experts seem to think that even if 40-70% of the world catches the virus, that we will have seen the worst by June or the fall. The world may forever be changed in that the US may no longer import 70% of everything they need from a single country, China, and after the largest social experiment in history of having millions and millions of people all of a sudden work from home, more people may work from home for the long term. But, in less than a year, life will mostly be back to normal and companies' profits shouldn't be disrupted for the long term. There is a chance this will result in a short global recession, but China has probably escaped that. Their crisis is mostly passed and people are back to work.

If the worth of a company is "the present value of 20 years of profits", then this disruption shouldn't permanently affect a company's worth by much more than 5%. So, as usual, the market is panicking and stocks are oversold. That isn't to say that prices will right themselves any time soon. Markets usually go up before all the trouble is passed though, so don't wait till then to take advantage of this opportunity. And remember, some of the most positive market gains in history have happened within 2 weeks of the most negative losses. That actually happened on Fri Mar 5 and Mon Mar 8. We had a record down day followed by a record up day.

The oil war between Saudi Arabia and Russia is hurting oil prices worldwide. Some feel Russia is intentionally promoting it to put US Shale Oil companies and Canadian oil companies out of business. It will certainly hurt our country. Canada is probably in a recession now.

The .5% interest rate cut by American and Canadian central banks is a real double-edged sword. It may lessen the risk of companies going out of business as their income streams are being disrupted, but it is increasing the temptation for consumers to borrow more and to push house prices even higher. And Canadian consumers are way over-extended already. That could really come back to bite us. As individuals, all we can do is resist borrowing more. And if you have debt and your interest payments are lower, use the extra cash to pay off more of your debt.

Unfortunately there is an expectation that within 2 weeks we will see more interest rate cuts of up to .75% and we could see 1% mortgage rates! And, we could see the federal government announce even more spending to keep the economy going. Of all the G7 countries, Canada is in the best position to do this, because our debt to GDP ratio is low. This may help Canada avoid going to negative interest rates, which a good portion of the world has now and which hasn't proven to solve any problems. This would really hurt our most risk adverse retirees too. Fiscal spending instead of more monetary policy cuts would have fewer bad side effects.

Market trading is at 5 times normal levels. Most is from computers and do-it-yourselfers. Educated investors and money managers are not selling off in panic.

By the way, our managers did their jobs in the market. The portfolios we have looked at have not gone down as much as the market by any means. And the stocks your funds hold are quality, so we don't expect any permanent losses unless someone panics and sells while the market is down.

On Mar 12 Elaine went to a seminar with 100 people and was lucky enough to get 30 minutes of one on one time with each of 3 of our favourite and award-winning fund managers. They probably manager about $30 Billion between them, so it was a real privilege but also a timely opportunity. One had been selling a bit over the last couple of weeks to get some cash to buy after a bit more drop (which might already have happened). The other 2 had been "upgrading" their portfolios. They would sell some of their stocks to buy stocks they love even more that had fallen to even more attractive prices. That way when the recovery comes, they should get a bigger rebound and end up with a higher quality portfolio with even better long-term prospects. This is what our managers usually do when there is volatility and which is why our portfolios usually make more money than average after volatile times. Market shake-ups aren't to be feared; they are to be profited from.

Actions We Should Take Now or Soon

For a couple of years now you have been reading in our newsletters that this day would come, when markets are down a good 25%. It's a normal thing and shouldn't cause anyone to change their strategy or panic or jump out of the market or a window. It can be an opportunity. Those who took advantage of a similar one in Mar 2009 were well rewarded.

There are 2 strategies we support. First, if you have extra cash that you have been keeping on the sidelines out of fear or neglect, you could use it to buy into the market while prices are depressed. The stock market might continue down for a while longer. So, you could maybe wait a bit longer to go into the market, say until markets are down 30%. But, be careful not to wait till you miss a good chunk of the recovery. I remember after 2009 when the market had recovered from the 7000 level into the 11,000's, one client told me she would keep waiting to add money to the market "till the market recovered". The market had just gone up over 50%! How much more recovery did she want to miss? Don't make that mistake. It's better to get in at good prices even if you have to ride the market down more before you catch the up. Anytime after the market has dropped 25% is a good time to get in (at the time of writing this, the market is down over 20%). You also have the option to only put some of your spare money in at that point and then to keep adding more every week or month. If you see the market hit a -40%, go all in. We may not hit that level of a drop, and if we do, the market could still go down further, but -40% drops are rare. We've only had two since 1944. So, if we get one this time, don't waste it. Take advantage and buy all you can. This is even a time where leverage might make sense (that is, borrowing to invest), although leverage is not for the faint of heart or those with cash flow issues!

There is one other strategy we should implement soon or now. That is to take some of the most conservative holdings we have (like the low volatility funds) and sell them to invest in funds that have gone down more. Even the low volatility managers admit that they probably won't get all of the recovery, because anything that changes price too quickly (even up) gets thrown out of their portfolio. So, if we want to get all the recovery we can, we need to go with more active stock-picking managers. Because our favourite managers have been good at keeping us from going down as much as the market, we have had to search hard to find good managers who went down lots and whose recovery we think will be strong. Switching some to those kinds of managers at least until the market is fully recovered is a way to capitalize on this market downturn. Please call us to make changes like this to your portfolio is you have any funds with low volatility or Ivy in their names.

Elaine

L. Elaine Royds, MBA, CFP®

Senior Financial Advisor, Manulife Securities Incorporated
Financial Planner, Manulife Securities Insurance Inc.

Jordan

Jordan Royds

Financial Advisor, Manulife Securities Incorporated
Life Insurance Agent, Manulife Securities Insurance Inc.

Suite 303 - 1685 Main St W, Hamilton, ON   L8S 1G5

Office 905-393-0787   Toll Free 1-855-640-1857   Fax 905-393-0788
Website   www.roydsfinancial.com
Assistant Investment Representative: Sarah Breimer sarah.breimer@manulifesecurities.ca
Administrative Assistant: Amber MacDonald amber.macdonald@manulifesecurities.ca