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Topics in this Newsletter

The Economic Fallout of the Worldwide Health Crisis
When is Money Not the Same as Other Money?
The Importance of Liquidity, and ETFs Do Have Low Fees, But …
Central Bank Interest Rates at .25%

Who knew? We all should have invested in toilet paper. But that is old news. The latest shortage in New York City is cats and dogs to foster out. It seems misery like furry company. (Source: Bloomberg Opinion email Mar 28, 2020) Or maybe it's in preparation for rules like France and Spain have in place, where the only people allowed to go for walks are ones accompanied by dogs! According to an article by a journalist in France, people in Spain have such cabin fever that they've tried to walk stuffed toys. If one gets caught twice in France going outside without an approved reason, you get fined $5,735 and get 6 months in jail. (Source: Globe & Mail Mar 28, 2020) Maybe I should be loaning out my dogs, Holly and Piper?

The Economic Fallout of the Worldwide Health Crisis

First though a few thoughts on these turbulent times. I'll keep it relatively brief, because as soon as I put something on paper, the situation changes. Many people don't think the market is ready for a sustained recovery. The conventional wisdom is that we probably need to see a decrease in new COVID-19 cases first and oil prices need to stabilize at some reasonable level. Or, it might only take the perfection of a test to show who has antibodies for COVID-19, and is now immune and can go back to work early, to send the markets up. Such a test is under development. So, you may ask, why don't we get out of the market and wait till the market is ready to recover. First, we won't likely be nimble enough to jump back in in time, because we won't even know the bottom has been hit till some time afterwards. And if you are out of the market at the very bottom, you are likely to miss some of the biggest recovery days, because some usually happen within two weeks after the biggest down days (the last week of March was a perfect example with a 21% gain in 3 only days from the lowest point to date, which was the very day before). We can't afford to miss out on these big recovery days. And there is the possibility that the market might already have started its recovery. One of my favourite fund managers, David Fingold of Dynamic Funds, thinks the market hit bottom on Mar 23 and is in the recovery stage now. He said historically there is a 25% chance that the low will be revisited, and a 20% chance that the bottom could be revisited twice, but a 50% chance that the market will not go that low again. So not even the experts know where or when the market bottom will be. If we don't want to lock in losses or miss the recovery, we need to stay the course as per our original plans.

The other thing to remember is that the economy is hibernating; it isn't fundamentally sick or broken like in 2008. Most governments are throwing everything they can at the problem: trying to stop the spread of the virus, to keep liquidity in the markets, to keep people employed, to help companies with their cash

flow and to make it easier to handle debt etc. Monetary and fiscal stimulus announced already is estimated by BNN Bloomberg to be about 6 times the size of the stimulus packages of 2008 and 2009. Even all of this could not stop the recession, that we are undoubtedly going to have (half a year of negative GDP) with so many businesses shut down, but it will help the economy get back to normal as quickly as possible afterwards. The recession should last only slightly longer than the COVID-19 problem. Afterwards there could well be inflation, increased taxes to pay for all of this etc. But those are fair prices to pay for keeping literally millions of people from losing their jobs, and our economy from taking years to recover. The 3 consecutive days of gains I mentioned above in the last full week of March, technically took us from a bear to a bull market as we saw the market rise 21%. Some of that gain was taken back on the fourth day. The gain wasn't nearly enough to signal a definitive end to the panic in the market. With the US market (based on the S&P 500 Index) down to about 63% of its previous high, a 21% gain from that point only took it back to about 76% of its previous value. That's part of what makes investing while the market is down so powerful. Every drop requires an even larger gain for a recovery. It's just how the math works. If you get more money into the market while it is down, you can get really outsized returns. Eventually we can expect very strong gains to get the market back to where it was.

After COVID-19, there may be a shift in how the world operates, and the darlings of the past may not be the same companies that shine in the future. Not all companies will survive, let alone fully recover, especially in the oil industry. As I write this, the price for a barrel of Western Canadian Select oil is down below $5 USD. According to a BNN Bloomberg reporter/analyst on Mar 27, Canadian companies need to sell their oil for $46 per barrel to break even. The Canadian oil patch can't operate at a loss forever. Some people think there are bargains there, but one would have to know which companies have a chance to even survive. I leave that to our fund manager experts.

The market may have been a little overpriced when the bear market started, after too fast of a run up at the beginning of 2020. So, the first part of the drop, perhaps back to Dec 31, 2019 levels may have been justified on the basis of value. For some companies, which had to shut down production due to COVID-19, the demand for their product or service has just been deferred, and their profits won't suffer much in the end, as long as they have enough liquidity/cash flow to weather this storm. Other companies will have lessened profits going forward perhaps for evermore, because during this period customers have discovered alternatives. Still other companies whose products or services have been discovered by new clients or have been found to have new applications (like video conferencing services, on-line retailers, cloud computing providers, food delivery services, medical test kit manufacturers etc) may come out of this downturn stronger that ever. Our fund managers are strategizing over what companies will be the biggest winners and which the losers coming out of this health crisis and recession, and they are doing with so much more sophistication and research than we could.

When is Money Not the Same as Other Money?

Are you expecting a tax refund, inheritance, bonus or lottery winnings? When you get the money, you may experience something that behavioural scientists call the Windfall Syndrome. It's where people treat unexpected money as "free money", and they spend it differently from how they would normally spend. People are tempted to spend it on some treat or luxury, because it's "free". We've all heard of big lottery fund winners who end up broke only a few years later. Unfortunately this is also common amongst those who inherit sizable amounts.

First off, your tax refund is not free. It's a return of your income that you overpaid in taxes. And an inheritance is wealth that your family worked hard for, and maybe scrimped and saved to accumulate over one or more generations. It was bought with sweat and represents a lot of love. It's usually meant to give you a better life for the long-term, not just for a few short indulgences. The bonus was earned with your time and effort. Lottery winnings would be a small miracle, and while not free, because you may have spent a lot on lottery tickets over the years, it is a true windfall.

So how can you protect yourself from potentially wasting any relatively large amount of money that you get all at once? If you plan in advance how you will spend the money, there's a much better chance you will spend it wisely. Maybe you decide to use a certain percentage for a treat and use the rest to pay down debt or to save in a TFSA or RRSP to enhance your income stream in retirement or even allow you to retire earlier. So, if you are going to get a tax refund soon, why not plan now for how you will spend it, so that it counts for something and makes a long-term difference in your life?

If you, like me, enjoy understanding our own psychology, like our reactions to market drops, you may find this article from Dynamic Funds as fascinating as I did. It talks about how evolution programmed certain reactions in the brain and explains our struggle between fear and rational thinking.
https://advisoranalyst.com/2020/03/26/fear-and-the-psychology-of-bear-markets.html/

The Importance of Liquidity, and ETFs Do Have Low Fees, But …

Jordan and I have been tracking some historically higher volatility, even growthy, funds for a few years to have as options to invest in after a market fall. We planned to swap some of our conservative funds, that didn't fall too much, for some of these more volatile funds which might have higher growth potential off the bottom of the market. We ran into a problem. We couldn't find any US funds, even in our volatile list, which fell more than its corresponding S&P 500 Index. How could that be? Well first, we didn't have funds that had significant resource exposure, or REITS (Real Estate Investment Trusts), or hotels, airlines, casinos or cruise lines. Our funds also didn't have any of the myriad of companies with too much debt which may not even survive the economic hibernation. So, all our US funds (which make up the bulk of our portfolios) protected us somewhat by falling noticeably less than the index, and generally our managers' funds do very well coming out of a downturn. Equity ETFs (Exchange Traded Funds which typically hold all the companies which make up the index, and hold them in the same proportions), on the other hand, fell just like the index, as they theoretically should have, or many did much even worse. That's why we continue to believe in active management, as opposed to passive index-copying investments, even though they have lower costs of management.

ManyETFs had big problems during this downturn. "As retail investors have rushed to cash their ETFs to protect against further losses, the price of the funds have become detached from the underlying basket of stocks [or bonds that they own]. "Passive funds are just not working now – volatility is too high, prices are moving too fast" says Alfred Avanessy, head of investment banking at Cormack Securities Inc." (Source: Glove & Mail Mar 28, 2020) On Monday Mar 23, one bond fund was trading as much as "19.5 per cent discount to its net asset value", because there were no buyers on the market for the ETF, and there was no liquidity in the bond market. So, the underlying assets couldn't be sold to have the ETFs cashed in by the manufacturer either. (Source: Globe & Mail Mar 25, 2020) Mutual funds continued to have daily liquidity at their Net Asset Value (NAV). Liquidity is not a problem in our portfolios.

Liquidity was also a problem for owners of gold "on paper", as opposed to having physical gold in your possession. There was more gold "on paper" than there was physical gold in existence! Not everyone

could sell their gold "on paper" to get the cash they wanted. And people often hold gold specifically for liquidity in times of crisis. And with oil, even when the price was up in the $40 level for West Texas Intermediate Oil (WTI), some sellers were only getting $20, because of impediments to selling it. There was even a problem with US dollars. There was so much demand for US currency, because it was considered safe, that foreign countries couldn't find enough to buy to pay their debts, that were owed in US dollars. The US Federal Reserve actually had to loan US dollars to the Central Banks of other countries to keep them afloat. (Source: BNN Bloomberg)

Liquidity is also essential for individual businesses and individuals alike. If a business doesn't have assets in cash, or that it can easily turn into cash, then when income is interrupted, they could go bankrupt, no matter how much they're worth. Just because they don't have enough cash to pay their bills on time. Apparently half of all Americans had less than $400 in savings, and 42 % of Canadians surveyed about 3 yrs ago reported they were $200 or less away from not being able to pay their bills each month. (Source: Hamilton Spectator Oct 24, 2017) So even the wait for a first employment insurance cheque, after a surprise layoff, can be disastrous. Some people can only buy necessities by running up their credit card balances, for which they have to pay 20% or more interest, if they even have any room left on their credit cards. So hopefully after this global economic shock, companies and individuals will work hard to keep their debt down and to build emergency reserves, as well as long term savings. One constant in life is that there are unexpected economic shocks every once in a while. We don't know what will cause the next global problem, but when it comes, everyone needs to be prepared to weather it.

Central Bank Interest Rates at .25%

Central Banks around the world didn't raise interest rates enough after the 08/09 financial crisis to be able to lower them now to create new stimulus to the economy. Although no amount of stimulus could have kept businesses operating with COVID-19 out there. But the Canadian and American Central Banks dropped their rates to a record low of a quarter per cent anyway, to do all they could to help businesses with their cash flow coming out of this pandemic. But what is the impact on investors? For those depending on GICs or bond interest for an income stream, they just took a pay cut, and their investments will not keep up with inflation by a longshot. Even if GICs' interest rates stay up as high as 1%, it would take $4 Million in savings to generate $40,000/yr in income indefinitely. Since that won't work for most people, investors who used to depend on GICs or bonds are going to have to invest in more volatile investments, like the stock market, to generate enough retirement income. And anyone holding bonds could be in for huge losses, when interest rates normalize up (because of the inverse relationship between interest rates and bond market values). A last impact of such low interest rates is that they essentially allow for wealth transfer from those who have money in bank accounts and GICs to those who own businesses or parts of businesses through shares or mutual funds. Such low interest rates allow companies to borrow cheaply and earn more money with that leverage, while those lending money (through GICs and bonds) at rates below inflation, just keep losing their buying power. Still borrowers need to keep in mind moderation. Cheap interest rates can lure people into overextending themselves. Overleveraged companies today probably won't survive the current interruption to their cash flow. Such low interest rates could also be deflationary. All the money governments are printing is inflationary. Hopefully the new money will have a bigger impact or rates will rise relatively soon after the economy is operating on all cylinders, because we sure don't want deflation. It's been a terrible problem for Japan for about 30 years.

Your portfolio reviews will be going out to you shortly (they'll be in the mail before Apr 15). Some clients in the past have managed their stress by not opening their envelopes, when they get them. If that works for

you, fine. We certainly recommend not checking your account balances on-line everyday. That can be very stressful. Just remember that we haven't seen any portfolios that have fallen as much as the market and the drops are not permanent unless you sell. I ran across this clever parody that contains much truth for these markets, "Don't just do something, sit there." (Source: Dynamic Funds' website) Besides COVID-19, panic is the enemy.

I hope you are all staying healthy and as distanced from other people as possible. Jordan, Sarah, Amber and I will all be accessible to you by phone. If our phone numbers are changed temporarily, it will be announced on our E-mail out of office message and on the greeting on our phone system. For now, the office is closed to others, and procedures have been put in place, so none of us shares papers or gets close to one another. We will remain accessible to you. Call if have questions or just want to talk about your financial matters.

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