Are you feeling overloaded, scared and stressed with “news” about the market and COVID-19. We hope this letter won’t add to the burden and confusion, but rather help you sort through the noise and give you the 30,000 foot view. Usually we work up gradually to the bottom line, but in the interest of stress relief, let’s cut to the chase now: **The market will recover as it always has before, even though it may take a while.** The market usually sees further ahead than we do and takes most implications into consideration early. So, the market generally recovers BEFORE the bad news stops coming. The market has probably priced in the reduced earnings or losses that will be shown in the next couple quarterly profit statements. The market and your portfolios are NOT going to zero. The businesses you own inside your funds will still be around years from now. They have enduring value. Examples of the companies in our funds are Nestle, Microsoft, Costco, Walt Disney, Pepsi, Mastercard, Proctor & Gamble, Nike and pharmaceuticals which are not going to go broke, even if they have limits on their production and sales till August, which is when many health experts feel the virus will be pretty much ending. So, don’t panic about your portfolios regaining pre-pandemic values. It will take time though, as it always has after downturns of this magnitude. Let the very experienced professionals who manage your funds assess all the news and help our funds to profit from all the market volatility, as they have in the past. Just remember you bought quality companies with competitive advantages and low debt levels at relatively good prices through your funds, and such companies should go on to make money again in the recovery. If you are withdrawing income that was planned for before this pandemic, your portfolio would have been positioned to allow for this income to be withdrawn for years without destroying the long-term value of your portfolio. We may not have seen a health pandemic of this magnitude since 1968 when the Hong Kong Flu spread worldwide with as many as 1,000,000 deaths. Before that, in 1957, there was the Asian Flu that resulted in over 2,000,000 deaths. Looking further back to 1918, the Spanish Flu infected as much as 25% of the world’s population with as much as 2% of the world’s population passing away (40-50 million people), but we have seen crises that caused giant financial shocks to the world, like the Great Depression and 2008/9, when much of the world’s financial system almost collapsed. In today’s situation, we know there will be an end to the crisis, and we can see that North American and other world Central Banks and governments are prepared to pull out all the stops to keep businesses afloat enough to resume business after the pandemic (typically the kind of businesses that will need that kind of help are NOT in our funds). And those Central Banks (with the exception of Japan’s which has done everything wrong for decades) have learned what the effective actions to take are, having learned from the Great Depression and every crisis since. So, be patient and don’t lose sleep over your investments. Concentrate on keeping yourself safe. And if you need help with your cashflow before or beyond what help you may get from the government, know that we will be accessible to you – by phone or email. We have access to your accounts whether we are working from home or the office, such that we can execute redemptions for you. And Manulife has just relaxed some rules to make withdrawals easier for those who don’t have the flexible kinds of accounts (those with account numbers beginning with the letter N or for really old accounts with 0) for which one pays an annual trustee fee, if registered.

If you are losing sleep over your investments, skip the next paragraph, and the bulleted points below it, to the paragraph that begins, “Now, let’s look at some good news”.

Let's summarize some of the scary news before looking at the other side.

- As I write this, the Canadian stock market (S&P TSX) is down 32%, with only the stocks of one grocery store chain and a toilet paper producer up over the last month. This has been the fastest market drop in history. It was as thought the world simultaneously work up to the fact that the world is facing a serious health threat. The market has not seen this level of volatility since 1987. In the last two weeks, we've seen record-setting single day gains and multiple new records for single day market drops. Analysts say that these alternating swings up and down almost every second day is a sign that the market is searching to find the right value for the bottom of the market. We won't know if that is true for possibly months, but it is plausible that the market may have already taken into account all the financial implications of the pandemic on companies, since the market does look far out and quickly discounts companies for potential lost revenue.
- The record speed of the downturn and high volatility may have been exacerbated by computer algorithm trading and do-it-yourselfers who increased trading volumes to 5 times normal levels. There were huge outflows from the equity markets into the bond markets which pushed Treasury Bill yields down to new historic lows. As interest rates on other bonds and GICs drop lower too, those who depend on interest income will have an even harder time living on their income and their savings will lose buying power to inflation even more rapidly than before
- The worst hit major sectors were resources (oil etc) and utilities. (Our portfolios had negligible exposure to either sector. You may remember that for over a decade we have not supported investments in the resource sector. And in recent years we have worried about overpriced utilities that could fall in value with interest rate rises. We didn't dream that bond values would also fall with interest rate cuts.) The Russian and Saudi Arabian oil war has taken oil prices down to levels not seen for the last 17 yrs, and analysts expect many Canadian companies won't survive. Canadian oil was temporarily selling for less than $10/barrel. With so many people not commuting to work and so many businesses shut down because of COVID-19, the demand for oil/gasoline has fallen at the same time as a double whammy. Many Canadian oil companies were not expected to survive even before COVID-19 spread.
- Central banks dropped interest rates.5% in Canada and 1% in the U.S., in less than a week, which doesn't bode well for banks or insurance companies to make money. Insurance and financial stocks have fallen terribly. Banks were expecting more consumer bankruptcies even before COVID-19 hit and now have oil company defaults on loans to deal with too. Unfortunately, lowered interest rates are encouraging some Canadians to take on new or increased debt, such that lenders have been flooded with loan requests in March, even though so many Canadians already have dangerous levels of debt.
- A lot of cannabis, airline, cruise line and other travel companies' stocks fell 80-90%. The airlines and cruise lines may not survive without government assistance. And after the virus is subdued, cruise lines may never be the same. They've been shown to be like petri dishes and their main clientele, retired people, may not risk travel on them again.
- The Canadian dollar temporarily dropped below $0.69 relative to the US dollar (from $0.76 a month ago). This could be inflationary for consumers.
- US and Global markets also fell strongly and at a faster rate than ever seen in history. It was reminiscent of 9/11. Simultaneously bonds fell significantly, not providing the usual stability at

the time of a stock market fall. And if interest rates go back to the levels of a month ago, some expect a further 15% drop in the bond market.

- Non-essential businesses around the world are shutting down for weeks or probably months, voluntarily or under government orders. This is grinding economies around the world to a near halt. Some companies will have delayed sales and some, like restaurants, will lose a lot of sales and profits which wouldn't have been lost without COVID-19 or the oil war. The drop in economic output may be as severe as anything ever seen below, although it may turn around quickly when the virus is under control.
- En masse people are losing their jobs or being laid off. New employment insurance applications for this week alone numbered half a million in Canada. That's as many people as lost their jobs in the Great Depression. Of course, we only had 10.5 million people then compared to 37.5 million now. But there will be more layoffs to come and more self-employed people going bankrupt. There are more social safety nets in place now than then, and the government has announced several forms of extra aid, but there will still be lots of financial pain for those who've lost their employment.

Now, let's look at some good news.

- More stringent measures are finally being taken to stop the spread of the virus, more so in some provinces, states and countries than in other. The infection curve may be flattened enough to prevent our health care systems from being more overrun.
- In China people are back at work, and China's number of new COVID-19 cases is small and drastically decelerating. China and India and many of their companies are now benefitting from the Saudi/Russian oil was, since they import a lot of oil and some companies' costs of production have fallen with world oil prices.
- North American companies are already starting to bring some manufacturing back to North America after they realized the continent was too dependent on China for parts and some products. The manufacturing may be highly automated when it returns, but it will still bring some jobs back. Repatriated manufacturing should also reduce pollution from reduced transportation distances.
- A few vaccines are already in the human trial stage apparently with promising results, and at least 41 groups are working on vaccinations. And there may be more medical research dollars allocated annually and more medical supply stockpiling for future emergencies after this crisis to protect us better in the future. It's expected that every company will have pandemic contingency plans after this. According to Canoe Financial, test kits have been developed that show the results in only 2 hours (instead of in days like with the original tests), and treatments using existing approved drugs have had some success in India. 2 of the pharmaceutical companies our funds hold are major suppliers of COVID-19 test kits.
- Some companies may lose business permanently, because society is learning to operate differently during these difficult times, while some businesses will have picked up new customers, because new people discovered their services. On-line sales are up for companies with big online shopping, like Amazon and Walmart (that are hiring 250,000 more people between the 2). So that should help with their profits. Amazon, Google (Alphabet) and Microsoft are expected to increase their cloud computing business after COVID-19 passes, as companies protect against disruption from potential future pandemics, or just because

companies may be finding, during this “working from home” boom, that it can save them money, if employees continue to work from home . Also “Google School” and various conferencing softwares are allowing users to use their services for free during this self-isolation period. Afterwards, many education institutions and businesses may start subscribing to these services, after they find out how useful their software is. Will this pave the way for less commuting and pollution related to work meetings and college attendance?

- China saw its pollution improve dramatically during its quarantine. With so many cars off the roads all over the world right now, more countries may experience the same effect.
- Some Canadian firms are stepping into the breach to help solve supply problems, like the Beamsville, Alberta and Toronto distilleries who are making thousands of bottles a day of hand sanitizer and disinfectant and then GIVING them away to hospitals, ambulance services and other essential services, or selling them and donating the money to charity. These companies are making 80% alcohol sanitizer and disinfectants using primarily a waste bi-product of their distilling process. Could this lead to a new line of business for them, as well as helping to save the day today? It certainly shows how resourceful and community-minded people can be during a crisis.
- Many young Canadians are volunteering to go to grocery stores and pharmacies for older people in their neighbourhoods. Thousands of retired health care professionals have offered their services to hospitals to help shoulder some of the increased load. People, companies and governments are stepping up.
- Massive spending by the federal government should help a) many individuals whose paycheques have been affected to weather the storm, b) small businesses stay solvent, and c) major industries like our airlines and our resource companies survive. Families with children will be getting larger cheques from the government for a while. The talk is that in addition to tax breaks and loans, the government may buy part ownership in crucial companies to give them the cash they need, but also to get the money back through future profits, as the US did with its TARP program in 08/09. Luckily Canada had a reasonable debt level compared to other G7 countries before COVID-19 struck, so Canada can more easily afford to do this than most countries..
- Canadians don’t have to file their tax returns till June 1 and tax monies owing won’t be due till Aug 31 instead of Apr 30 this year.
- U.S. Companies and the economy were in good share before COVID-19 hit. There is no structural reason why those companies and the economy can’t resume quite quickly after the crisis. For sure people will want to catch up with friends, some at restaurants and bars, or by going to the movies together. Lots of people will want to go to stores, just because they have the freedom to and missed it, not to mention that they might need a few items they normally get in stores. People will re-schedule their vacations, especially since travellers were given credit, not cash back, for their cancelled trips. So tourism will resume, although perhaps slowly like it did after 9/11. Most of the economy is now on hold, deferred or disrupted, but it hasn’t been destroyed.
- Investors in bond ETFs have sometimes been selling at 6% below NAV (net asset value, so the value of the underlying bonds based on what they were selling for that day in the market) just to get out quickly. Investors in the largest equity ETFs which mirror the S&P 500 and TSX stock indices fell every bit as hard as the indices, while investors in actively managed funds like ours,

even the growthy type of funds, mostly fell substantially less. Active fund managers are now deploying their cash to buy bargains on the market and have been making other upgrades to their funds might rebound more than the market. Investors who had mostly U.S. funds and investments also benefited from drop in the Canadian dollar, which made U.S. assets more valuable in terms of Canadian dollars.

- We've had even bigger drops in the stock market before and the recovery afterwards has ranged from really good to fabulous. From 1987-2017 the average year of returns after a 20% or greater downturn was 18%. (Courtesy of Manulife Asset Management) And according to Bloomberg research, courtesy of Mackenzie Financial, since 1956 after drops of 30% or more, like the drop we just had, the next year's returns have ranged from 17.2%-57.5%. We'd hate to be out of the market and miss that kind of rebound- however long it takes to come.

In the last century our ancestors lived through really tough times, namely the Great War, the Spanish Flu of 1918 that infected a quarter of the world and killed an estimated 40-50 Million people, The Great Depression, WWII, and many smaller crises. Those generations had to be mentally tough and resilient, as we must be too. North American economies and our stock markets survived all those tough times too and went on to be stronger after each. **The trick to personal financial health was not to get out of the stock market during any of the crises. This time will be no different.** We will get through this COVID-19 crisis and the profit-making ability of companies will resume. As investors, we will share in the future profits too. Markets will recover and go on to new highs. So, nothing changes in our long-term strategy or investment plans. We just stay calm, be patient and stay invested.

The four of us (Elaine, Jordan, Sarah and Amber) expect to remain on the job, whether we are in the office or working remotely. Call or email us any time you want to talk about your portfolio or have specific financial needs to be taken care of.

Stay safe. And for your mental health, don't look at your portfolio every day or watch CNN, BNN, Bloomberg etc all day long.

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