

The Market in Review

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This week's articles and insights

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“I try to take it one day at a time. But sometimes, several days attack me at once.”

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	22,552	+ 12.27%	- 20.98%
S&P 500	2,630	+ 9.16%	- 18.59% (- 11.96% in \$CDN)
TSX	13,371	+ 9.87%	- 21.64%

Never Underestimate America

In 1939, the US army was ranked 39th in the world and still used horses to pull its artillery. The Japanese attack on Pearl Harbor in 1941 caught the nation unprepared. Japanese Zeroes sank most of the battleships America possessed, which were the backbone of the navy's strategy. The country made too few ships

and planes, and made them too slowly. In 1941, America manufactured just 8,400 combat aircraft.

By 1942, America had awoken. Aircraft production tripled in just a year and would be ten times that number by 1944.

Lulled by its success, the US Army shrank its army from 12 million men to 1.5 million by 1948. Their rifles were outdated WW2 models and most of their equipment barely worked. Who needed an army when you had nuclear weapons?

The 1950 invasion of South Korea by Soviet and China-backed North Korea caught the US unprepared once again. They were pushed back until Seoul, the capital, fell. President Truman invoked the Defense Production Act to gear up once again and, by 1953, had reclaimed the offensive. The allied armies pushed China and the North Korean armies back to the 38th Parallel.

The US has a habit of being caught unprepared for war. The battle with Covid-19 is no different. America began with a faulty test kit and far too few ventilators. Self-isolation, a blunt weapon that has proven useful in other countries, was not decreed until far too late in most states. President Trump has yet to invoke the Defense Production Act.

And yet the country is responding, and more rapidly than people think. Ford, GM, and Tesla are just a few of the companies switching production lines to build ventilators and masks for health care workers. Even Dyson, the vacuum cleaner manufacturer, has designed a new ventilator using its proven pump technology. And the research being done by scores of companies on new drugs, old drugs, vaccines, and anti-virals rivals the Manhattan Project.

“Each day that goes by gets us one day closer to getting past this. Each day the news flow will be difficult, with April being particularly tough, but each day also brings more hospital beds, more ventilators, more test kits (both virus and serological), more gowns, more masks, more shutdowns which slows the spread, more antibodies, and another day closer to warmer weather where we hope and pray it helps to slow the spread.”

- Peter Boockvar

The war in the US looks grim, with more Covid-19 cases than any other country. America has a habit of battling back. They will again.

Where We Are Now

The pandemic has moved at record speed. Fortunately, so have governments.

In 1929, it took several years before governments moved to protect banks and people's savings. It took months of wrangling in 2008, with several half-hearted measures.

Today, a divided US government authorized a mammoth spending bill in under a week, and Canada's response was even faster. Interest rates have been slashed and the US Federal Reserve is doing more bond buying daily than it did monthly back in 2008.

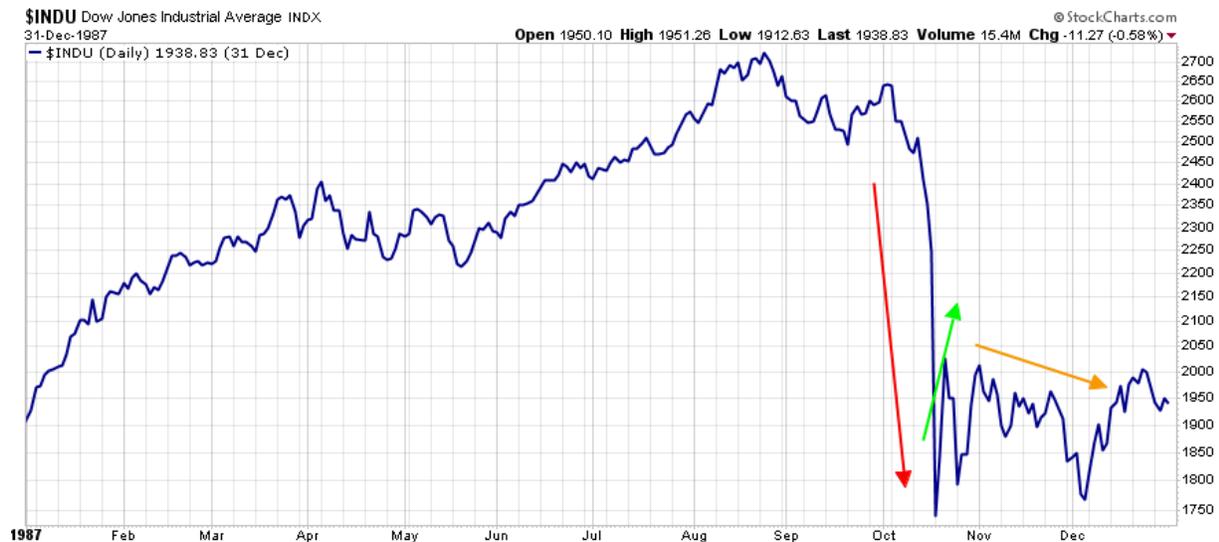
Consider the banks and lending markets safe.

The next step is support for workers and businesses. Unemployment benefits are being expanded now and cheques are being mailed to citizens in countries from Denmark to Singapore to the US.

Will it be enough? It depends on how long the shutdowns last.

The final effort will be planning for the aftermath. The US government recently floated the idea of starting to open up by Easter – April 12th. That seems too early, given the rise in new infections. The balance of staying home for safety or going back to work to avoid a more severe recession is a topic that will be debated heavily in the weeks ahead. There are thousands of cancer, transplant, and accident patients being sent away to make room for Covid-19 treatments, for example.

In terms of the stock market, the 1987 pattern illustrates the path.



1. First comes panic, which we have just seen. Everything falls together, from gold to stocks to bonds. This happened as the panic ended on March 22nd.

Interestingly, many stocks will have hit their lows on Monday. We will not know for sure for several more months, but their bear markets are over.

2. Next comes the relief rally, which occurred this week. Some markets reclaimed one-third of their losses.
3. Finally, the long drawn-out demoralization stage. Indexes drift lower, with smaller relief rallies followed by smaller slumps - even though most stocks will have already seen their lows. This could happen over the next 2-6 months as the virus burns itself out.

Portfolio Changes

The shifts we are seeing from our outside managers are quite diverse. Some see this as an incredible disruption and are taking advantage of it.

For example, the enormous shift to remote computing has sent laptop computer sales surging. Teleconferencing companies, home delivery services, and computer gaming are also seeing demand spike. Some managers have been adding to these names.

Others have become more defensive. Once a recession starts (and one has started now, in record time), companies that sell staples (food, drugs, toilet paper) do well. Same for essential services, like power utilities.

Our own Dividend Value portfolios have added PepsiCo (**NYSE PEP**) and a real estate company that owns the land beneath Loblaw's.

The global energy business is the ant under the magnifying glass right now. Unless we start driving and flying in the next six weeks, global storage will be full. The Russians have proposed a global agreement to lower production, which may be the first sign of a light at end of that dark tunnel.

We continue to examine every holding and new ones for opportunities with so much changing. For example, demand for real estate will alter as more who moved home stay at home. Many things that have been deferred, from trips to elective surgery to home improvements, could experience a surge in business once this all ends.

We could also see dramatic changes in personal freedoms. Offices and restaurants in South Korea are now using thermal image cameras to identify people with fevers. Will this be the new normal once we get let out of our homes, and who will supply all the new machinery?

And can you imagine the worldwide party that will be thrown once a vaccine is developed and distributed? One can only hope.

In the meantime, the US Congress just passed the new stimulus bill in record time. It is a breath of fresh air to see politicians of all stripes working together, for a change.

Take a Trip to the Circus

Sue Siluch, Paul's wife, recently met a woman who worked for Cirque du Soleil. She was part of the props team on the amazing water show called "O" and worked the entire presentation underwater in scuba gear.

Cirque may be exploring bankruptcy protection because their shows have dropped to zero in the pandemic, which is heartbreaking. As the show was closing down, Sue's friend got permission to post the entire show free on her Facebook page.

If you would like a wonderful diversion over your dinner at home tonight, watch “O”. You don’t need Facebook – just click on the link – and experience one of the most amazing spectacles ever.

<https://www.facebook.com/panchoguayasamin/videos/712105072606813/UzpfSTEwMDAwMzAyMjY4Mjc5OTozMDYwNjExMjk0OTk0MTQ6MTA6MDoxNTg1NzI0Mzk5OjE0OTEyODkwMzU2MjgyOTM5OTA/>

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Prices shown as of March 26th, 2020

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