

# The Market in Review

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## This week's articles and insights

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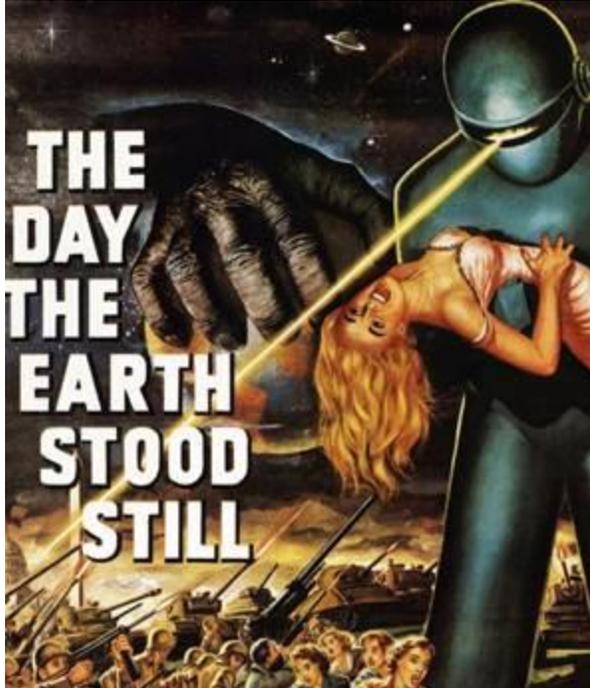
**“Life can only be understood backwards; but it must be lived forwards.”**

- Soren Kierkegaard

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	20,087	- 5.25%	- 29.61%
S&P 500	2,409	- 2.87%	- 25.42% (- 16.7% in \$CDN)
TSX	12,171	- 2.70%	- 28.67%

## The Day The Earth Stood Still



“The Day the Earth Stood Still” was a 1951 science fiction movie about an alien who visits Earth. The entire U.S. Army tries to defeat him but is stopped in its tracks. The world comes to a standstill as humanity tries to understand what the alien visitor wants. There is panic, and then silence.

The title is eerily reminiscent of life on Earth today. We have stopped driving, going to work, and socializing such that our worlds seem to have suddenly stopped.

All of this is directed toward “flattening the curve” or coronavirus infection, of course. It has worked in other countries, and we pray it works here.

## **Where to Begin**

First, many investors have begun to wonder how safe their money is anywhere. Raymond James began the year with the highest level of cash in its history. Our business will suffer, like those in most industries, but our balance sheet is rock-solid. Your deposits are safe. Do not be surprised if we choose to grow by acquiring another company at some point. We have done this in the recession of 2000 and after 2008.

Second, our team is now largely working from home. We currently have one person left in the office to control the phones and take care of cheques and deposits, but the rest of us are self-isolating, as we have been told to do. We set

up to work remotely weeks ago, and are doing so now. We have daily conference calls, as well as communicate by e-mail and teleconferences. Days off and holidays are a thing of the past now, and it is all hands on deck, so to speak.

If required by government, we will close the office completely, but we have the ability to carry on without missing a beat. We will try to accommodate everyone as much as we possibly can.

## **It's a War**

In May of 1940, Nazi Germany invaded central Europe. By June, the Allies were being evacuated from the coast of Dunkirk and Europe seemed lost.

Many commentators have compared today's market collapse to the 2008 decline or the 9/11 attacks. Some have even gone so far as to say this is another 1929. While there are similarities to all of these, I think it is most like a world war. We have been invaded and caught unaware, and we have no idea how long this will last.

May and June 1940 marked some of the worst months of WW2 for Canadian markets. Markets rallied and fell for two years until the tide slowly turned. Churchill's comment at the height of the war resonates with where we are today:

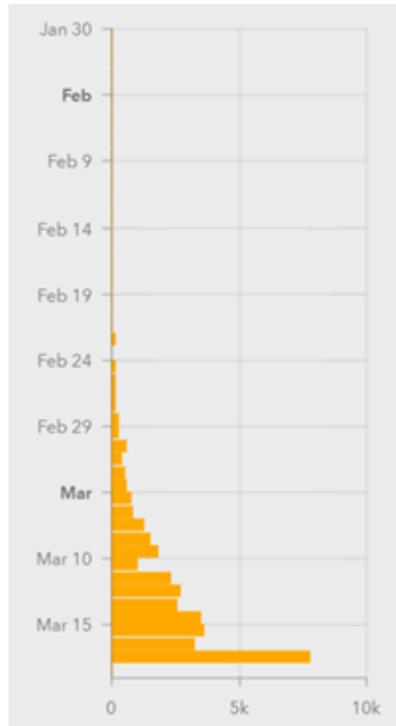
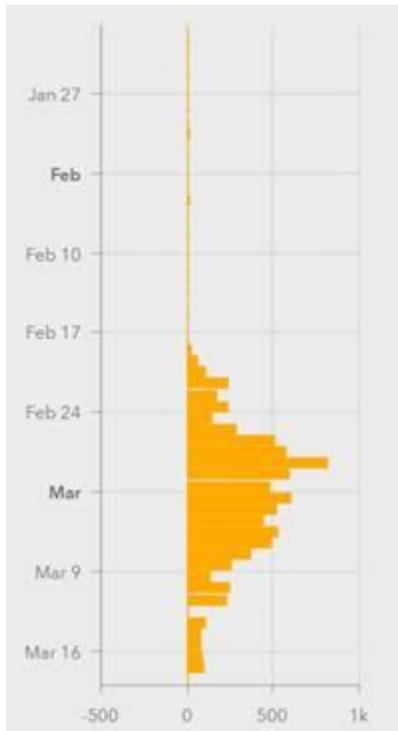
*"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."*

Covid-19 is spreading across Canada and will not likely peak for another 2-3 months. Both Italy and South Korea had roughly the same number of cases around February 26th as Canada has today (approximately 800 nationwide).

The question is, do we "flatten the curve" like South Korea or grow exponentially like Italy?

South Korea

Italy



Source: World Health Organization

To fight our enemy, we need to first know our enemy. Covid-19 is the enemy. What do we know works?

The Asian countries of China, Taiwan, South Korea, and Vietnam showed the power of social distancing. The virus can peak and begin to fade after just a few months. Italy, the worst hit country, was reportedly widely infected through its links to China long before the world took notice. The heavy toll today is a result of the disease running unnoticed before testing started.

Where Covid-19 differs from seasonal flu is in both its ability to spread, and its higher mortality. The world is still trying to grasp how dangerous it is, and there are many conflicting reports about the severity of the disease. Italy has so many more deaths than other countries, and so now has more comprehensive data on the pandemic. The country has now published a study on its findings, and the results are informative:

- The median age of those who died from Covid-19 in Italy was 80.5 years of age.
- Over 99% of those who died suffered from at least one other medical condition, such as high blood pressure, diabetes, or heart disease. Very few perish who are otherwise healthy. A 103-year old woman in Italy recently recovered.

- Italy has the second-oldest population on Earth, which may account for a portion of the higher toll. And while the official count of those sick is approximately 35,000, other reports estimate over 100,000 Italians have the virus. This suggests the mortality is closer to the global 2% level than the reported 8% rate.

In other words, healthy seniors may be at less risk than feared. Those with multiple conditions need to self-isolate. Canada is much further along this curve than the US, which is late in its efforts.

On that note, it seems the US enters just about every major war late and unprepared. This war is no exception – the province of BC has done more testing than all of the US. They mobilize quickly, however. The US Government has advised that they will release 1,000,000 test kits this week, over 1,000,000 next week and 5,000,000 weekly thereafter.

Today, the number of Covid-19 cases in the US doubled. This may actually be good news, in the sense that more people are being tested, notified, and quarantined.

### *Protecting Supply Lines*

As Britain rescued its 300,000 soldiers from Dunkirk, it deployed them to protect England's heartland. The Russians dismantled entire factories and moved them a thousand miles inland where German bombers could not reach.

An army in retreat first has to protect its ability to fight another day. In today's war, this is the banks. Banks carry our mortgages, lend to businesses, and hold our savings. They must be kept strong. Banks today carry far more reserves and less leverage than a decade ago, so were already in good shape.

Protecting the financial system first is exactly what global governments did in the last two weeks. Interest rates were cut, lending lines were opened from governments to banks, and they were told to lend easily and rapidly. Many people think the Depression of the 1930s was a result of the stock market crash of 1929. The real cause was the failure of 25% of the banks in the country by 1932, and the loss of people's life savings. This isn't happening and won't happen today.

In war, the economy suffers greatly. Unemployment is surging and landlords everywhere are being asked for rent relief. Governments have to step in during times like this and the programs being rolled out are mind-boggling. An estimated

US\$2.9 trillion is being offered worldwide in unemployment payments, medical coverage, and cash handouts.

The next step we will likely see in the months ahead will be infrastructure projects. Both Canada and the US need serious upgrades to their highways and bridges, so perhaps this is the long-needed impetus to get massive projects done, much like the New Deal did in the 1930s.

## Trusting in Science

Finally, we can't forget the importance of science in any war. The Manhattan Project involved over 130,000 people at its peak and led to the development of the atom bomb. It was not the bomb that won the war, however – it was radar. The joint British and US radar discoveries led to a huge edge over Germany by 1943.

Similarly, science will lead us out of this mess.

- Two vaccine trials are now underway, one in the US and one in China.
- The US defense arm, DARPA, is developing a “firebreak” to give temporary immunity to Covid-19. They hope to have mass quantities ready within three months.
- Several new drugs and many old drugs are being used right now on sick patients with success.

This is the biggest combined scientific effort the world has seen in decades. Rules are being relaxed and red tape slashed, which gives us hope.

## Investment Outlook

We are now in recession. It hasn't been officially announced, but it started three weeks ago. That should be news to no one.

Economic data for March will soon start appearing, and it won't be pretty. Unemployment is soaring as businesses shutdown for weeks or months. Markets know this, and have already fallen to account for it. The question is, are they down enough?

The positives are that governments are stepping in with enormous support programs. We have several regions of the world that have contained the virus and are showing us what to do. And, we have drugs that will eventually help.

The negatives are too many to mention. Cases are climbing by the day and everything from gold to stocks to bonds are being sold together. That cannot continue and won't. At some point, the market will stop falling with every bad Covid-19 number.

Meanwhile, some stocks have fallen too far. Canada's banks, for example. They will see earnings dip, but they are offering mortgage deferrals, not forgiveness. Bankers always get paid, right?

The Stay-At-Home economy is upon us. Companies such as Amazon (**NASDAQ AMZN**), DocuSign (**NASDAQ DOCU** – electronic signatures), Activision-Blizzard (**NASDAQ ATVI** – videogames), and Netflix (**NASDAQ NFLX**) are thriving in this environment.

Overall, markets have fallen at the fastest pace since 1929 and are at their deepest oversold point since 2008. Insiders are now buying heavily.

It may not look like it, but this week may mark the end of the heavy selling. Today was an options expiry day which can mean big moves up and down. Next week, we should start to see institutions rebalance their portfolios and will be shifting bonds into stocks. That should help stabilize things.

“The Day The Earth Stood Still” ends with the alien telling Earthmen to “join us and live in peace.” Perhaps this crisis will bring us together toward a common goal.

Today is the first day of spring, which is always a hopeful sign. Get out and enjoy it.

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