The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzoni, and Sharon Mitchell
Financial Advisors
Raymond James Ltd. – Victoria BC

February 14th, 2020

This week's articles and insights

1. *Shaking Off the Handshake*
2. *Is the End in Sight?*
3. *Is It That Time of the Cycle Again?*
4. *Nutrien*

"Love is an irresistible desire to be irresistibly desired."

— Robert Frost

(Happy Valentine's Day)

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	29,423	+ 0.15%	+ 3.10%
S&P 500	3,374	+ 0.84%	+ 4.43% (+ 6.70% in $CDN)
TSX	17,821	+ 0.36%	+ 4.44%

Shaking Off the Handshake

Could the handshake be going the way of the hat in the business world? In other words, disappearing altogether?

Humans are tactile creatures - we convey empathy and connection through touch. Loneliness as a disorder has increased over the years and depression due to isolation is a true health risk. The handshake is a fundamental way for two human beings to connect in a physically safe way.

The handshake is said to have originated in ancient Greece as a gesture indicating both participants were unarmed. Others say the shaking part came later as a way to dislodge weapons your adversary may be hiding. Either way, handshaking as a greeting has been around for several thousand years. It has replaced rubbing noses (Inuit), sticking your tongue out (Maori) and two-cheek kissing (France) as the world's most common way to greet another person.

Until recently. Due to an increased focus on bullying and harassment, the handshake has slowly been discouraged in the workplace. Independent Women's Forum reports that "younger workers are increasingly more hostile to physical touch including handshakes. Some 41% of young people prefer no physical contact when greeting colleagues or clients at all." Now the coronavirus may be putting an end to the practice altogether.

From a sanitary viewpoint, it makes some sense. UK research showed that the "high five" palm slap transfers half as many germs as a handshake while the "fist bump" transfers 90% fewer bacteria than the handshake. Not touching at all means 100% of surface bacteria are never transmitted. Today, many hospitals are handshake-free zones and large conferences, such as next month's Mobile World Congress in Barcelona, are recommending a bow or the Malaysian hand-over-heart greeting instead.

Pandemics like the coronavirus do affect our behaviour, whether we know it or not. For example, is it any coincidence that Clorox (**NYSE CLX**) bleach wipes were invented shortly after the SARS outbreak in 2003, and are now found in one out of every two homes in the US? We have been taught to hand-sanitize everywhere and face masks are so common in Asia today, it is almost unusual to see someone <u>not</u> wearing one.

The latest hi-tech method of sanitizing surfaces is through ultraviolet lights. UV light is strong enough to kill both bacteria and viruses on just about any surface. One airline now has its bathrooms equipped with UV lights so that it is sterilized every time someone exits. Entire planes may be cleaned this way once passengers are off.

The result of all this focus on a germ-free world is less human contact. It is the new reality, but it is also a sad reality.

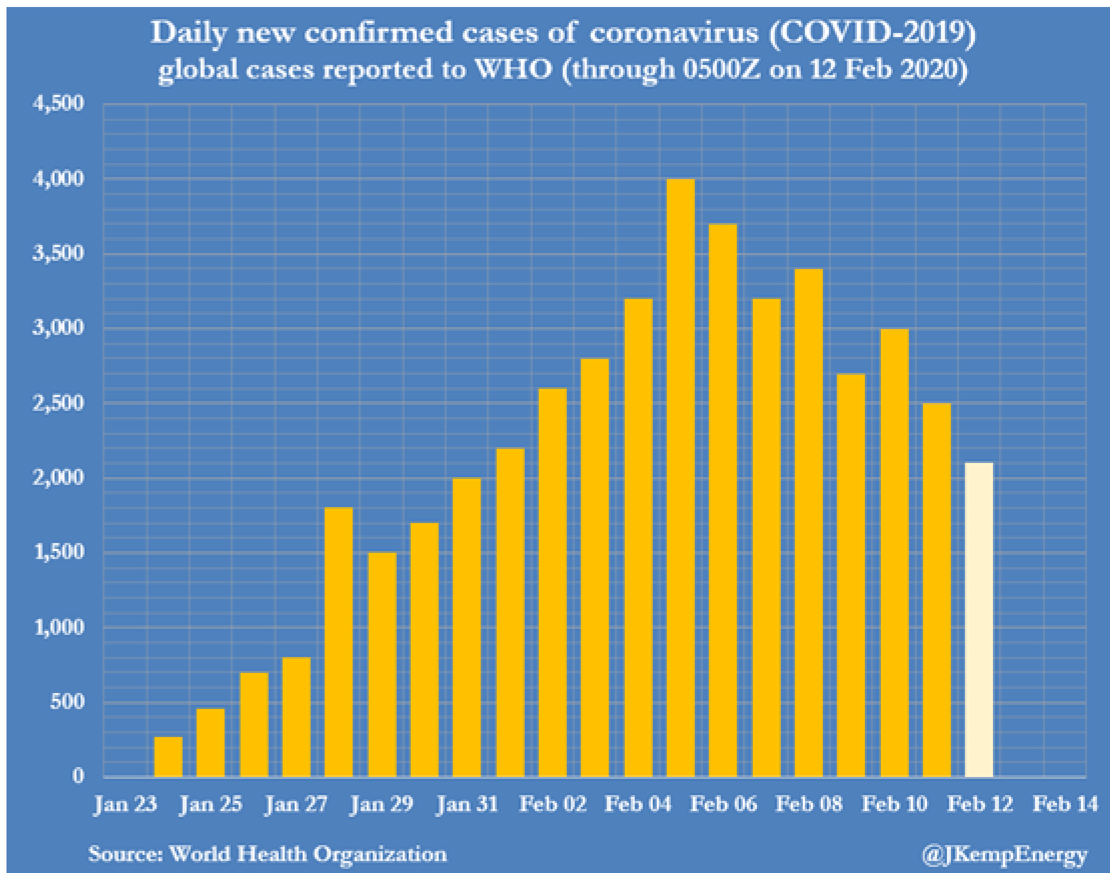
Is the End in Sight?

Since it is everywhere in the news, let's summarize the coronavirus outbreak quickly again this week.

1. It is not the Spanish Flu of 1918, which killed over 50 million people within a week of being infected. Spanish flu was far more deadly than today's coronavirus because it hit young, healthy people hardest. It may have also been the first instance of an avian virus jumping from bird to human, which meant the humans infected had absolutely no immunological "memory" to help respond to it.
2. The coronavirus, while deadly in 1-2% of cases, is much milder. Most mortalities occur in older people or those with compromised immune systems.
3. Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, expects this one to be worse than regular flus, but far less deadly than previous flu epidemics (although he cautions that no one knows at this point).

Markets have rebounded strongly since February 1st, despite the grim news coming out of China. Why? The Chinese central bank has thrown $170 billion worth of stimulus at it, and infections may be starting to peak.

New cases (most are in China) are at their lowest level since late January.



China is now the world's factory, and so any closure of its factories means goods to us come late or not at all. A local run I am helping to organize recently had to change its finishing medals supplier to America because the Chinese plant was closed – at double the price.

World growth was recovering before the virus struck. Markets seem to be looking past the outbreak and are saying we will survive, and the hit to business will be relatively minor.

Thursday Update:

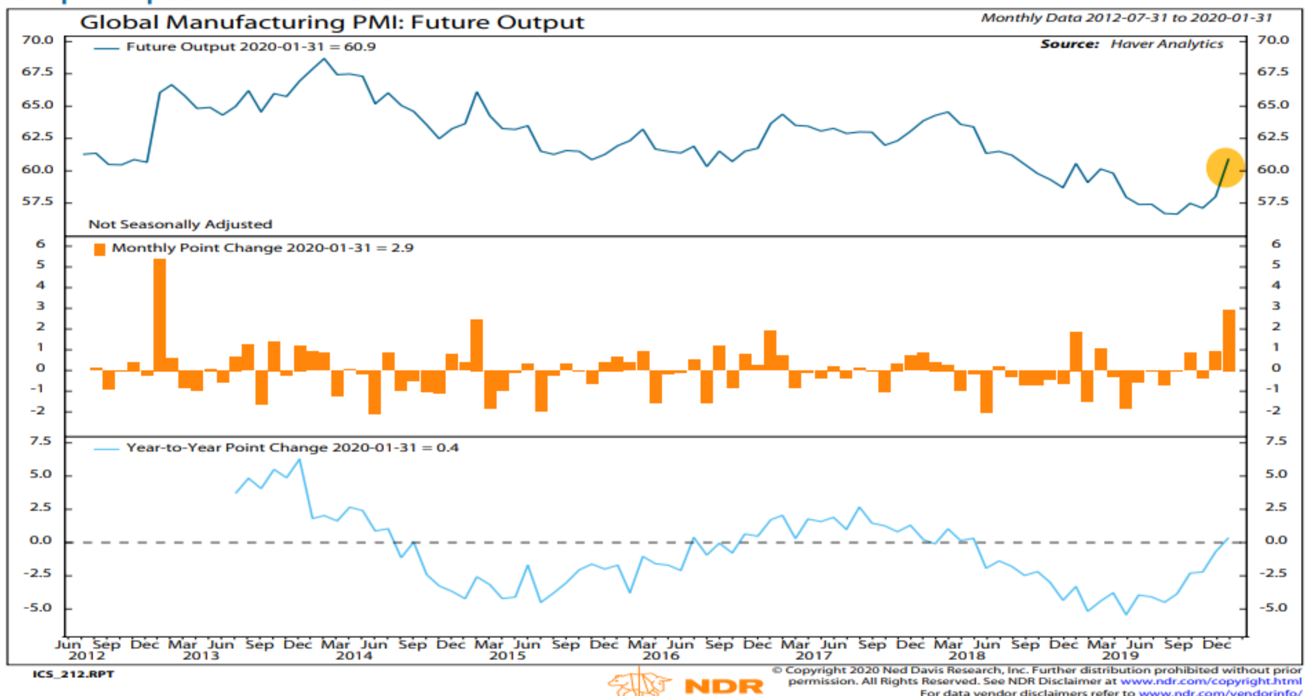
Chinese medical officials began testing patients with CT scans which revealed another 14,840 new cases, up from 2,015 new cases nationwide a day earlier. This validates local stories that there are more people infected than had been reported.

Two things to note.

First, using the old methodology (a throat swab) revealed just 1,508 new cases yesterday. In other words, on a consistent basis, the number of new infections is still trending lower.

Second, the number of new deaths is not growing at the same rate as the new suspected cases, which means the disease may be less lethal than initially thought.

Output expectations have rebounded



Hopefully, we can get past the coronavirus in the near future and things will be back to the way they were.

The handshake, however, may never feel quite as safe as it did just a short time ago.

Is It That Time of the Cycle Again?

It feels like it is getting closer to that time of the cycle again.

It is interesting to see investor psychology play out the same way over the decades. Back in the late 1990s, discount brokers threatened to obliterate the

full-service brokerage industry like an asteroid wiping out the dinosaurs. People bought what they knew, and since they primarily knew what was going up, they loaded up on Nortel and Cisco (**NASDAQ CSCO**) and JDS Uniphase. These worked well for another year, then crashed up to 90% in the ensuing bear market. Nortel actually went bankrupt.

Today, we see ads from companies that promise free trades done through your smartphone. We know from industry data that most marijuana share trading was done through apps like these in recent years, and the results have been on par with the dot-com crash for these pot stocks. Many have fallen a similar 90%.

Right now, the fastest-growing stocks are the tech giants like Netflix (**NASDAQ NFLX**). They are attracting the love of many smaller traders.

It may end differently this time, for these giants truly have earnings and sales growth. But they are also expensive in terms of valuation. It is the tough choice we face now as investors: do we chase the hot market higher, or dig for bargains in the dumpster?

The strongest market in the world has been the US market over the last decade. Raymond James did a study of all periods since 1950 when the US market was both cheap (under 10x earnings) and expensive (over 20x earnings). Here are the results for how the S&P 500 did over the following 5-year period:

Under 10x earnings 11.3% per year average return over the next 5 years 100% of all of these periods had a positive 5-year forward return
Over 20x earnings 5.6% per year average return over the next 5 years 66% of all of these periods had a positive 5-year forward return

The forward p/e ratio for the S&P 500 is now at 19x current earnings. So, not yet in the ‘expensive’ zone, but close. This means investors in the US market should be prepared for a 33% possibility they will face negative returns over the next 5 years.

Of course, we could still see returns averaging 5.6% per year, thanks to the size and strength of the US economy, and how it seems to be strengthening. For now, its superior growth justifies its higher valuation.

We can also consider diversifying into global markets, which is the same thing we have been writing about for at least a year now. Global stocks have a forward p/e ratio of 15x, while the Emerging Markets and Canada are at just 12-13x.

Could resources (oil, wood, mining), which carry a larger weight in Canada and the emerging markets, have a better decade ahead? Valuations today suggest that has a high likelihood of happening.

Nutrien

An example of a top Canadian stock that is stuck in the value dumpster is Nutrien (**TSX NTR**). Formed in 2018 through the merger of PotashCorp and Agrium, it is one of the largest fertilizer companies in the world. Farmers can delay fertilizing their fields for a year or two, but eventually they need to do it to achieve the crop yields they require.

Thanks to a wet planting season in 2019, as well as poor crop prices due to the US-China trade spat – as well as China's ban on several of Canada's grain crops - the stock has underperformed. It is down 16.5% over the past 9 months and the coronavirus outbreak is not helping things at all. Nutrien shares are down about 7% since the recent outbreak, and the shares could slide a little further before the outbreak is past. With restaurants closed across China, food demand and farm output over there have temporarily declined quite sharply.

However, as the old saying goes, "people gotta eat." For long-term holders, Nutrien expects potash demand to improve in 2020, and the US and China have just signed a new trade deal. Even with weak sales, Nutrien still generates good free cash flow and pays a generous dividend of 4.1%. Raymond James has a Strong Buy on the shares with a target much higher than the current $57 share price.

We will wait until we see Q4 earnings reported next week. Nutrien is a global player, and offers good value at today's levels.

Nutrien is owned in our Dividend Value portfolios.

Thank you for your referrals this month! They are always handled with great care and discretion.

http://www.dividendvaluepartners.com

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

How to contact us:

paul.siluch@raymondjames.ca
lisa.hill@raymondjames.ca
peter.mazzoni@raymondjames.ca

(250) 405-2417

Disclaimers

The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.

This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

The Clorox Company - Raymond James & Associates, Inc. makes a market in the shares of The Clorox Company.
Cisco Systems, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Cisco Systems, Inc. Raymond James & Associates received non-investment banking securities-related compensation from Cisco Systems, Inc. within the past 12 months.
Nutrien Ltd. - Raymond James & Associates, Inc. makes a market in the shares of Nutrien Ltd. The analyst or associate at Raymond James Ltd. has viewed the material operations of Nutrien Ltd.

Netflix, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Netflix, Inc.

Prices shown as of February13th, 2020

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.rjcapitalmarkets.com/Disclosures/Index.

This email, and any files transmitted, is confidential and may contain privileged information. Any unauthorized dissemination or copying is strictly prohibited. If you have received this email in error, please delete it and notify the sender immediately. We may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Le présent courriel, de même que tout fichier transmis en pièce jointe, est de nature confidentielle et peut contenir des renseignements privilégiés. Toute diffusion ou reproduction en est strictement interdite. Si vous avez reçu ce courriel par erreur, veuillez le supprimer et en informer immédiatement l'expéditeur. Nous pouvons surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, données par courriel ou dans une boîte vocale, ne seront pas acceptées ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des ordres en bourse. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas avalisés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Raymond James Ltd. est membre du Fonds canadien de protection des épargnants.

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click here or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer ici ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.