

The Market in Review

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This week's articles and insights

1. *Tangled!*
2. *Coping with Downturns*
3. *Children and Financial Decisions*
4. *What We've Learned This Week*

“Too many people spend money they haven't earned to buy things they don't want to impress people they don't like.”

- *Will Rogers*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	25,128	- 4.39%	- 11.95%
S&P 500	3,002	- 3.54%	- 7.08%
TSX	15,051	- 3.07%	- 11.79%

Tangled!



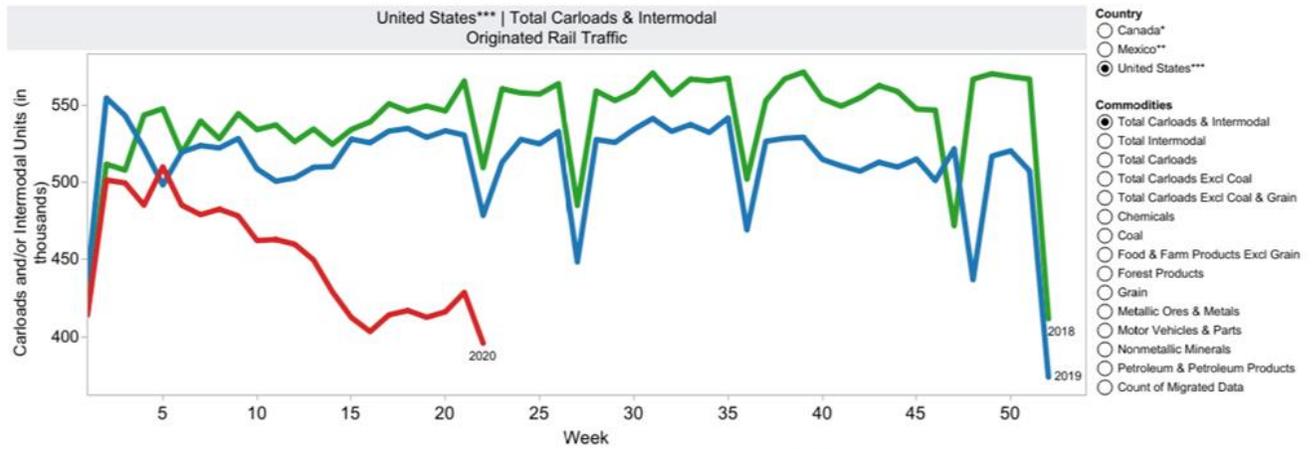
In Greek mythology, a man named Gordius tied his oxcart with a knot so intricate that it could never be untangled by a mere mortal. An oracle foretold that the person who untied the knot would rule all of Asia.

As Alexander the Great crossed Anatolia – present day Turkey – he was presented with the knot. Frustrated by it, legend says he drew his sword and sliced it in two, allowing the tangled rope to fall free. Alexander conquered as far as India, fulfilling the prophecy.

The current economy and market present a similar knotty problem. Reconciling record unemployment and recession with a record rise in the stock market seems like a problem as unsolvable as the Gordian knot.

Is there a way to cut through it all? We can try.

First, it is obvious that stocks aren't reflecting current conditions. For example, here is a graph of rail traffic in the US. The red line is 2020. Compared to 2019, loadings of coal, cars, oil, fertilizer – everything we move on trains - are down close to 20%.



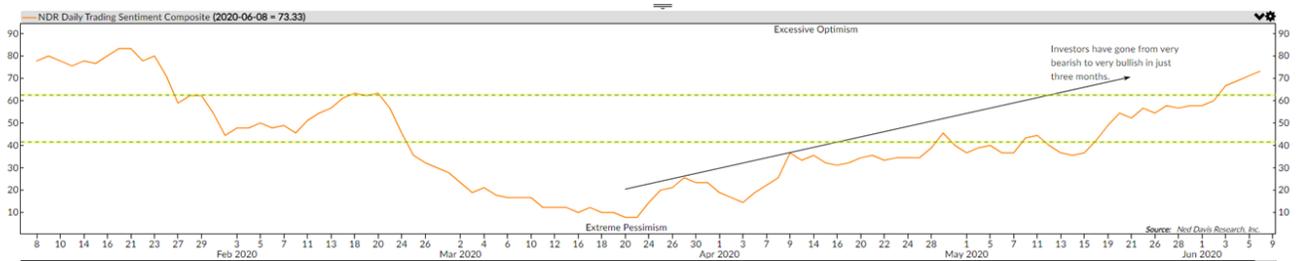
* Canadian traffic includes the U.S. operations of Canadian railroads.
 ** Mexican traffic includes the U.S. operations of Mexican railroads. Comparable railroad figures are not available for Weeks 1-26, 2017...



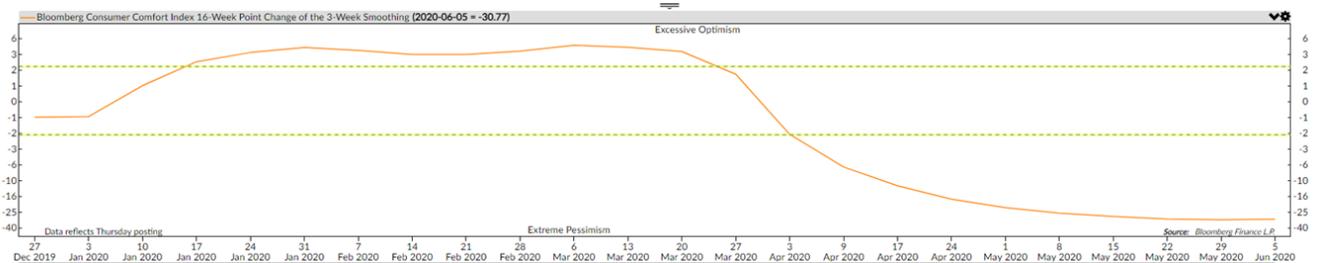
The Road and Rail Index fell in March, but has now rallied to be actually positive for 2020. Did someone forget to tell the conductor that his train is empty?



Second, sentiment. Traders have gone from terrified to exuberant in just three months.



...while consumers have become very pessimistic (Bloomberg Consumer Comfort Index) over the same period:



In other words, we won't take a trip on an airline because they are seen to be unsafe. But, we will happily buy an airline *stock*.

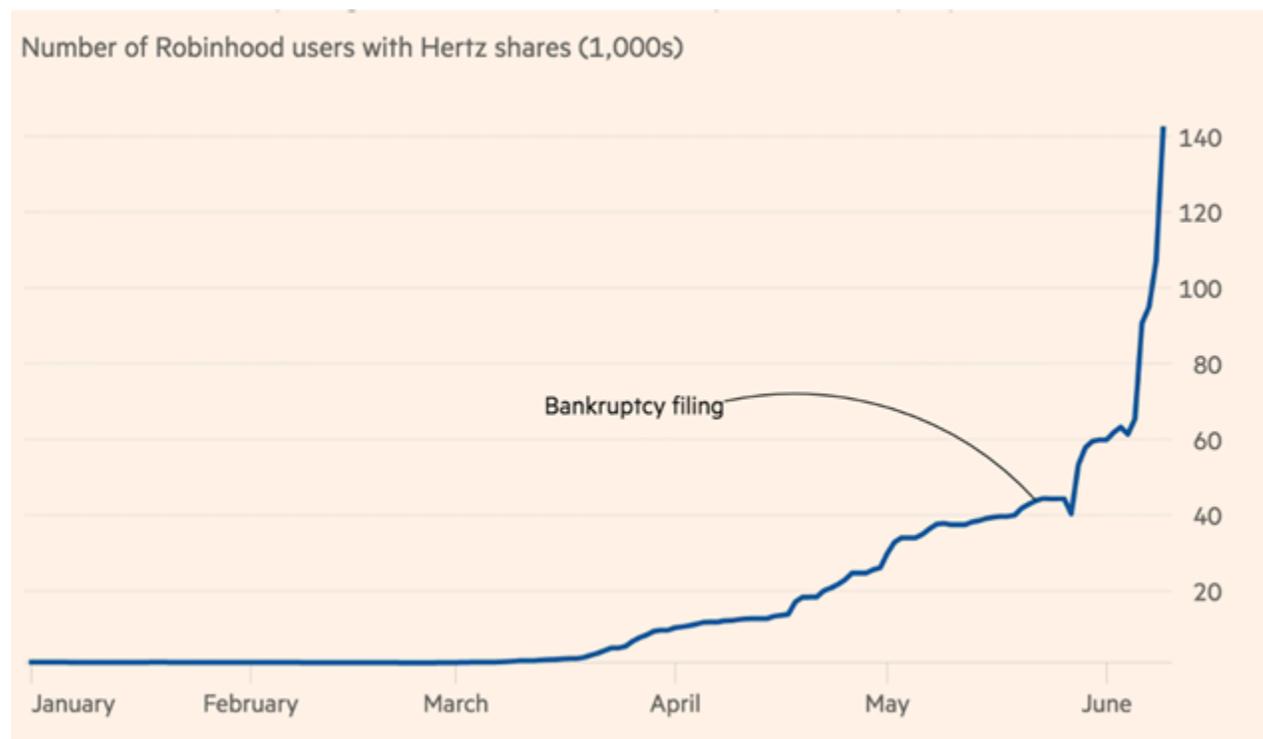
Reality lies somewhere in the middle.

We are now in an “official” recession that began in February. Stocks bottom about 4 months before a recession ends, which suggests this recession could end as early as August. This would make it the shortest recession in history. Companies such as Macy's (**NYSE M**) have seen sales decline about 50% over 2019 levels, but this is far better than the -85% the company predicted just a few months ago.

Yes, conditions are bad, but they are “less bad” than expected.

Because the pandemic was such an unexpected shock, governments around the world spent unprecedented amounts on unemployment insurance and market supports, such as lower interest rates. These amounts dwarfed those spent in 2008-2009 and most economists believe this money found its way into the stock market. The US Federal Reserve is expected to unveil a 4th phase of stimulus in the coming weeks, with another \$1 trillion to be injected into the economy. This may also help to buoy stocks further. They have also committed to near-0% interest rates until at least through 2022.

Staying at home and saving money has spawned an unintended consequence: we have just created a whole new generation of day traders. Millions of people signed up with a new trading app called Robinhood where trades are free (they aren't really – you just pay in other ways). Armed with stimulus cheques and hours of free time, these day traders now account for much of the trading volume in markets today. One of their favourite targets is bankruptcy stocks. Hertz (NYSE HTZ) has entered Chapter 11 proceedings, meaning its shares will now be worthless as the debtholders argue over the remaining assets. That hasn't stopped Robinhood day traders from pushing the shares up from pennies to over \$5.00 per share. The shares are worthless, remember!



Unseasoned investors can become wildly optimistic at the wrong times. This may explain some of the recent rise in parts of the market.

As we have seen with the data on the coronavirus, our knowledge evolves as time goes by. Our economic stance has also had to change, as follows:

- The economy has hit bottom and is recovering. Judging by rising employment and early sales data, it is recovering faster than expected.
- This is the fastest stock market recovery on record. Valuations are now very overvalued in certain stock sectors, and slightly overvalued in the overall market.

- It is harder to make the case that we will retest the March 23rd lows in the market, though we do think there is still the possibility that we will see a dip ahead. Low interest rates and government money will likely cushion against a more severe decline.

Coping With Downturns

Psychologists who study human behaviour show that we feel the pain of loss three times more than we enjoy the pleasure of a gain. This is why periods of panic are more prevalent in markets than those of euphoria – they happen about three times as often. Is there anything we have learned about our own behaviour through all this?

1. It helped to have a large buffer of cash to stare at. Even if we didn't invest it, those clients with a high cash reserve - either in cash or T-Bills or bonds - were more able to ride out the convulsions of March. Recent surges in savings rates have been seen in countries around the world as a result.
2. We have an old saying around here called “throwing a maiden into the volcano”, which is an allusion to an offering to satisfy an angry god. When there is panic in the air and you feel compelled to sell everything, it can help to sell just one position to relieve the pressure. This often happens right at the bottom, but if one small sale stops you from selling everything at the wrong time, it is a worthwhile sacrifice.
3. Declines in markets can be an excellent time to upgrade portfolios. Quality companies go on sale, too, and taking losses on weak companies to buy stronger ones while they are also down is often a worthwhile switch.

It can also help to simply turn off the news. We have seen time and again that markets fall and then eventually recover. We always think this time is different, but it never really is. News is designed to invoke fear – the old adage “If it bleeds, it leads” where newspapers put the most gruesome stories on the front page has never been more true than today. Tune it out.

Children and Financial Decisions

The Quarantine Era has led to an upsurge in parents helping out children, from small actions like babysitting to much larger ones, such as lending money to buy a home. Families band together in times of crisis and this is no different.

The time at home has also been useful in other ways, for it has forced us to examine what are needs and what are wants. When jobs and money are easy to get, our children often forget the difference. Not being able to spend money is an ideal time to start a conversation about saving and investing.

Here are a few topics you can bring up with your children:

- Canadians can open a Tax-Free Savings Account at age 18 (you have to be 19 to open a brokerage TFSA in BC). The Roth IRA is similar in the U.S. Because all interest and gains are tax-free, these are the best kind of accounts to save money in. Tell your kids about them.
- Small amounts invested monthly can add up. The best way for young savers to invest in the stock market is through a dollar-cost-averaging program where a little goes in each month. It is how many of us built our first nest eggs. Automatically buying through March was terrifying if you thought about it, but a monthly purchase program takes the thinking out of the equation.
- Most savings accounts now pay 0.15% in interest per year. That is a grand total of \$1.50 per year on \$1,000 – before taxes. Now is an excellent time to discuss investing in the bank itself rather than the savings account at the bank. Most bank shares today yield over 4% in dividends.

We have seen a sharp increase in requests for financial planning. This may be because retirement is looming, or is suddenly being forced on many people. If this is something you would like to discuss, we now have a Certified Financial Planner on our team (Sharon Mitchell) who is a whiz at these. Ask if you are interested.

What We've Learned This Week

55% of employees polled said that working from home was *Better Than Expected* or *Much Better Than Expected*. It is too soon to tell how this will affect office real estate in the years ahead, but it certainly suggests there will be more working from home than less.

Trends that were in motion have been accelerated. Working from home is one, and store closures are another. Economists have always known the US had too many stores for the number of shoppers. The forecast was that 20,000-25,000 stores would close over the next decade. Now, we may see this many closures in the next 12 months.

Recent studies are suggesting that Covid-19 is becoming less deadly. Doctors in Italy are seeing new cases that are milder than the earlier strains. Biologists say this is exactly how viruses evolve. They move from “kill the host” to “just sicken the host” so it can propagate further. That would be good news as we move toward the feared second wave in the autumn.

Elon Musk is going further than most of us realize. His rocket-launching company, SpaceX, has a division called Starlink inside it. Starlink is a web of satellites circling the Earth to provide low-cost internet access to remote areas at first, followed by urban areas next. SpaceX has already launched 482 Starlink satellites, with launches every two weeks. The goal is to have up to 42,000 small satellites spanning the planet. The very first test for this new internet-by-satellite will be this August when a trial will be run in Northern Canada. If internet cost can be lowered, Starlink could become another big profit area for Mr. Musk (in addition to SpaceX and Tesla), and a potential competitor for every phone and cable company reliant on undersea cables and cell towers for their internet bandwidth.

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Prices shown as of June 11th, 2020

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