

The Market in Review

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This week's articles and insights

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“The only thing that hurts more than paying an income tax is not having to pay an income tax.”

- ***Thomas Dewar***

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	27,535	- 2.68%	- 3.52%
S&P 500	3,339	- 3.35%	+3.36%
TSX	16,185	- 1.60%	- 5.15%

A Day to Forget

September often marks a turbulent time in events and markets. Today marks the 19th anniversary of September 11th, 2001 – one of the most significant days of any September.

There will be much commentary written about the day we now call 9/11, and some will even attempt to compare what happened then with the pandemic today. We will leave that to the philosophers and statisticians. Instead, we will focus on what happened before and after.

Before September of 2001, few were worried about suicide bombers. This was a true “black swan” moment that no one expected. We were worried about the ongoing recession, a result of the bursting of the dot.com bubble almost two years earlier. The US Federal Reserve had cut interest rates seven times already, and were handing out \$600 tax rebate cheques to boost spending by August of 2001. The major trend for stocks was downward and the destruction of the Twin Towers on September 11th only furthered the decline. Stocks would not hit their true bottom until July of 2002.

Today, markets are still pointed higher, despite all the world’s problems.

In 2001, the world was far more accepting of globalization. The attack on the US resulted in a united global coalition to oust the Taliban from Afghanistan. This was followed by the invasion of Iraq in 2003. These united efforts didn’t end the problems, however – they aggravated them. Iraq became a quagmire, Iran became emboldened, Syria, Libya, Tunisia, Egypt, Sudan, Yemen, and now Lebanon have been destabilized. History will not be kind to this particular chapter of globalism.

19 years later, things could not be more different. The US has pulled its troops from almost every country (including its allies), the UK is breaking away from Europe, and every western nation feels some sense of isolation. Globalism has given way to nationalism everywhere.

Before September of 2001, we boarded flights with little screening, carried scissors and 4-inch blades into the airplane cabin without a second thought, and spent relatively little on border security. Today, we have to surrender our nail clippers and shoes, and Homeland Security’s budget is close to US \$50 billion per year. The pandemic of 2020 will only increase screening costs, and likely border expenses as well.

Now Comes the Hard Part

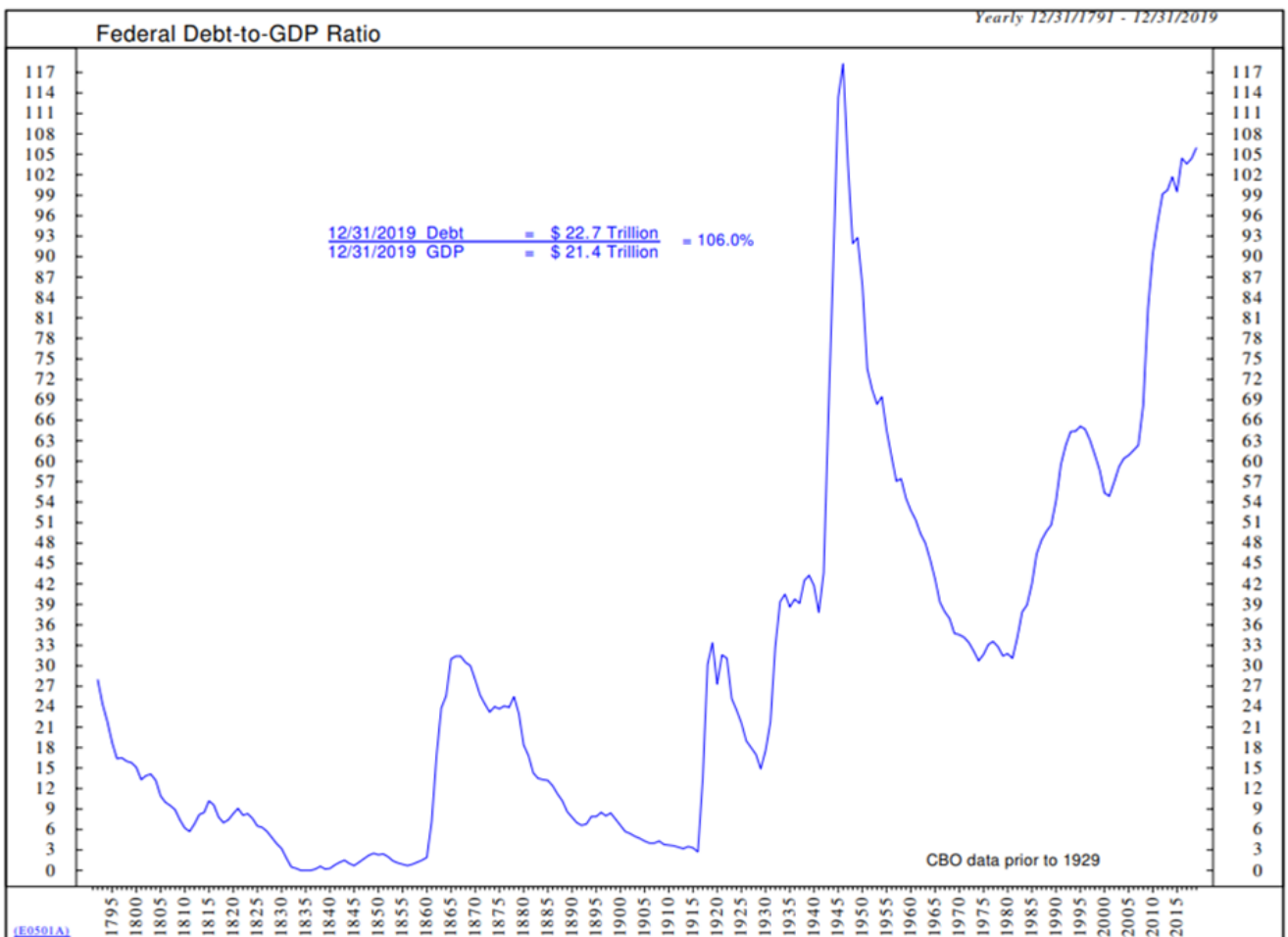
Today, we have over 100 vaccines in development. Several are close to final approval, pending successful testing data. Russia and China aren’t bothering

with final tests - the Chinese government has already inoculated over 300,000 people with its experimental vaccine well in advance of final safety results. Being first across the finish line is all that matters, it appears. Despite a rise in new cases, deaths from Covid-19 have declined sharply, which suggests the virus war is close to being already over.

Now, there is still a long way to delivering a vaccine to the world's 7.8 billion people. The International Air Transport Association calculates it will take close to 8,000 747 airplanes to deliver a single dose to everyone all at once.

The harder part, though, will be learning to live without stimulus.

The largest episode of monetary and government expansion before today was in World War II. Total US debt compared to national Gross Domestic Product is now approaching the level experienced at the end of 1945:



However, even though the Allied victory was all but determined by the beginning of 1945, formal peace was not declared until September of that year. Stimulus measures did not end until June of 1946 when price controls were finally removed. This resulted in a burst of inflation just as millions of soldiers returned home. A post-war recession began, and stocks would not hit new highs until 1950.

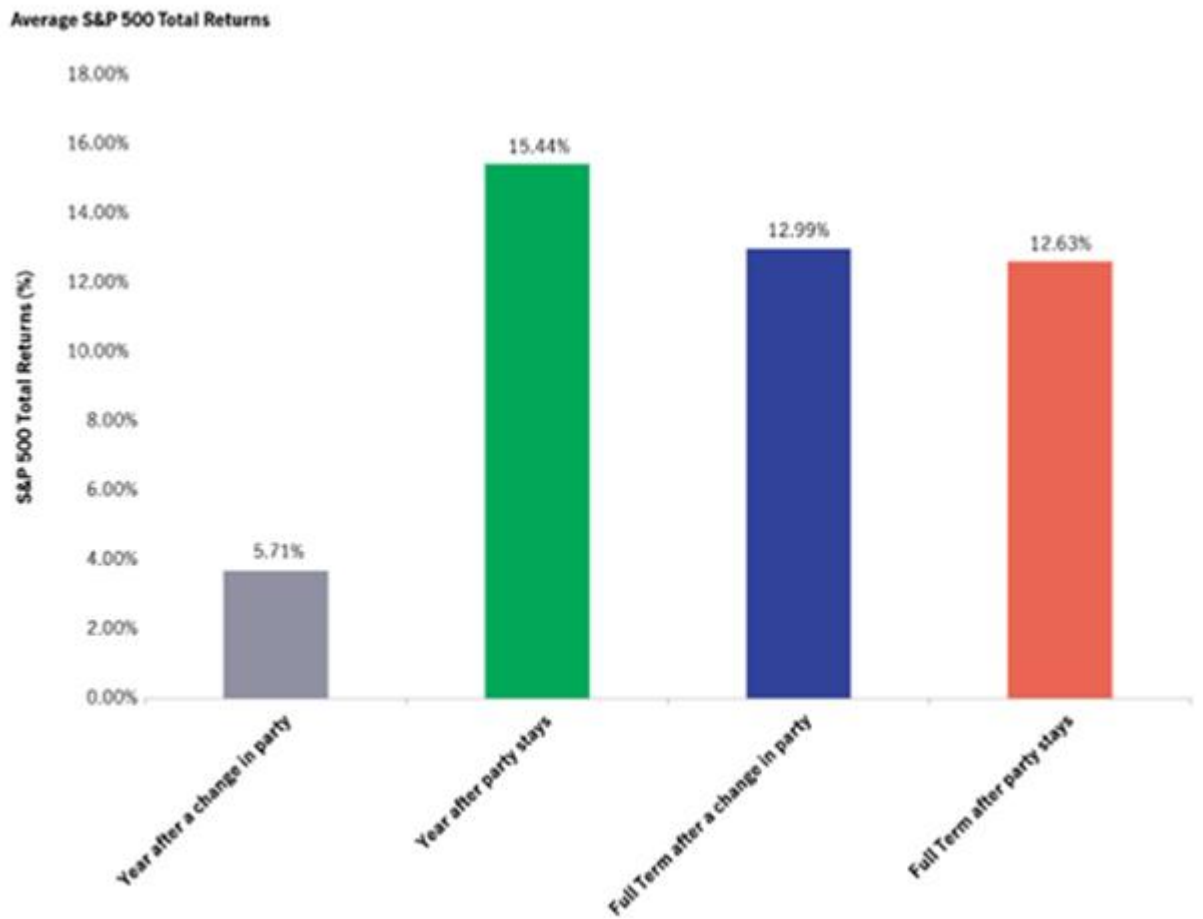
Markets This Week

Stocks markets went a little crazy in August. Tesla (**NASDAQ TSLA**) rose 74% in one month alone, which is just one example of too much money chasing a few stocks. September's slump is the unwinding of some of this speculation. It is nothing more than that.

However, it is also happening during a time of increasing uncertainty. For example, divorces in the U.S. rose 34% in the second quarter during the lock down, and 1.8 million firearms were sold in August—a 57.8% increase over August of last year.

Political uncertainty is also an issue in the US. Should we worry? In the short term, it matters somewhat, but over a few years, it doesn't at all.

Manulife shows the impact on US markets when the sitting US presidential party changes – markets rise +5.71% in the year following – versus staying in power – markets rise +15.44% in the year following. So, it matters in the year after the election. However, over the 4-year term, the results are almost exactly the same:



Source: Manulife Investment Management, Bloomberg, as of December 31, 2019

Elections often spur an abundance of promises and threats from politicians, and these can impact stocks. Health care (“you charge too much!”) and banks (“you lend too little!”) are frequent targets during election cycles, which means shares in companies in these two industries can get beaten down before a major election. This time is no different. Even though profits and dividends have been good, performance has suffered. Dividend portfolios like ours own both groups.

We are looking forward to the election being decided once and for all. Once the voting is over, both health care and bank stocks should rally.

Tax Surprises

The word “tax” derives from the Latin “taxare”, which means “to name, to appraise.” It is another thing that appears more often in September than in other parts of the year.

For example, The US Revenue Act was hatched in September of 1913 and approved on October 3rd of that year, making it the first federal income tax of the 20th century. Canada followed with its own “temporary” personal income tax in September of 1917. We are still waiting for this “temporary” tax to expire.

There is no end of creativity when it comes to what to tax, either. The US introduced a tax on tobacco in September of 1862 and Russia put a tax on beards in 1689.

There is no real reason for government to enact tax hikes mainly in September, unless it is because vacation has ended and they realize they are out of money. Canada is about to introduce its new Canadian Fuel Standard tax on oil and gas this month, which is a carbon tax on top of the existing carbon tax already in effect. The pandemic spending has a price, and part of it will be higher taxes.

Shaving saved men money in old Russia, but it is not so easy to dodge the taxman today.

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<http://www.dividendvaluepartners.com>

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Prices shown as of September 10th, 2020

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