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TOUCHSTONE Update

Richmond | Goodman Wealth Management

By Doug Goodman & Phil Richmond

Dear Clients and Friends,

We will try and be as brief as possible as we are sure you are inundated with reports about the economic effects the pandemic has had so far…or promises to have. It is indeed an extraordinary period of time. One that will end…but in the meantime the suffering is real and leaves everyone in a state of unrest and genuine concern. At the same time, it is an investment landscape that is requiring us to use many of the same tools that we employed during the 2008 financial crisis. Just as they did then, our strategies have held up quite well in very tough financial conditions.

To simplify matters, here are some thoughts around both the equity and bond markets. Less publicized is the astounding situation in the bond markets.

What's Happened to Bonds:

Bond markets briefly 'became frozen' in the last few weeks. This is similar to 2008 when the prices buyers were willing to pay did not match (in many cases) the true value of the bonds. Not unlike if someone knocked on your door today and offered to buy your home for three quarters of its' reasonable value, you would likely decline.

Of late, bond fund managers have had to sell some of their holdings to meet heavy redemption demands. It's a sell what you can at any price mentality that generally is brief in duration. This is exactly what has happened of late with broad mutual fund/ETF selling. High quality bonds have been forcefully liquidated at very cheap prices, leading to bond prices showing double digit declines for even the highest quality bonds. Thankfully, in the last few days, coordinated US & Canadian programs have restored liquidity with corporate bond buying: and normalcy is returning.

Bonds are legal obligations of corporations – as long as Loblaws or BCE (for example) stay in business, investors are made whole at maturity. This is an unusual situation and patience rewards those who are not forced to sell. So, while bond market values may not look appealing at present, they are likely short-lived. We are grateful for our prior experience to help guide us through this.

What's Happened to Equities:

It would be hard to find anyone that is not acutely aware of what has transpired in global equity markets of late. A large gain in January soon evaporated, and what looked like a promising year has led to losses for almost every equity. Many indices reached losses of -30% year-to-date at one point with many stocks down much worse globally. Since then, markets have attempted to claw back some of the damage. While very few investors have been spared from pain, we can only remind our readers of how we were positioned prior to the decline, what we have been doing since it started, and how we will be acting going forward in the near term.

Prior to the decline: From the late autumn and throughout January, our indicators were signaling some caution was warranted. Obviously, we had no idea "what" was about to cause such a severe decline…only that equities in general were priced for perfection. We know from historical precedent that when things are simply too rosy, it's a good time to be thinking about protecting some capital. To that end we started to carry a higher cash position since January, and this has been the saving grace for our clients by protecting capital as best as possible.

During the decline: As the markets started to fall in earnest, we were already well positioned but obviously not immune to declines. Our approach was first to fine tune our holdings by getting out of the positions most prone to the economic aftermath of this horrendous virus. This increased our defensive stance even more. We also used the situation to sell some loss positions (brought on by this pandemic) in order to help with past or future taxable capital gains.

What we are doing now: Although we are working remotely, our ability to function at the same level is not impeded in any way. Thankfully technology is such that we each have laptops that are mirrors of our downtown office setup. We have full access in real time to the markets and client portfolios.

Looking forward: Specifically, with regard to your investments, we are doing our homework to uncover investments that might recover faster once this is over. These have been put on our shopping list awaiting a "green light" from the tools that we employ. For the positions that we have held onto, it is because we feel they have been unduly sold off or that we expect might attract investment in the near future. Perhaps the most important thing to remember is that our goal in difficult times is always to do our very best to limit losses so that they can more easily be recovered when things turn higher. We are in that position now…with cash on the sidelines looking for investments in strong companies that once were too expensive and can be bought at better prices.

Final thought: During these times, disregard anyone who thinks they have clarity on when the markets will recover. The only thing that can be said is that indeed it WILL recover…. at some point. Until then, "watch, listen and learn" from different perspectives during this historic event. The truth lies somewhere on a balanced spectrum of sources. Try your best not to be emotionally driven in making decisions and know that you are well positioned with cash on the sidelines to prosper once again.

We are honoured to be the steward of your investments. If you have any questions whatsoever, or just want to chat, please do not hesitate to call. We'd love to chat on the phone (assuming you don't mind the occasional dog bark in the background).