RBC Dominion Securities

Memorandum

DATE: March 16, 2020

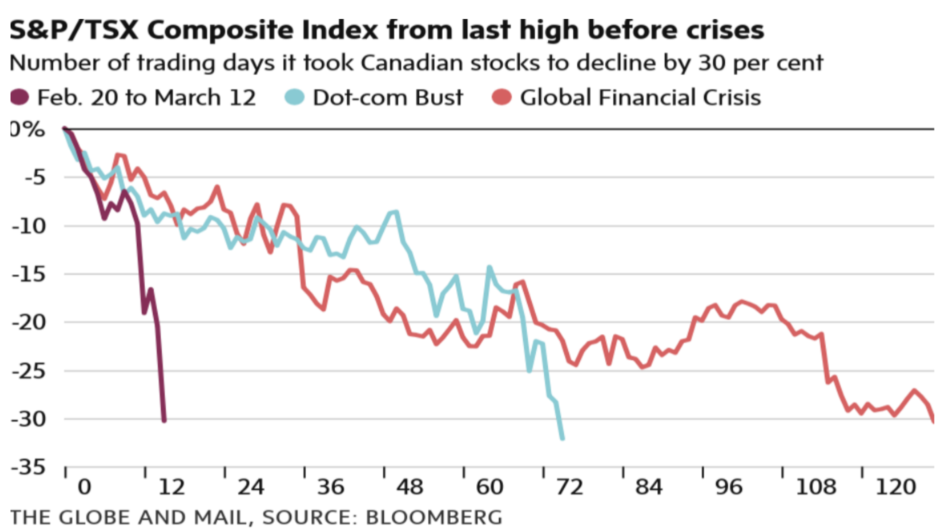
TO: Our valued clients

FROM: Michael Pallett, CFA & Jonathan Bloom PFP

RE: Finding a Bottom

Writing this note, we have one overriding thought – a hope you are reading this message in a state of good health. It is certainly an unusual period and we must all be vigilant to assess and protect our physical, mental, emotional and spiritual well-being. Many of our clients are older, and we know they are particularly vulnerable to the virus that is affecting so many communities in Canada and around the world.

Understandably, we are receiving many questions about when to put cash to work and when the market decline might end. These are good questions, unfortunately without good answers. The current market decline has been unprecedented in speed and breadth (see chart below). The bear market associated with 2008-2009 Financial Crisis took 120 days to inflict a 30% decline in the market. The Dot.Com bust of 2000 bottomed after about 73 days. The current decline has remarkably created a 30% decline in just 11 trading days.



It may have further to go, but like every other correction, bear market or "black swan" event, this too shall pass. Like the virus itself, the current decline has moved swiftly and exacted a heavy price, but it will eventually end.

Market bottoms are psychological turning points that are not easily explained. Keynes famously remarked, "Markets can remain irrational longer than you can stay solvent". While valuations may already reflect an outcome far worse than the COVID pandemic will ultimately deliver, the current market environment is being driven by emotions that must find a peak before a turning point can be discovered.

Markets are very good at discounting news, and until the market anticipates a change in the direction of the news, we can anticipate more down days ahead. As we have seen in Korea, strong public health policies can change the trajectory of the COVID outbreak. For this reason there is every reason to be hopeful and the default strategy for most investors should continue to be **do nothing** with you your investments.

In recent days (including today, Sunday, March 15th) we have seen stronger health policy interventions underway and a range of fiscal and monetary policy measures under development. As Fed Chairman Jerome Powell observed this morning, in the short-term these policies may appear to be working at cross-purposes. The economic antidote (fiscal stimulus and monetary policy actions) in simple terms is at odds with the public health policy prescription (limiting the movement of people and curbing certain economic activities, i.e. travel, consumer activities, etc.), but in time the policies will gain greater synchronization and deliver positive effects.

The bottom of the market decline will be found when some combination of public health data and economic data provide investors with a sense that both are working effectively in their respective spheres and the worst has passed. Alone, neither one will be enough to turn the tide, but there is little doubt we will get there with the actions now being undertaken by governments and individuals in their communities.

Best regards,

Mike, Jon, Mark & Meredith