Crowder Wealth Management Group's Quarterly Comment

Wealth Management
Dominion Securities

April 2020

Wayne Crowder
Vice-President and Portfolio Manager
wayne.crowder@rbc.com
519-675-2512

Ray Crowder
Associate Investment Advisor
ray.crowder@rbc.com
519-675-2513

Beatriz (Bea) Cuellar
Temporary Associate
beatriz.cuellar@rbc.com
519-675-1141

148 Fullarton St.
Suite 1900
London, Ontario N6A 5P3
www.waynecrowder.ca
1-800-265-5911

My team and I hope you and your family are healthy and managing well during this difficult period. As these comments are being written, we're into our sixth week of working remotely, at home. Who would have imagined….

The first quarter of 2020 was unlike any we have ever seen. The coronavirus has done a surprise attack on the global capital markets and economy over the last number of weeks. However, in response to the pandemic and the social distancing and lockdown measures that have affected over one-third of the world's population, it's not surprising that global capital markets declined sharply. Energy prices also weakened significantly as a result of a price war between Russia and Saudi Arabia, exacerbating slowing demand, and further affecting the shares of energy companies and adding to the general atmosphere of anxiety in the markets. This was a stark contrast to the decade of gains investors had experienced since the end of the financial crisis. In fact, North American stock markets had reached all-time highs in February, on the heels of their strongest year since 2013.

The S&P 500 Index, a broad measure of U.S. equities, had the worst start to a year in history, down 20% (in U.S. dollars) over the three months ending March 31, while the Canadian S&P/TSX Composite Index posted its worst quarter since the financial crisis, declining 21.6%. Government bonds benefited from investors moving to safe havens, and yields moved lower as prices rose. The Canadian dollar declined in value over the quarter, helping to mitigate losses for Canadians invested in U.S. markets. Also noteworthy is that capital markets have recovered somewhat at the time of writing.

Governments and central banks around the world have responded aggressively to this crisis, with quick action that is both bigger in scale and more diverse than what was seen during the great financial crisis over a decade ago. Many have announced significant fiscal measures – from emergency loans, to tax relief, to wage subsidies and direct payments – to help alleviate the pressures that consumers and businesses will face over the weeks and months to come. To date, the Canadian government has announced direct support to the economy amounting to $105 billion (nearly 5% of our country's annual economic output). More specifically, the government has created Canada's COVID-19 Economic Response Plan, which is a collection of diverse measures to help households, consumers, students, parents and businesses.

Meanwhile, central banks have sharply lowered interest rates but more importantly have undertaken a variety of actions, including coordinated policies, to improve liquidity conditions and ensure that businesses have proper access to credit should they need to borrow money. Of course it all seems rather bleak at the moment. There's no way of knowing how far a market reaction might go, or how long heightened uncertainty will last. This all makes for a lot of worry and fear. For a lot of investors, this means an

irresistible pressure to sell, driven by the desire to avoid further declines.

But none of this means that selling is necessarily the right thing to do. Selling, with the intent of returning later, is compelling in principle but extremely difficult in practice.

We will always maintain that rational investing has to be based on the relationship between price and value, in the context of prevailing conditions and one's long-term investment objectives. It shouldn't be centered around predicting things we cannot know, nor on a short-term perspective. Assessing price relative to long-term intrinsic value remains the most reliable way to invest for the long term that we know of. However, one has to recognize that that approach requires considerable patience over the short term.

At the same time, there's also no case for abandoning a sound long-term investment plan and attempting to move to sidelines while this sorts itself out. There's considerable danger in avoiding good long-term investments in exchange for short-term comfort.

"It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance."

Warren Buffet – in regards to the financial crisis in 2009.

Some Things to Consider When Thinking of Your Portfolio:

Focus on income not just capital.

Understandably, when market values of a portfolio move down the way they have recently, investors feel that their wealth is disappearing. One thing that deserves attention – yet, is often overlooked – is the continuous income a portfolio generates. Most good investments produce reliable income: earnings that are retained, dividends, interest, rent, etc. Yet, despite the portfolio's change in market value, investors tend ignore the importance of that income that is available for consumption or compounding. Our experience has been that portfolios generate relatively stable income, actually. It's really important to understand that a change in price of investment doesn't necessarily change the future income stream that it will generate. Also worth considering is that investors generally spend or redeem very little of their capital. Or, they spend it gradually over time.

Remember that the true value of an investment lies in its future earnings potential, and the current price will sometimes be disconnected to that. Especially in reaction to short term events. Clearly, given the current situation, many companies will face earning declines, and quite possibly, stoppages. It appears as though capital markets have already priced in a rough economic period. However, with a longer-term view, the outlook is much brighter.

In the meantime, investors should take some comfort in the current and future earnings potential of their portfolios. Those things afford most portfolios a longer time horizon.

There's safety in quality.

Ownership in businesses (stocks) that have proven economic resiliency can fluctuate in price, but their financial strength provides long-term safety. In a big picture way, our everyday existence depends on trade and commerce, and the availability of goods and services, and so we need companies that provide us with those. Generally, this basic reality means that many businesses have longevity, relative profitability, as well as growth. Partly, this "free enterprise" is why business ownership has tended to produce attractive long-term returns.

In our portfolios, we always tend to focus on securities that could best be described as "investment grade", or possessed some other attractive, long-term appeal. While focusing on this type of quality doesn't guarantee results, it does help to avoid costly mistakes and permanent losses.

There's safety in diversification.

It's conventional wisdom that no single investment is best for all situations. It's also conventional wisdom that investing is not an exact science, which means projections and valuations are subjective, and can be conflicting and wide-ranging. By broadly branching out into different types, or classes of investments, investors can reduce certain types of risks, expand the range

of opportunities, and lessen their exposure to human error.

There's safety in long-term thinking.

This pandemic and its effects have been like a really bad blizzard; sudden, and uncomfortable with very little visibility. The capital markets appear to have already priced in the rough economic period we're experiencing, but there is still considerable uncertainty. The reality is that nobody can predict how this unfolds, and it's quite difficult to grasp the extent of the economic fallout, or how markets will continue to react.

However, taking a long-term view with history in mind, human ingenuity and free enterprise will prevail as we work our way through this. We are committed to remain disciplined in our investment approach. This means: focusing on your long-term objectives and ensuring your portfolio is properly structured to deliver your required long-term outcomes

Certainly, this has been a very difficult period, and you may be anxious about your investments as well as your own health, and the health of your loved ones. There are still many unknowns about the virus and the economic impact of the measures being taken to control it. However, it is at these times of great uncertainty that discipline and the ability to remove emotion from one's financial decisions becomes an investor's most valuable asset.

We believe that your trust in us to oversee your investments objectively will prove beneficial as we come out of this correction. As history has demonstrated, markets have ultimately recovered from setbacks, large and small, before moving higher in the long run.

In the meantime, we are on the constant lookout for opportunities to reposition equity holdings in order to take advantage of high quality investments that may become extremely oversold, and to possibly deploy cash, on a case by case basis. With the extreme uncertainty, we remain cautious and patient, however.

In closing, I would like to wish you and your family well during this unique time in all of our lives.

My team and I will be working remotely from home for the foreseeable future. However, we all have full system access and are quite ready to respond to any of your needs. We are still just a phone call or email away, so if you have any questions about your portfolio and investment plan, please don't hesitate to contact us.

Wayne Crowder, B.Sc.(Agr), CFA
Vice President and Portfolio Manager
Crowder Wealth Management Group

Team Update:

Effective, May 6th, Beatriz Cuellar will be going on maternity leave. In her place, Meaghan Britton will be covering.

Meaghan can be contacted at:
519-675-1141;
meaghan.britton@rbc.com.

We are also expecting Jennifer Squires to be returning from her maternity leave on August 4th. We'll keep you posted.

Index	1 Year	3 Year	5 Year
S&P/TSX Composite Total Return Index	-14.2%	-1.9%	0.9%
S&P 500 Total Return Index ($CAD)	-2.0%	7.0%	9.0%
S&P 500 Total Return Index ($USD)	-7.0%	5.1%	6.7%
MSCI World Price Index ($CAD)	-7.4%	1.8%	3.4%
Broad Composite Cdn. Bond Index	4.5%	3.7%	2.7%

Wealth Management
Dominion Securities