Patrick O'Brien's

May 2020 Client Note: Update

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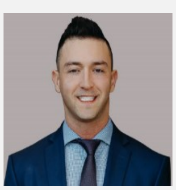

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Dear Friends and Clients,

I trust that the recent warm weather is suiting everyone just fine. The rhododendrons are blooming in full celebration of the month. I can just imagine the UV light from the sun scrambling/inactivating the DNA of unlucky airborne coronavirus particles like scrambled eggs.

Markets recovered much ground in April from the March lows as we enter the grinding uphill phase to the pandemic's ultimate defeat. I believe that it will be "two steps forward one step back" for a period of time. It will be mostly forward though in my opinion because the earners and spenders of the world economy are largely unaffected by the virus. As they return to the lives they previously enjoyed, their basic needs will be no different (heat, food, electricity etc.) Their behaviour will also be largely unchanged – they will still want their leisure activities, gatherings, to migrate to cities etc. as they have since the last ice age. That isn't to say that the secular changes, underway for years now, such as internet buying and video conferencing will not hold onto their recent gains and continue to expand. They will, but the working from home program touted as "here to stay" is, I believe, mostly erroneous. It is much less productive with increased frictional annoyances everywhere. Further, most people like to have their work stay at work and they miss the camaraderie of colleagues. Everyone in my office will be very happy to return to our usual location.

So what to do?

Largely what Warren Buffett advocates – which is nothing (except collect the eggs the chickens produce i.e. dividends). Buying quality companies is still a good idea - both their discounted bonds and stocks are appropriate - if you have cash and at least a 2 year time horizon.

Special RIF Payment Reduction for 2020

The CRA is allowing you to take 25% less than previously dictated from your RIF in 2020 as a result of the pandemic. If you need the money, then you should take it. If you don't, then there are two good reasons not to. The growth and income that the RIF is expected to generate between now and the end of the year grows tax deferred. Reducing your withdrawal also lowers your taxable income for 2020. This could be significant as RIF withdrawals are taxed at your highest marginal rate (along with rental income, wages, interest and foreign income).

Algonquin Power comes through again with another 10% increase in its dividend.

I am very much attracted to companies like Algonquin Power that have hard tangible assets producing cash each and every month, pandemic or no. The cash comes reliably from the customers who pay for such things as electricity in priority. Further, the world is gradually shifting from fossil fuel/carbon based energy to renewable electricity. Now with even lower interest rates, companies like Algonquin can borrow money at lower cost to continue building hydro, solar, or wind power installations to meet the growing need.

My suggestion? Follow Mr. Buffett's advice i.e. do nothing – but collect the eggs.

Regards,

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