

*Patrick O'Brien*  
**Spring 2020 Client Note**

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Dear Clients and Friends,

So much has changed since the January update, and I believe, so much will return. Back in early January the pandemic was not on the horizon and there were just a few cases in China. While the world has changed its economic and social patterns, I believe strongly that, apart from structural changes already underway, (e-commerce etc.), most parts of the economy will return and advance further. I think this because the basic modern human with their needs and deep seated wants has not changed. Further, the economic drivers of the economy – those who earn and spend are at much lower risk of serious illness than the vulnerable population.

I did not predict this disease outbreak, nor any of the previous downturns since I became licensed in 2007. No one knows how deep or long any market decline may last; anyone who pretends to, is selling something. The good news is that my portfolios are designed to weather the unanticipated and to be resilient so that they go down less and come back quickly. I would rather have the market temporarily reduce my portfolio value than sell, lose the income, and pay capital gains tax that won't likely be similarly temporary. Please see my note titled "Recalling Warren Buffett's Words..." (there are three recent "pandemic" client notes, please contact us for your copies).

The pandemics of the recent and distant past have not changed the ongoing desire of humans generally to move to cities. In 1347, the plague hit Europe (after devastating Asia) and took away somewhere around 30% of the population without regard for age or health status. More recently, a flu bug followed World War 1 and killed approximately 10 times as many as the war itself. That did not prevent the strong economy of the 1920s or stop people from moving closer and closer together. You may wish to read again my article, "Markets are like a Bag of Grass Silage - Patrick O'Brien's comments on Market Activity on March 9, 2020."

Consider the Supply Managed Dairy Farm:

You may be feeling some anxiety about your finances. I understand, please give me a call, I can help. In the meantime, here is a metaphor that may work for you. I recall a time when I was a practicing dairy vet that the price of milk quota went from \$118 per litre down to \$70 and back again over the span of about 18 months. Farms who bought did well, even if they bought at \$90 - only to see the value of their purchase drop another 22% (before climbing back). The sellers did badly, unless they were the first to sell.

The regular Joe Dairy farmer? It made no difference as he was neither buying or selling and just continued living on his milk cheque as he had done before, during and after the quota price swing. This is very much like many of you who are living on the dividends and interest produced by your portfolio. One of the distinctive features of my financial planning practice is that I only want to use this income for daily living expenses with zero contribution from growth which is fickle. Market downturns such as we are experiencing show that growth in share prices is inconsistent. I often say, "Eat the eggs the chickens produce, not the chickens themselves." If you think that you may be inadvertently eating more than the eggs, please give me a call to discuss.

#### Dividend Sustainability:

One of the reasons that the Real Estate Investment Trusts (REITs) have declined significantly is the legitimate concern that tenants may not pay and as a sequela, the ability of the landlords to pay their expenses is constrained. There are some that will struggle, but I am focused on the well-financed quality REITs which should be able to maintain their payouts even with a protracted period of reduced rent payments and without further support from government policy. The utilities and pipelines dividends generally result from long term contracts and are not considered at risk. The number of dividend increases I reported in February was 13 (see my note, "Don't Rub your Itchy Eyes and Dividend Raises"). In my opinion, this is an uncommon chance to buy quality at a significant discount.

#### Bond Prices:

You may be noticing that some of the bonds in your portfolio are showing losses and consequently reducing the value of the overall portfolio. To explain this lets consider a simpler example: a 1 year \$100 GIC from a bank. Six months in, for some reason, you would like to have your money back. When you inquire of the bank they say yes, but they will only give you \$85, despite your statement showing that you have \$100 in the GIC. You are essentially asking the bank to break the contract and there are costs associated with that and the bank isn't going to do it for free either. You decide to wait and receive your \$100 plus interest when the GIC comes due. In a similar fashion, some of our bonds are showing prices of \$85 despite being issued at \$100 (par) and being guaranteed by the issuer to mature at par. Like the GIC, if you really want your money back, then you may have to accept a price lower than what you paid. If you wait the bond will mature at par. I only buy bonds with the expectation that it will be held until maturity. These bonds currently represent significant value in my view and we are taking advantage of it as best we can. Please call me if this peaks your interest for money on the sidelines earning almost nothing.

#### Mental Health:

We each look after ourselves in different ways. Here is how I am coping (actually this is my standard lifestyle): No TV or radio news (scary), we know how to "social distance" now; I don't need a constant reminder. I don't watch scary movies either because I need to stay solidly in my cerebral cortex to avoid emotionally driven, unhelpful behaviours. Reading the news is important to maintaining a functioning democracy but far less upsetting. I continue to read far and wide on the economy, geopolitics etc. It is critical to the work I do for all of you. Be careful how often you look at your portfolio values – this can lead to emotional decisions and general short term unhappiness. I am getting a lot of fresh air, exercise and sunshine on my bike, paddleboard, and in the garden. I maintain a regular sleep schedule and attempt to minimize dietary indiscretions (junk food of all kinds). Maintaining relationships despite reduced face to face time outside of my immediate family rounds out the generalities. I am thankful that I grew up in a home that valued these behaviours, setting me up for life.

#### RIF (Retirement Income Fund) Payments:

If you do not actually need the money, you might consider taking the government's offer of reducing your required withdrawal by 25% this year. The benefits are that you reduce your taxable income in 2020 and the assets inside the RIF can continue to grow on a tax deferred basis. Please give Celine (604 467 3173) or Tanner (604 467 3259) a call to change your RIF payment.

Please do not feel that I am too busy to talk to you. I am in the midst of reaching out to everyone, but you needn't wait for me to call you. There are no printed portfolio reviews being mailed this month due to the coronavirus disruption. If you would like a copy of your review, we can use secure email to send it to you.

"April showers bring May flowers"

Keep safe and well,

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