

# MARKET COMMENTARY



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## Economics in Eight Words

Once upon a time a great and wise king ruled a populous and prosperous land. The width and breadth of his kingdom were measured in thousands of leagues.

But a plague of poverty came upon that land, and no man knew its cause. There were mighty and inconclusive arguments in the halls of government, and learned graybeards in the schools advocated this remedy or that. The king, seeing that his people were starving and distressed in the midst of plenty, called his wisest counsellors from the four quarters of the kingdom.

The king listened to the inconclusive disputations of his advisors and then demanded that they create a “short and simple text” on economics that he could read and understand. This would enable him to save his kingdom.

Unfortunately, the advisors required a year, and the resulting opus was 87 volumes long with 600 pages per volume. The angry king executed half of his economic experts and again ordered the construction of a brief text on the subject. Sadly, the advisors repeatedly failed to perform this task although the document did shorten over time as the number of advisors shrank. Finally, the single surviving economist presented a concise message:

“Speak on,” cried the king, and the palace guards leveled their crossbows. But the old economist rose fearlessly to his feet, stood face to face with the king, and said:

“Sire, in eight words I will reveal to you all the wisdom that I have distilled through all these years from all the writings of all the economists who once practiced their science in your kingdom. Here is my text:

“**There ain’t no such thing as free lunch.**”

We’ve decided to produce our newsletters more frequently during these turbulent times in the hopes that our perspective on how to manage portfolios during all times, may provide some assurance.

In our last newsletter we talked of fundamentals and the confidence required to hold positions at times of anxiety. We have seen that pay off over the last 30 days as more than half the previous 30 days decline has been recovered.

It takes fortitude to maintain portfolios through volatile and uncertain times such as we’ve experienced, but that’s how we earn our lunch. It’s paid for in the hard work of learning and understanding the basics, studying how they apply in the current economy, identifying the assets that will optimize performance in the “new normal” (there is always a new normal) and then communicating our conclusions in an understandable way. That my friends is “no free lunch” for your portfolio managers and no free lunch for clients as they maintain their confidence in their advisors.

“Be an owner not a loaner” is a common phrase that makes the case for owning stocks rather than bonds to achieve greater performance over long time frames. Today’s conditions of historically low

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interest rates coinciding with the recent pandemic induced market correction provides an entry opportunity to purchase good companies for both growth and dividends.

We have no idea when the current health crisis will be resolved, but we're certain it will be. That brings us to another tenet of investing, the best value in stocks is achieved at maximum times of pessimism. A sell off in stock markets generated by fear, such as we experienced in March, is the most opportune and the most difficult time to invest. The good news is recoveries from recessions generally start a new business cycle and, a new "bull" market. Business cycles last an average of six years so there is time to re-position assets to take advantage of the "new normal" led by the changes required to create that new business cycle.

Looking into the future with a macro lens, governments and corporations will likely be much more diligent protecting intellectual property. They will also want more control of the many supply chains which will likely lead to repatriation of some parts of industry to domestic locations. Well defined trade agreements with accountabilities will become essential.

As for areas that may generate the most value it makes sense we will have to be more competitive and resourceful (again "no free lunch"). Technology and innovation coupled with creativity and fiscal discipline are traits that will identify companies that take advantage of the "new normal" and become an asset in your portfolios.

Communication, technology, workplaces, transportation, consumerism, education, recreation and healthcare are just some examples of industries that will be experiencing major changes.

Think of names like, Microsoft, Qualcomm, Abbott Labs, Disney, Amazon, Apple, PayPal, Shopify and you get the feel for the established innovators that will also become the leaders into the next generation of normal.

The pandemic has provided the opportunity to reassess the construction of our portfolios. The objective for most of us is income and growth. Our time frames are long term in most cases. Buying good companies at times of uncertainty is as close as you get to a free lunch, it's just not as easy!

Thanks for all the great support and commentary we've received over the last few months. Wishing you all great health, wealth and happiness going forward.

All the best,



All the best,  
Graham Burns

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## Andrew's Planning Corner

Over the course of 2020, we have seen unprecedented volatility and disruption to everyone's daily lives. We have written repeatedly and in-depth about investment planning, investor sentiment and psychology and portfolio asset allocation through these market conditions. That it is massively important to "stick to the plan", making adjustments as prudently and opportunistically as possible, and how critical it is to not panic and overreact to the short term.

Now, more than ever, is the time to review and reinforce broad financial plans, dealing not only in account management and investment selection, but comprehensive personal, economic, financial and emotional goals. I wanted to highlight several important questions, documents and things to watch out for, to ensure that your personal and financial lives are in the strongest position possible as we begin to emerge from the coronavirus restrictions over the coming weeks and months.

### Planning items to review

Roughly half of Canadians do not have a will in place, and without an in-force will, the deceased has no ability to choose beneficiaries, plan to minimize taxes, guardianship of children. Effectively, without a will, the government decides on how your estate is to be settled. Having a will allows you to control how your estate to allocated, to whom, and to structure your assets to be as tax-efficient as possible.

While preparing a will, there are two other key documents to have that are frequently overlooked: power of attorney and representation agreement. The power of attorney document allows you to assign authority to another person to handle your financial affairs on your behalf should you become incapacitated or otherwise unable to do so. The representation agreement (commonly called a living will) allows another person to make health care and treatment decisions on your behalf if you are unable to do so.

### Things to watch out for

In times of uncertainty, endless "opportunities" seem to present themselves. Now more than ever, it is important to bear in the mind the old adage "If it seems too good to be true, it probably is".

We've all heard of the various scams going around surrounding the various coronavirus stimulus packages. I've personally received several unsolicited texts suggesting I need to click a mysterious link to claim my government benefits, with the small issue that the government doesn't text out application offers. A Global News report stated that these scams have defrauded Canadians of at least \$1.2 million, so far. Be wary of any sites that want you to enter personal ID or banking information, and report suspicious activity to the police should you come across it.

Aside from blatant scams, there is also a large degree of misinformation floating around about various investment opportunities with outlandish growth or income forecasts, or purported testing, treatment and cures for COVID-19. One of the biggest issues with the coronavirus response has been the availability of personal protection equipment (PPE), tests and the identification of appropriate treatment plans. The Securities and Exchange Commission (SEC), the principle securities regulator in the USA, has already suspended trading of the stocks of at least 16 companies based on false claims of vaccine development, "at-home" coronavirus tests (there are no approved such tests), and the re-sale of PPE.

Most of these suspensions have been levied against "micro-cap" stocks, so called penny stocks, where the low share price makes even small price fluctuations a significant percent change in return. These penny stocks have a reputation of being high-risk, high-reward, and many investors have been tempted at the potential for dramatic gains. We recently saw this in the cannabis space in Canada, where prior to legalization, there were numerous micro-cap companies that saw outlandish short terms returns, only to later fall and many have not, and will not recover. Due to the low share price, these stocks are also susceptible to manipulation, where large shareholders can significantly impact the price to their own gain at the expense of well-meaning investors.

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When it comes to watching out for risks in this coronavirus-influenced markets, any company stating that they have the cure, or can promise double-digit dividend yields without showing corporate income, or other outlandish claims is a company to be wary of.

**To keep in mind**

To reflect Graham's comments, there is no "free lunch", and long term the companies that will do well are the ones that demonstrate commitment to growing their business with sustainable, legal and efficient business practices, to become leaders in their respective markets.

Financial planning and investment selection is best completed not for short term gambling, but long term identification of specific goals, objectives and comfort with risk. With these factors in mind, the current situation can best be managed and guided, in order to take advantage of opportunities while steering towards the long term targets.

We remain as always proud to be your partners in managing finances and investments, and are grateful for your support. If you ever have any questions, or if anyone you know needs help developing and managing their long term plan, please don't hesitate to let us know.

Thank you, and stay safe.



Sincerely,  
**Andrew Gilchrist, CFP®, BA**  
*Financial Advisor*

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Due to the impact of COVID-19, we are taking temporary measures to ensure business continues while we practice social distancing and work remotely from home. Client service is number one and so we want to make sure that we stay connected for all our client needs. We would like to re-confirm our contact information.

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