

# More Bottom Line

... An Investment Update from the Retire First™ Team

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From the Desks Of:

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## World Index Report

Annual Compounded Returns as of 04/03/2020

1 year... -12.22% 3 year... 0.4%

5 year... 2.63% 10 year... 7.43%



## FX Report All Prices as of 04/06/2020

CDN/USD... 0.709 CDN/GBP... 0.579

CDN/EUR... 0.656 CDN/AUD... 1.16

CDN/MXN...17.508

# CIPF

Canadian Investor Protection Fund

## MEMBER

## Top Picks

- ◆ CIBC
- ◆ Capital Power
- ◆ Exchange Income Fund
- ◆ Atlantic Yield
- ◆ WPT Industrial REIT
- ◆ Superior Plus
- ◆ Sangoma Technologies
- ◆ Viemed Healthcare
- ◆ Park Lawn
- ◆ Teranga Gold
- ◆ Goeasy
- ◆ Citibank



## Unintended Consequences By Doug Allan

History breaking volatility has been the story over the last month, the result being the stock market suffered its fastest 30% drop in history. The two main factors at play have been the health scare caused by COVID-19 and the oil price war between OPEC and Russia.

While COVID-19 is a dangerous virus and should not be taken lightly; somehow, we need to ignore the panic merchants and hysteria traders that seem to be everywhere. Although the US has only been shut down for two weeks, it appears that investors are pricing in a complete collapse of society forever. The USA is now leading us to believe another 30 days may be all that it takes to get things back to normal. While that estimate may prove to be too optimistic; either way, Canada seems to be a couple of months behind the USA. The good news is that some of the greatest minds in the world are working on this problem, and it will be solved. It will eventually end, and things will return to normal, most likely earlier than the crowd currently seems to believe.

The supply price war on oil is being multiplied by the drop in demand caused by the ongoing global economic shutdown. It looks like that for the first time since OPEC was established in the early seventies, we are going to see a normal commodity type response by oil to falling prices. Falling prices mean production facilities will have to close and stay closed until supply falls low enough to meet the demand; then over time, as demand rises, prices will follow. Unfortunately, that could take a while to unfold likely long after the virus problem has subsided.

I learned a long time ago when the chips are down, never underestimate the US government and the Federal Reserve. So far, they are not disappointing. The US government passed a bill for 2 trillion dollars to pay every worker in the USA their standard wage (with limits) for up to 4 months to stay home and limit COVID-19 spread. A second bill is awaiting approval that would see the Federal Reserve receive 4 trillion dollars that would allow them to implement quantitative easing. In 2008 and 2009, when financial institutions around the world were going broke, the US spent 1 trillion dollars quantitative easing. This liquidity injection will be four times bigger than that one; sadly, not all countries can afford this type of stimulus. While no one is quite sure how or if the money will ever be repaid, the punch line is, all assets will rise as the American dollar gets diluted. Prepare for real estate, stocks, bonds, and gold to climb in value, and it is very likely an actual reflationary scenario will appear. As a result, the US financial markets will have a strong second half of the year.

Interest rates around the world are falling. US 10-year interest rates that were running around 1.75% in January are now approximately 0.5%. Usually, all bonds follow the government bond yield, but in times of panic like we see now, everyone is worried about credit risk. Things are happening so fast; basically, no corporation is above suspicion. The government has ultimate taxation authority meaning they can tax 100% of all the income if necessary. So, in this case, while government bond yields went to new lows, corporation's rates went up, in some cases dramatically, as buyers disappeared for basically all corporate debt securities.

The same thing happened in the stock market. While government securities don't trade on the stock market, the bluest chip securities in Canada, banks, and utilities dropped by 30% or more in less than 30 days. You can imagine what happened to the non-blue-chip stocks as the buyers retreated, leaving the sellers staring at an empty bid. Valuations opportunities like this come along rarely and represent an excellent opportunity for those with a longer-term time horizon.





### Market Timing: Corrections and Experience by Brad Lamash

Market corrections are always painful when they happen, but we know they will happen. If it were not the corona-virus, it would have been another event that triggered this downturn. Every market crisis is unique and presents different emotional and behavioral challenges. For Y2K, the craze was to buy a power generator; today, it is toilet paper. Our clients have matured and gained insight into the experience they learned from the 08-09 financial crisis and 9-11 situations. For 99% of the calls that came in, clients were wondering what to buy and view this as a buying opportunity because they know the markets will recover.

It is at a time like these where experience is a significant asset. Studies show that market timing does not work. Trying to make the call of when to sell out and repurchase is extremely difficult as you have to be right two times.

The markets saw lots of panic selling around the world. Studies show that market timing does not work. Below is an example of staying in the market vs. trying to time the market. Here's what Fidelity found when they crunched the numbers on what would happen to a hypothetical \$10,000 investment into an S&P 500 index fund from 1980 to 2018 if you missed the best five market days.

Sometimes the best thing to do is nothing. This crisis does provide opportunities like upgrading your holdings, and it also allows you to see if your investment objectives are correct. If you found that you could not sleep at night, we recommend calling in and changing your investment objectives when the markets get back to normal.



### How COVID-19 Will Change Our Lives by Scott Loucks

The COVID -19 pandemic has affected all of our everyday lives; we can no longer visit friends, shop or even attend school. Today our focus is attacking the actual outbreak so we can get back to our routines, but the long-term implications of the pandemic are going to be widespread and impact all of our lives for years to come.

Human mobility is going to change. It is expected that after the lockdown is lifted, many people will rethink their travel choices. Business travel will be replaced with virtual meetings, and international trips will be replaced with travel closer to home. As we become more comfortable with remote learning and work stations, we will see a push towards integrating more virtual technology and streaming services. Even everyday activities such as grocery shopping or going to the mall will adapt and become accustomed to more online shopping, as many will continue to use an online approach after discovering how easy and convenient it was. The result could ultimately lead to smaller downtown cores, schools and universities, and continued disintegration of the urban shopping destination. The above examples are more likely than ever with the introduction of 5G technology. The high-speed network allows us to grow the sophisticated system that is required to operate virtual education and workspace. Expect a massive buildout of technology and training towards this type of environment very quickly. Other examples of the lasting impact of COVID-19 will be the mountain of national debt taken worldwide to battle the financial implications and the forever altered supply chain in countries like Canada will ensure better preparedness and access to medical equipment.

While it can be hard to focus on the future, as an investor, it is essential to identify who may benefit from the impact of COVID 19. How about Amazon, who said they are hiring 100,000 people, or Alphabet Corp (Google) who is seeing record online traffic, or maybe telecoms moving to 5G, all opportunities you can discuss with your advisor.

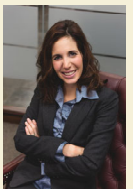


### Insider Buying By Kate Allan

Over the past few weeks, you may have been asking yourself if it is time to adhere to Warren Buffet's advice to be "greedy when others are fearful" and jump back into the market. No doubt, Buffet has made his fortune off other people's fear. Since 1928, we have had 25 bear markets, and each time markets have recovered, hitting new highs. The market recovery record is perfect.

Clients have been contacting the office, wondering when is the right time to invest more in the market, and asking what signs indicate that the market is oversold. And while there is no one absolute perfect answer to those questions, one that is at the top of my list is heavy insider buying. While corporate insiders sell their stocks for a variety of reasons- diversification, college tuition, divorce, there is only one reason why they buy their inventory- they believe it is going to go up in value. Corporate insiders have a direct line to their company's finances and prospects, they know what is right around the corner, and they know what will happen with their customers, suppliers, and employees during this new normal. Insiders are buying- over the past four weeks in the US market, there have been a reported 1,379 stocks with insider buying.

These purchases may reflect that the insiders believe the panic from the recent sell-off has overestimated the impact their companies will face. And while insider buying isn't a perfect metric that it is full steam ahead- it is a strong one worth noting.



# Income Ideas

*Yield at a Reasonable Price (YARP)* All Prices as of 2020-04-06

**Capital Power (CPX \$26.30)** is an independent power producer based in Edmonton, Alberta that has interests in 17 facilities across North America generating more than 3200 MW of power. Alberta's recent announcement to maintain the 'energy only market' increases Capital Power's growth potential. Combined with an improving cash flow and a 6% dividend at the current price makes this an intriguing story.

**CIBC (CM \$81.78)** The fifth largest bank in Canada in terms of assets, CIBC services customers in their Retail & Business Banking, Wholesale Banking Services, and Wealth Management. With over 10 million personal and business customers across Canada, the US, and around the world, they had nearly \$652 billion in assets and 43000 employees at the end of 2019. With the current pullback in price, CIBC has a 7.0% dividend at the current price.

**Exchange Income Fund (EIF \$17.64)** is a diversified, acquisition-oriented company that focuses on specialty aviation and manufacturing assets. All the companies manufacturing facilities have been deemed essential and remain operational. Their aviation services operate routes to remote communities that, for the most part, can only be accessed by air. They see an opportunity in cargo as well as an increase in interest for their chartered operations. The company is also well-positioned in serving First Nation communities, whose demands are not driven by the economy. With the recent pullback, the company has a 12% dividend at the current price.

**Atlantic Yield (AY:US \$22.17USD)** A sustainable infrastructure company that owns and operated renewable energy, natural gas, transmission, and transportation infrastructure and water assets. They currently have 25 assets, generating 1,496 MW of renewable energy, 343 MW of natural gas, and 1,116 miles of transmission lines and 10.5 Mft<sup>3</sup> per day of water desalination assets. They currently operate holdings in North and South America as well as in Spain, Algeria, and South Africa. The company has a 7% dividend at the current price

**WPT Industrial REIT (WIR.UN \$12.60)** owns 100 industrial properties and one office building in 18 US states. They recently closed on an acquisition that will add 9 million square feet to their leasable space as well as one 85-acre parcel of land, bringing their total leasable area to 32 million feet. Their portfolio has a strong and diverse tenant base with an average occupancy rate of 97.7% with a weighted average lease term to maturity of 4.7 years. At the current price, the dividend is 8.3%.

**Superior Plus (SPB \$8.32)** Superior Plus distributes and markets propane and distillates in Canada and the US as well as supplies sodium chlorate, Chlor-alkali, potassium, and sodium chlorite in North American and internationally. The company has a 8.6% dividend at the current price.

# Growth Ideas

# TOP PICKS

For more ideas visit our Top 20 at [www.retirefirst.com](http://www.retirefirst.com)

**Sangoma Technology (\$1.40)** is a Canadian provider of hardware and software for voice over IP. With Sangoma businesses of all sizes can find affordable cloud and onsite advanced UC systems. The company is also the primary developer of the most widely used open source communication and PBX software. The company is well positioned for COVID with an even split between services with reoccurring revenue and products.

**Viemed HealthCare (VMD \$6.20)** is a in home provider of respiratory services for patients struggling with various respiratory diseases in the US. A leader in the homecare ventilator market, Viemed is well positioned to benefit from COVID-19's need for post acute respiratory care services. The company is working with US authorities to develop protocols and treatment programs for COVID-19 patients in the home.

**Park Lawn Corporation (PLC \$16.61)**- A Canadian based corporation that operates funeral homes, cemeteries and crematorium throughout Canada and the US. Their 176 properties are in 12 states and 5 Canadian Provinces. The company recently opened 12,000 new lots; 2260 are already sold on their property in New Jersey and are developing another 6000 new lots as well as a new onsite funeral visitation and reception center at its Toronto property. It is believed that the COVID-19 restrictions will create a pent-up demand for services after the crisis passes.

**Teranga Gold Corp (TGZ \$7.48)**- Headquartered in Canada, Teranga is a low-cost mid-tier gold producer operating two mines in West Africa. The company recently acquired the Masawa Gold Project, and they expect to process the first ore in Q3/20. The company plans to produce 85000-90000 ounces in the first quarter of 2020.

**GoEasy (GSY \$31.77)** is a non-prime leasing and lending company that provides a variety of unsecured and secured installment loans, serving over 1 million customers and lending over \$3.9 billion since their inception, with 60% of customers increasing their credit scores within 12 months of borrowing from the corporation. The company has a 5.5% dividend at the current price.

**Citigroup (C:US 41.12 USD)** is a US based multinational bank and financial service company. They are the 3rd largest bank in the US and had assets of \$1.951B and over 204,000 employees at the end of 2019. At the current price the bank pays a 5% dividend.

# Final thoughts..

## What is Going on with Oil? By Todd Thiessen

At this point, this is almost a rhetorical question. As if 2014 wasn't enough when the Saudi's decided not to support the price of oil. Alberta got walloped. Today we have a standoff between Saudi Arabia and Russia over market share that brought the price of oil to its knees. We do not understand the real objective in this fight - kill US shale? Kill OPEC?

According to the International Monetary Fund, Russia needs \$42 a barrel, and the Saudi's need \$82 a barrel to pay for their societal needs. Both countries are digging into their massive reserves to finance this fight. The remaining OPEC countries are scrambling as they do not have the vast reserves for a prolonged battle. The US shale industry requires north of \$50USD a barrel to survive; the Canadian oil-sands needs about \$45USD. Oil hit \$20 a week ago, and the real heavy stuff coming out Ft MacMurray used by most of the US refineries went below \$4. The result will be a series of companies/countries on the ropes; Whiting Petroleum filed for bankruptcy this week, and Newfoundland closed its biggest refinery indefinitely. We are only at the beginning; there will be much more of this to come.

Add to this the COVID 19 catastrophe, which could cause demand destruction of 20% or 20 million barrels a day due to the global economy lockdown. Who knows how long this will last. A coordinated "cut" is being proposed by all concerned. Alberta, Norway, the US shales companies, as well as OPEC and the Russians will talk this week about chopping 10 million barrels a day in production to help shore up the price. Approximately 25 million barrels a day are going into storage around the globe. What will happen when storage, as well as pipelines, are full? The weekly US rig count is dropping fast and will continue to do so. On the other side of this, it may become difficult to access capital to get back to drilling as we ramp up to 100 MBPD in recovery mode. Some North American producers have lost 80-90% of their market cap, and debt covenants are coming into play. There will be pain.

As Peter Tertzakian from Arc Energy notes, "Canada's energy industry serves us all - it heats our homes, fuels the trucks that bring food to our tables and is relied upon to create critical medications in our cabinets. We need to think outside the barrel. Industry, government, and all stakeholders should proactively work together because this isn't an industry issue anymore; it's now societal".



## RRIF/LIF Withdraw Relief

Due to the volatile markets and the impact on your portfolio's value, Canada has introduced temporary legislation that will allow RRIF/LIF account holder to reduce their minimum withdrawal by 25%.

**This is OPTIONAL and will only be processed by request.**

There are a couple of rules to be aware of:

- 1) We can not reduce the minimum payment if it has already been dispersed.
- 2) We can only reduce the payment by 25%
- 3) Taxes will be withheld for excess payments.

If you would like to take advantage of the reduced withdraw rates, please contact our office at 403-314-5553 or email your advisor.

## The stock market is a device for transferring money from the impatient to the patient— Warren Buffet

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