Westdale

Financial Services

Stephen G. Fricker, B.Sc. CFP
CERTIFIED FINANCIAL PLANNER® professional
steve@westdalefinancial.com

8 Grandview Ave
Stoney Creek, ON L8E 5A5
B: 905 667 2112
F: 289 656 1605
www.westdalefinancial.com

March 26th, 2020

Dear Client's and Friends...

The Coronavirus (Covid-19) outbreak and subsequent progression to a pandemic status has been dominating the news and has heightened everyone's concerns for their own health and the health of their family and friends. So, I hope this brief note finds you well. Cheryl and I and my colleagues at Worldsource Financial extend our best wishes that you stay well during this significant health crisis.

We are home from our abbreviated holiday in Costa Rica and of course practicing self-isolation for the next two weeks. Face to face client meetings are substituted with simple phone meetings or using our "Go-to-Meeting" technology. Since I work in my Home/Office and here 24/7, don't hesitate to call or email me with any questions or concerns. The main topic I would like to address today is the state of the investment market and offer some thoughts on future expectations. First, some background.

Throughout 2019 I changed the timing of my internal investment reviews from monthly to weekly. Market prices continued to advance despite the fact that the global economy was weakening, and this disconnection posed an increasing risk to investors. As a result, I advised clients to concentrate more and more of their holdings into specific "Tactical" or "Balanced" investment products and added some customization in GOLD, Health Care, Financial Services and Emerging Markets where appropriate. That recipe worked very well last year, and the majority of our clients received a very healthy rate of return while being positioned mostly in conservative (Low/Medium risk) mandates.

This year the 2019 performance pace continued up until February 21st when the first major correction started in response to the emerging economic threat from the Coronavirus. Our office sent out a newsletter shortly after that. Since then I changed my internal investment review period to DAILY and expect to continue the frequency of this research for some time.

Initially I advised that no changes should be made to your investment accounts. As the correction continued, and once it seemed that the market decline was accompanied by a breakdown in economic fundamentals, I was in favour of reducing risk for many clients, **depending** on their age, risk, and investment objective **and if** the Portfolio Manager of their core "Tactical" or "Balanced" product(s) had no plans to do the same. Many clients accepted my suggestions and our office has been completing those changes when the requests where received.

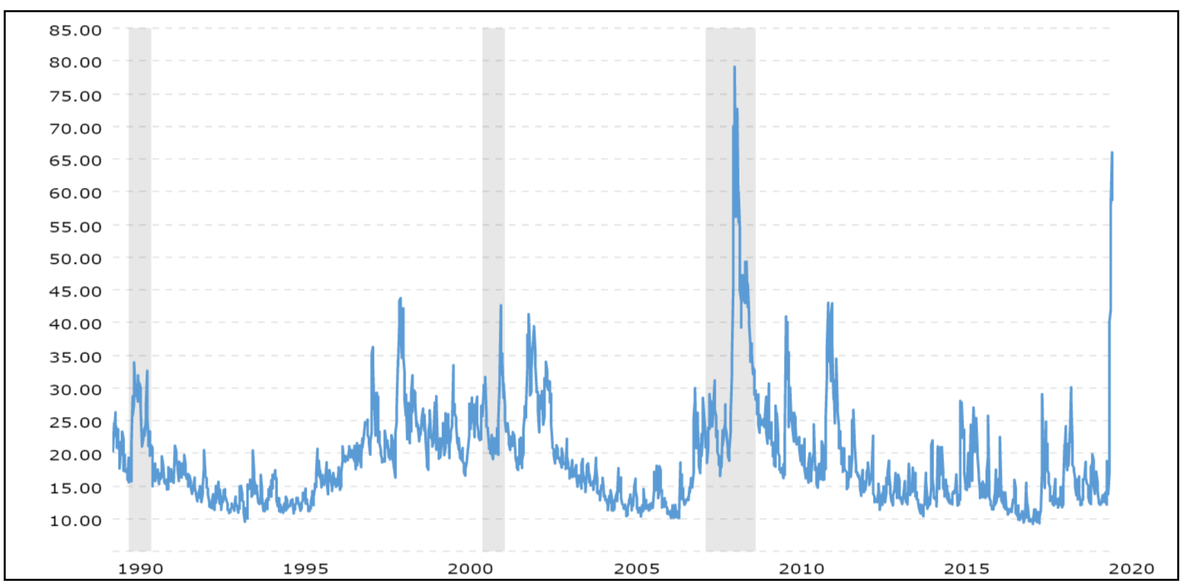
On a year to date basis (ending March 24th) the S&P/TSX (Canadian Equity) was down 29.5% while the S&P 500 (U.S. Equity) was down 26.7%. The Bond Market, as measured by the FTSE TMX Index, had about a .3% gain (less than 1%) during the same period. So, for example, if an investment account held 40% Bonds and 60% Equities, then this "Balanced" approach would have produced about a -16% loss during this period. If your account(s) had more exposure to Bonds, then likely your market value loss would have been less... and the reverse is true. However, as you know these are not fixed or permanent results as market conditions are changing quickly. Read on for some positive news!

In anticipation that the financial aid and stimulus packages passed by the U.S. and the Canadian Government will combat the effect of the economic shutdown on businesses and individuals, Investors have responded by buying back into the market which have once again posted historic results on March 24th and March 25th and today, March 26th.

The S&P/TSX is up 17% over this two-day period while the S&P 500 is up 11%. Normally these would be fantastic results over a one-year period so the fact that the market is showing such wild, wild swings **is a dangerous thing**. I can understand that many investors may be wondering if the market has reached a "bottom" and if now would be a good time to add risk back into their portfolio. I don't think so …. At least not yet.

Larry Berman, the Portfolio Manger of the BMO Tactical Dividend ETF fund offered his thoughts on the subject (determining a market bottom) in my conference call with him yesterday.

- Ascertaining the market bottom is going to take weeks, if not months, to determine. A key factor will be volatility has measured by the CBOE Volatility Index (the "VIX"). Currently it is displaying a very high level (close to 80 which is not shown on the chart below) and Larry feels that the true market bottom won't form until the volatility score drops to at least 40 and stay at that level on a consistent basis. The CBOE Volatility Index is illustrated in the chart below: Source: barchart.com



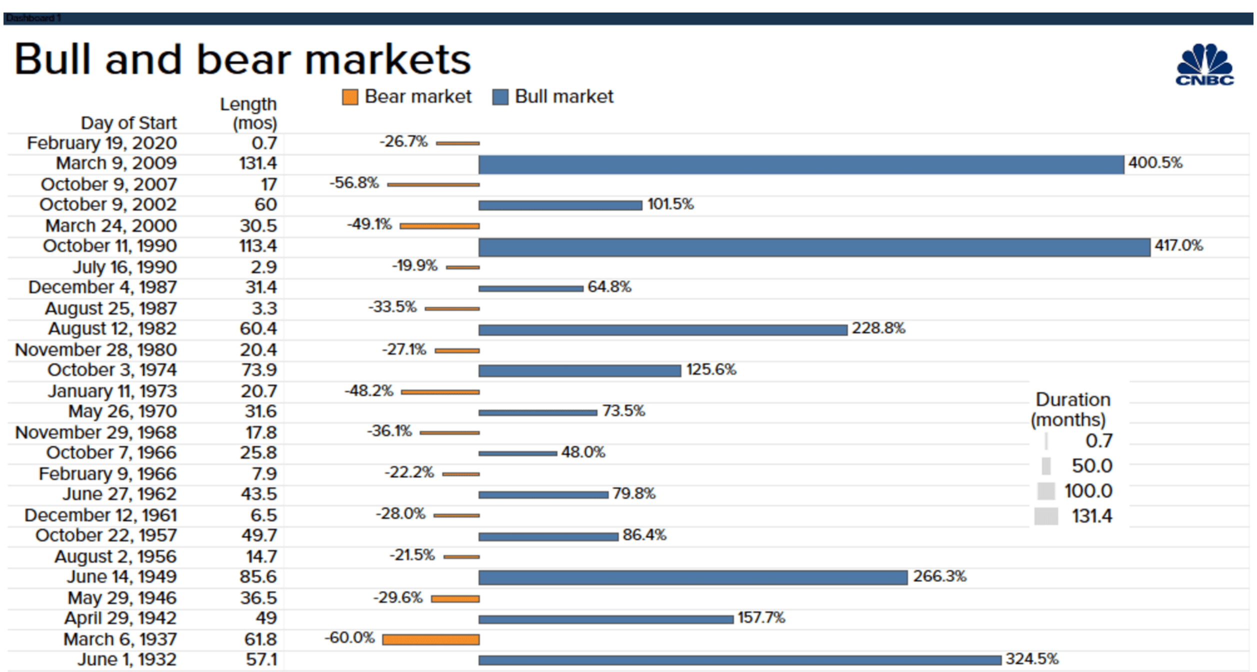
- Investors will need to have greater knowledge of the economic consequence to the global economy. The consensus from my research is that an economic recession has begun… unemployment numbers will surge in the coming weeks. Consumer spending will slow down and as a result corporate revenue will decline. Once we know how much Gross Domestic Product (GDP) is affected and have a sense of the duration of the recession, a market bottom will become more predictable. Larry estimates that corporate earnings may decline by as much as 50% over the next year.

In summary, the three stages to determine the “true” market bottom may be illustrated below:

Phase 1 Flattening of Covid-19 Curve	Phase 2 Knowledge of Economic Impact	Phase 3 Reduction of VIX to < 40

How Long will a Recession last and How Long will the current “Bear” Market last?

The true answer of course is that no one knows for sure. History can be a guide. In the chart below notice that the “Bear” market of 2007-2008 lasted for 17 months and the market value declined to -56.8% using the S&P 500 (U.S. Equity) as a gauge. The following “Bull” market (that just ended) lasted for 131 months and produced a total 400% return over the 10-year 9-month period. This chart demonstrates that while “Bear” markets re-occur with regularity, their lifespan has been shorter than a “Bull” Market and market value loss has traditionally been much lower than the gains that have followed.



SOURCE:S&P Dow Jones Indicies

Time after time, bear markets have proven to be good buying opportunities for long-term investors.

When I go back and review the beginnings of “The Portfolio Recovery Strategy Program”™ that I launched in early 2009, it appears that some of the same recovery strategies could be used again. Adding to GOLD for example worked well during that period and it appears to be a worthy consideration again. Adding a Small Cap product or Emerging market product are also gaining my attention. Corporate and High Yield Bonds also proved to be an excellent aid in portfolio recovery. I will be very active talking to our core Portfolio Managers to see if they will be adopting any of these asset classes in their portfolio.

Finally I will be very active reviewing client investment accounts in the coming weeks and may be corresponding with you if more defensive steps should be taken… if a product change is necessary and/or if we have a suitable recovery strategy for you.

We would appreciate to receive your feedback on our service… on the contents of this letter and/or to share your thoughts at any time. An old business friend of mine used to send this message to his customers: “If you don’t like or are disappointed with my service, please, please tell me, otherwise, please tell others!” So, think about that and if possible send us a referral to a person(s) whom you really care about. Who knows… maybe we can make a difference in their financial lives.

Regards

Steve

Stephen G. Fricker, B.Sc. CFP

Westdale Financial Services.