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Covid-19: The Black Swan

An Unprecedented Global Response

Never before have we seen a global response to a new virus as we have seen over the last three weeks. Initially, North America seemed to have a slow growth of cases and they all seemed to have originated from travel. The startling lessons learned from Italy's experience has suddenly motivated governments, companies, organizations, and people to change behavior to limit the speed of the transmission. It is all hands-on deck!

TAG's Plan: Working remotely

Starting on Monday, March 16th Matt will be working remotely from home. We are in the process of providing Jenn with remote access as well. Lisa, and or Tom will be at the office, but they also can work remotely if necessary. Susy will assess the situation on a daily basis.

We pride ourselves on answering every phone call but with less staff it will be more difficult. We are trying to reach out to as many people as possible but if you feel that you must speak to us please e-mail us so that we can response as quickly as possible.

Susy will be cancelling all face-to-face meetings for the next six weeks and schedule calls instead. We will endeavor to meet your requests for tax information, but we ask that you remain patient. All realized gain/loss and foreign property reports have been mailed. We would also suggest you wait until the beginning of April to submit your info to the accountant as several investments often provide their reporting late in the month.

Market Impacts

Effectively, the economy is shutting down for an indeterminate period of time. Clearly, there will be an impact on company earnings that is very difficult to estimate. Facing this kind of global economic uncertainty, the bond and equity markets have been selling off.

The selloff has been incredibly quick. Many of our most cherished names in banking, insurance and energy have given up years of gains in a matter of a few days. As of writing this letter we are seeing another drop in the market.

What we are doing:

The good news is that we have plenty of liquid investments that will allow us to fund any income or cash needs for several years. The reason we hold cash and bonds are specifically for days like today.

Cash not only provides immediate liquidity; it also gives us an opportunity fund to deploy when the worst is over.

We have been selling stocks in areas that are the most economically dependent. This includes energy, materials, and consumer discretionary. There is always a risk of throwing out the proverbial baby with the bathwater so we have made sure that the companies that remain in our portfolio have solid balance sheets and are businesses that will be less disrupted by the economic freeze. Unfortunately, even these quality companies will participate in the mass liquidation that we are currently experiencing, but will emerge stronger and will recover more rapidly. In most cases they also pay us a decent dividend along the way.

The news, from a health and economic perspective, is that it is going to get worse. Social distancing is having a tremendous impact on all facets of life. Effectively the world is shutting down and the social and economic impact is impossible to measure.

Markets tend to move well in advance of the news and often discount the worst. At this point, we are not eager to dip our toe into the unknown as the bottom is hard to discern. It is better to slip into the water than to jump from a height.

The signals that I am looking for is a coordinated global central bank action plan and huge fiscal stimulus. The fiscal stimulus will come in two forms: immediate relief to workers and businesses to survive this sudden demand shock, and future spending programs to kick start the economies and to put people back to work. Once the markets feel certain that this massive stimulus will slow any potential economic decent, then it will be wise to add to companies that can benefit from this largesse.

The silver lining in this whole ordeal will be the incredible investment opportunities that emerge once we get through the difficulties. We have lots of tools we can use to take advantage of these opportunities.

The Longer-term Impact

While it is difficult to measure the impact that COVID-19 will have on people's lives it is reasonable to suggest that we will view the future through a very different lens. Faced with a sudden, mortal threat, I feel that people's priorities are likely to shift. Many of the social and economic tenants that have driven society over the last thirty years will likely be challenged.

To be successful in the fight against COVID-19, we will have to act collectively, believe the experts, and put society's interest ahead of our own. Initially, this may be too tall an order for some (see the toilet paper fiasco) but eventually the collective weight of most of society will begin to change behavior. Frankly, it is about time.

Remember, if you want to talk to us please e-mail us and we will respond.

Sincerely,
CIBC Wood Gundy
The Applegath Group

Lisa Applegath
Investment Advisor, Portfolio Manager

Tom Trimble
Portfolio Manager

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