

Two Black Swans Have Arrived

March 11, 2020

COVID-19 is now a global pandemic, and the UAE joins Saudi Arabia to flood the oil market with 3MM excess barrels per day.

This is a longer note as we need to revisit your personal investment strategy.

Today, the World Health Organization declared COVID-19 a Global Pandemic. This will likely bring the global economy to a temporary All Stop. Just imagine if the U.S. goes into full lockdown mode like Italy. On this news, markets fell another six per cent today and SAGE fell four per cent.

On Monday, we sent you a note stating we did not hold E&P or bank stocks. Those two sectors represent 13 per cent and 31 per cent of the Toronto Stock Index respectively – for a total of 44 per cent! Therefore, Canadian equity mutual funds and Canadian equity ETFs likely have 44 per cent exposure to financials & E&P's. There is more pain to come for those sectors.

Given these two events, over the next few months, we expect the stock markets and headlines to be very unnerving. This brings up a very important topic to reconsider. David and I see investors being in three different situations and frames of mind:

1. **Long-term anti-fragile investors:** They view this extreme moment in history as a great investment opportunity. “Many stocks are on sale now.” SAGE equities are trading at 12 times earnings while the S&P 500 is still trading at 20 times. Looking two to three years out, we agree with this “on sale now” view. The key is to buy companies that will make it through the night—like the ones held in SAGE.
2. **Long-term resilient investors:** They understand and accept that uncertainty and volatility are among the costs of generating returns superior to bonds. Today, U.S. 10-year Treasury bonds yield 0.87 per cent and 30-year bonds yield 1.39 per cent. If this is you, your mettle is about to be tested.
3. **Nervous investors:** In the short run, we cannot say there is more upside in the stock market than downside. In fact, there will likely be more bad news than good news. Without a crystal ball, it is impossible to know. If you are unable or unwilling to suffer through the next few months, equities are not for you.

So which of these three is you?

We would like to speak with you to discuss this and a few other things:

1. Do you want to own equities?
2. Can you handle the extreme uncertainty and negative headlines for another six to nine months?
3. What can we do to better serve you?

No matter what your answers are, we are able to help you. Please call us when you can.