**SAGE Update: Why Buy Now**

March 17, 2020

Dear Friends,

We hope you are keeping well. A lot has happened since your last note from us on March 11th.

- Stock markets have fallen by another 15 per cent!
- All indications from around the world now point to this pandemic lasting until late summer.

It is difficult not to be overwhelmed by the deluge of pandemic headlines. By stepping back, we can see this extraordinary problem comes with extraordinary opportunities. It is precisely because of this, we are writing you again. It's time to walk through the case for increasing your equity exposure.

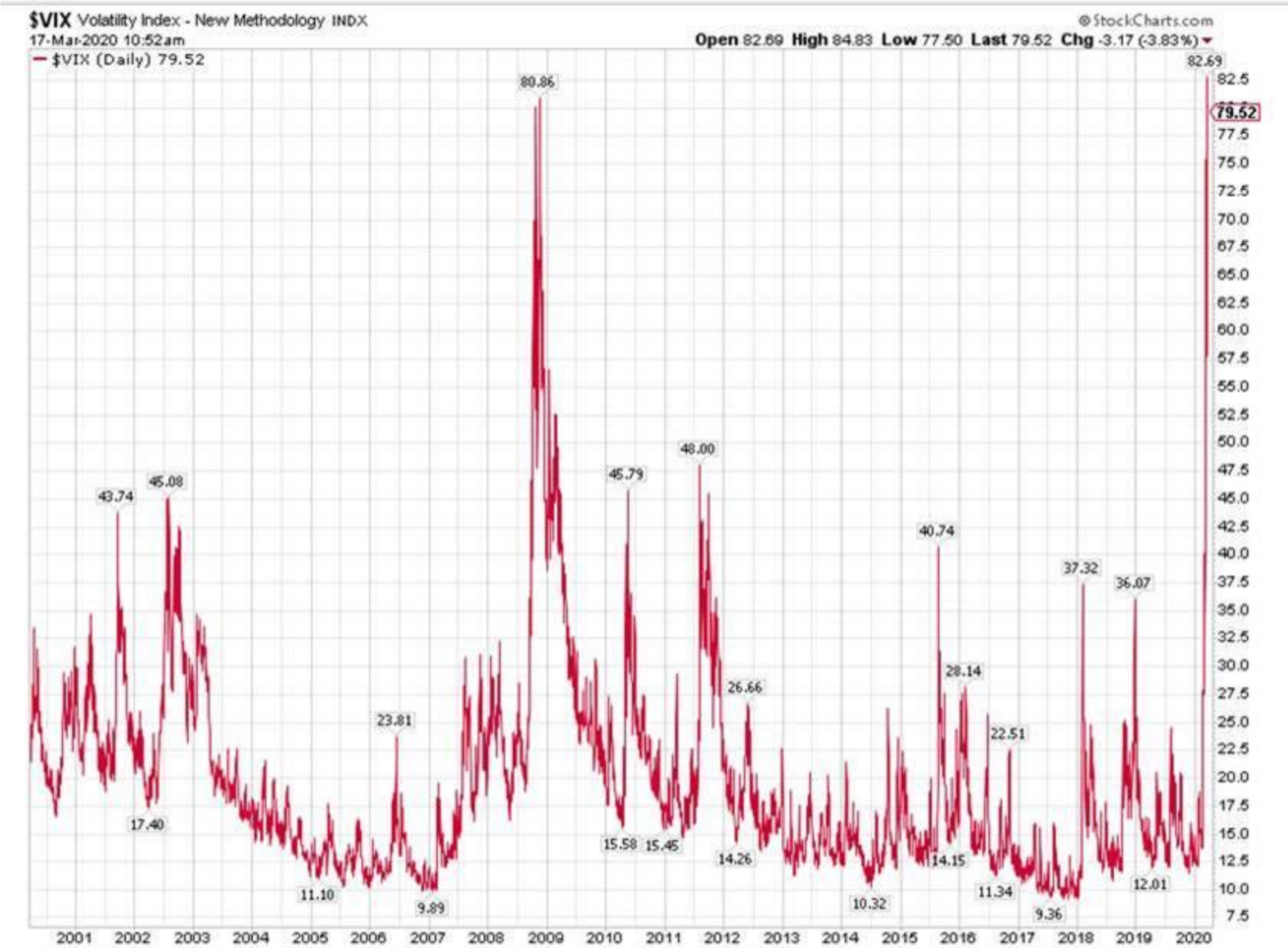
Here are two factors that transcend the daily strife.

**Factor #1: Warren Buffett Says, "Be Greedy When Others Are Fearful."**

On October 16th, 2008, many investors were gripped with fear. Many thought the entire financial system was going to collapse and would take decades to function properly again. The Volatility Index (VIX), also known as the "fear index", was at its highest level on record at 80. And the bullish sentiment was at 1.6 per cent—the lowest on record. (See charts below)

Well, yesterday, the fear index was even higher and the bullish sentiment lower than on October 16th, 2008 —when Warren Buffett wrote this SAGE witticism in the New York Times:

"A simple rule dictates my buying: Be fearful when others are greedy and be greedy when others are fearful. And most certainly fear is now widespread, gripping even seasoned investors." Read his article.


$VIX Volatility Index - New Methodology INDX
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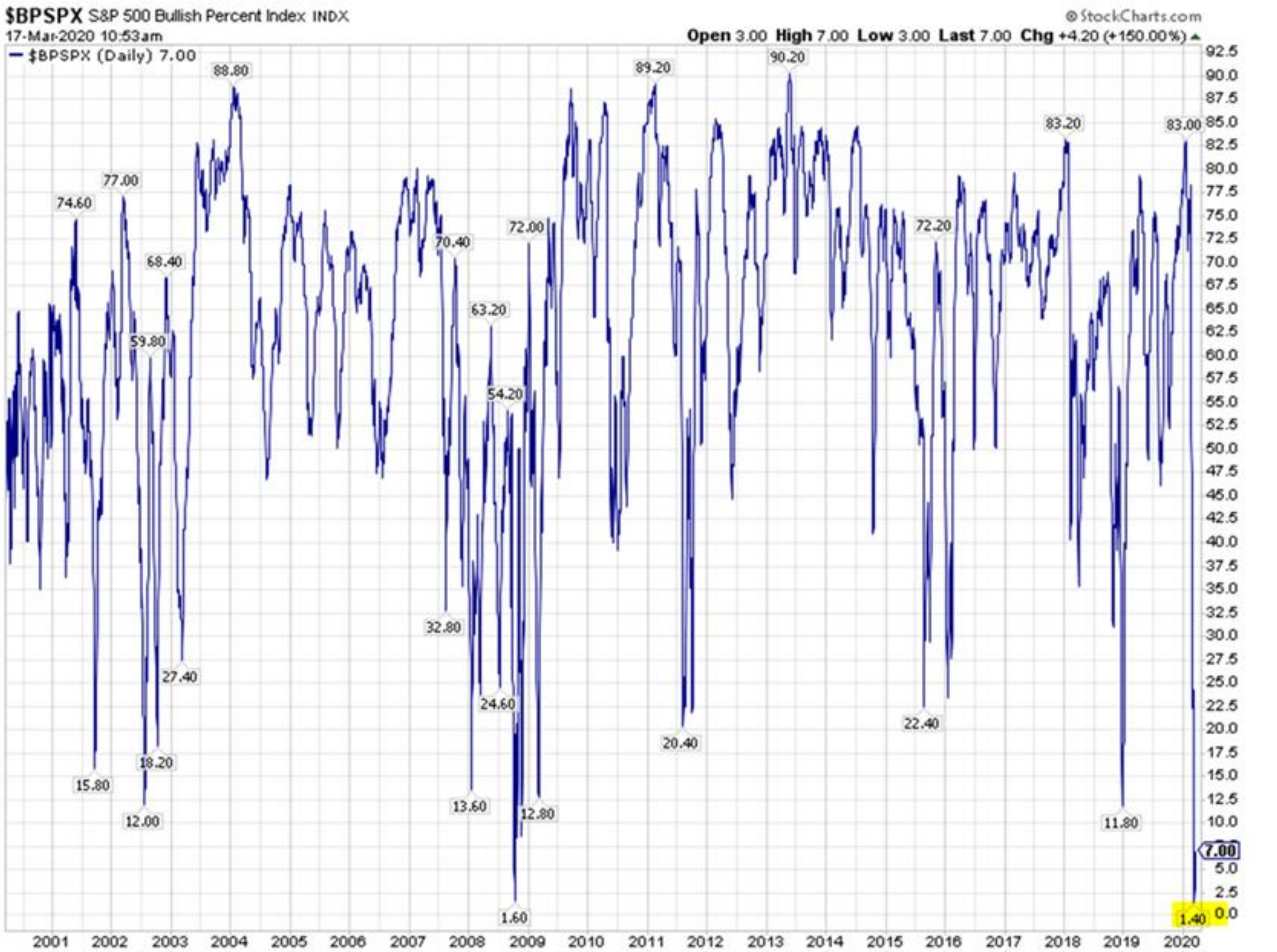
© StockCharts.com
Open 82.69 High 84.83 Low 77.50 Last 79.52 Chg -3.17 (-3.83%)
$VIX (Daily) 79.52
80.86
82.69
79.52
43.74
45.08
17.40
11.10
23.81
9.89
45.79
15.58
15.45
48.00
26.66
14.26
10.32
40.74
28.14
14.15
22.51
11.34
9.36
37.32
36.07
12.01
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
82.5 77.5 75.0 72.5 70.0 67.5 65.0 62.5 60.0 57.5 55.0 52.5 50.0 47.5 45.0 42.5 40.0 37.5 35.0 32.5 30.0 27.5 25.0 22.5 20.0 17.5 15.0 12.5 10.0 7.5




You can bet Mr. Buffett is acting on his own advice these days.

**Factor #2: Risk Is a Function of Price**

You may remember this bell curve (below) from stats class. Statistically speaking, 95 per cent of the time, stocks trade within the price range of minus two and plus two standard deviations. As per our SMART process, 2.5 per cent of the time, a stock will trade above this range, we would sell it, and 2.5 per cent of the time a stock will trade below this range, so we'd buy it.

What we say at this purchase point is, "97.5 per cent of the bad news is already priced into the stock, and it only has a 2.5 per cent probability of going lower." We like to keep things simple at SAGE.

The confounding thing is, stocks are their cheapest when everyone is convinced they are about to fall even more. This is an extraordinarily rare and important moment to reconsider your investments with an eye to taking advantage of this.

Here are two categories to consider:

1. Buy more high quality investments. Our SAGE Equity Model, currently trades at only 10 times earnings, yields 4.6 per cent and will remain profitable as food, staples, utilities and healthcare will continue to be consumed, regardless. We advocate legging in your new equity investments evenly over the next eight weeks or so.

2. Rebalance your portfolio. If you hold a balanced portfolio of 50 per cent fixed income and 50 per cent equities, it is time to sell some fixed income and buy equities to bring it back to your target allocation. There is also an argument for tilting your balance more towards equities as risk is a function of price.

Please call us to discuss this further.