Justwealth

Justwealth Advisor Partnership Program

Monthly Advisor e-Newsletter for April 2020

Part I.

Dear Advisor Partners -

Given the unusual volatility in the market related to COVID-19, for the month of March, we opted to send a few real-time updates to our Advisor Partners and clients, as we believe that the situation required more frequent communication.

We are back on schedule with our regular e-newsletter for April; however, we will be sending it out in two parts.

Part I, below, focuses on Justwealth's 1st Quarter 2020 market commentary. Part II, which will follow, focuses on the Government of Canada's COVID-19 Economic Response Plan. Click here for Part II.

Please join us all at Justwealth in encouraging your family, friends and neighbours to stay safe, maintain physical-distancing and above all, look after one another.

1. Justwealth 1st Quarter 2020 Market Commentary

To claim that the past quarter has been challenging would be a substantial understatement. The actions and reactions to the spreading of COVID-19, or the coronavirus, have been inconceivable and unprecedented from many perspectives. Before we provide market-related commentary, we would like to acknowledge the current environment that we are in and the personal difficulties that you may be dealing with whether it concerns your health, financial condition or any other matter. We will remain vigilant in providing support and perspective to the best of our abilities.

In our previous mid-quarter updates, we have provided consistent messages: we believe that the global health crisis will eventually subside; we believe that financial markets will eventually recover but remain volatile in the short term; we encourage our clients not to panic and/or make potentially harmful investment choices. We remain firmly committed to each of these messages.

We are facing a great deal of uncertainty, and financial markets do not react well to uncertainty. A sequence of events will need to be resolved before uncertainty is minimized. First, the spreading of the coronavirus must be contained – globally. Secondly, economies need to resume operating normally. Finally, corporate profitability needs to be restored and confirmed. Each of these steps will take time, which requires patience, and that is proving to be challenging for some.

Data pertaining to the coronavirus is publicly available. We have been analyzing data from the website: https://www.worldometers.info/coronavirus/. While the data may not be perfect, we believe it to be at least somewhat reliable for the purpose of analyzing. The most relevant statistic to determine how close we are to containing the virus is "new cases". When new cases stop, all other data will eventually run its course and also subsequently stop. It is also widely believed that the distribution of new case data over time will resemble a bell-shaped pattern with the following phases: initial growth; rapid growth; slowing growth; peak; slow decline; rapid decline; final decline.

Data can be analyzed regionally, which is important because different regions became infected at different points in time. In China, where the virus is believed to have originated, it appears that the country is in the final decline phase, as is South Korea. Austria and Australia may also soon be added to that category. The "rapid decline" phase may not as rapid as the theoretical curve would indicate, but the majority of countries that have experienced a substantial number of cases would appear to be either at or past the peak phase and into a state of decline. This includes Italy, Switzerland, Iran, Spain, Germany and others. The United States looks to be in the slowing growth phase, but given its large population, it is skewing global aggregated data to make things appear worse. Canada is likely not too far away from the United States on the curve path. It is also very important to note that most data is reported at a lag. Testing times can take up to a week or more to be confirmed, so actual live data may be better than what is currently being reported on a daily basis.

Economic data, for the most part, is also reported at a lag. Consequently, it is widely anticipated that growth and employment data will be significantly negatively impacted. Every day, economists are revising their forecasts (which re-confirms that forecasting is a pointless exercise), and politicians and policy makers announce new initiatives to help offset the expected decline. Whether economic output declines by 10%, 20%, 30% or more, the data is expected to record one of the largest declines in history. If we assume, however, that the coronavirus becomes contained, economies will open back up with infrastructure still in place, ample capacity, unchanged resources and arguably favourable conditions for growth (record low interest rates, generous government incentives, depressed input prices, substantial pent up demand). We don't expect any economy will go from 0 to 100 in under six seconds, but a swift and substantial return to growth is possible.

Corporate profits will be the final confirmation of everything returning to normal as far as financial markets are concerned. Earnings data has clustered reporting on a quarterly cycle, commonly referred to as earnings season. We are a few weeks away from the start of the Q1 earnings season, which will only partially reflect the impact of the coronavirus. We fully expect that most companies will report lower earnings and decline to provide forward-looking guidance.

We also expect that Q2 results will be negatively impacted, since things will not be returning to normal for at least another month in Canada or the United States. Beyond that, short-term uncertainty remains, but we are confident that corporate profitability will be restored in the long run.

By observation, far too many people are focusing on what is uncertain: When will the coronavirus be contained? When will the economy recover? When will the markets go up? These are all questions of timing, and the answers are 100% unknown and unpredictable. Yet, many are willing to make critical investment decisions based on their own personal belief. When investors do this, it should no longer be considered investing, it is gambling, and our only gambling advice is….do not gamble. The focus should not be "when", but rather "if": If the coronavirus is contained, it is highly likely that economies will return to growth, corporate profits will return, and the markets will go up. Of course, it is not certain that the coronavirus will be contained, but all evidence that we have examined gives us confidence for a favourable outcome at some point, and in a best-case-scenario it could be soon. By eliminating the question of "when", investment decision-making becomes very straightforward for longer-term investors.

In periods of rational market behavior, economic and financial data drives market moves. In periods of irrational market behavior, human psychology drives market moves. To put it more succinctly, fear and greed can drive the market, but fear has a far more distorting impact. The CBOE VIX index (VIX) measures market volatility and is commonly referred to as "the fear index". Upward spikes in the VIX are accompanied by proportional drops in equity prices. The chart below examines periods when the VIX has spiked above 40, the persistence of those spikes, and the subsequent return of the S&P 500 one-year after the VIX falls back down below 40. FYI, the VIX closed at 46.8 on Friday April 3rd after peaking at 82.7 on March 16.

Extreme Events: Periods Where VIX > 40				
Start Date	End Date	# of Trading Days	Event	Forward 1Y Return S&P 500
8/31/1998	9/11/1998	5	Russian Debt Crisis	32.2%
9/30/1998	10/13/1998	10		25.4%
9/17/2001	9/21/2001	4	9/11 Attack	-10.9%
7/22/2002	10/9/2002	10		14.7%
9/29/2008	**4/7/2009**	**124**	**Financial Crisis**	20.1%
5/7/2010	5/21/2010	3	European Debt Crisis	14.5%
8/8/2011	8/22/2011	5	US Downgrade	28.4%
9/22/2011	10/4/2011	6		22.8%
8/24/2015	8/24/2015	1		15.4%
2/28/2020	**?**	**19**	**Covid Virus**	**?**

data as at 3/31/2020

source: Adaptive ETF/ Bloomberg LP

It is also worth noting that the S&P 500 rebounded up by 17.5% from the most recent bottom in just 4 trading days.

We believe that this study, and many, many other examples like it, reinforce that a longer-term perspective (and one year is not that long in a typical investor's lifetime) which avoids speculating on short-term uncertainty, can be very beneficial for one's wealth. Additionally, the consequence of being "off" by just a little bit, in making short-term investment decisions involving timing, can be severely negative.

For our clients who have not suffered from a job loss or spiraling debt, we re-iterate our advice from our recent publication:

- We do not recommend redeeming/shifting equity investments to cash.
- We do not recommend shifting assets to a more conservative portfolio.
- We do not recommend stopping regular contributions if they were previously planned.
- We do not recommend any "temporary" investment strategies based on timing.

For those investors who have the financial flexibility and the willingness to invest additional assets:

- We recommend making additional investments at prices substantially below previous highs.
- We recommend a systematic, staged approach to investing for larger lump sum

contributions.

- We do not recommend investing in a more aggressive portfolio than you were previously using.

For those who are experiencing any kind of financial difficulty, please contact us and we will provide you with thoughtful and unbiased investment counsel.

We hope that you all keep safe and healthy, and please adhere to the guidelines of your local authorities to help put the coronavirus and market fear behind us.

Here is a recap of market performance as of March 31, 2020*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	1.56%	4.46%	3.68%	2.66%	4.34%
Canadian Equity	S&P/TSX Capped Composite	-20.90	-14.21	-1.92	0.89	4.10
U.S. Equity	S&P 500 ($Cdn)	-11.75	-0.89	7.41	9.25	14.33
Int'l Equity	MSCI EAFE ($Cdn)	-15.29	-8.78	0.33	1.73	6.25

** Performance annualized for periods greater than 1 year.*

2. Updated Portfolio Performance and Portfolio Profiles

With the end of 1Q2020, our portfolio profiles and portfolio performance will be updated to the end of March 31st before the end of the month: www.justwealth.com/performance

3. Feedback

We value your feedback! Please follow this link and answer a few short questions to help us refine our offering.

Click here for the survey

Until Next Month Happy Investing!