



## Bayswater Group –Market Update and Our Thoughts (March 16, 2020)

This is an extraordinary time. I am convinced that one day in the future I will tell my grandkids about living through COVID-19 and the stock market volatility of 2020.

### CURRENT STATE

It seems people are starting to fully understand that COVID-19 is not just the seasonal flu. It should not, and cannot, be compared to other illnesses or causes of death.

The virus's economic impact is unprecedented. As above, this should not, and cannot, be compared to previous stock market crashes. I cannot think of another time where the common disclosure, "past performance does not guarantee future returns" is more suited. Anyone who suggests that *we have seen this before* does not have a big enough imagination. There are far too many variables at play for anyone to have a firm idea of how this resolves itself. We cannot predict the future. The path that financial markets take from here is fully unknown. Everyone can have their own *best guess*, but that's all they are... *guesses*.

It is likely that major economies will grind to a halt over the coming weeks. That is, restaurants, bars, cinemas and public facilities will be closed; airplanes will be grounded; construction will be halted; and importantly, there will be mandatory social distancing. Governments may take significant measures to support their economy and their population - potentially including mortgage payment deferrals and expedited social assistance. These measures will likely be necessary to help us get through; however, over the short term, it is difficult to suggest that any of it is positive for the economy or bullish for investors.

We are treading very cautiously. This correction has been hard and fast – *we would not be surprised if it tests our will further in the weeks to come*. We do not think it is prudent to have an abundance of conviction one way or the other. While it is often foolish to suggest that this time is different, it is also naïve to *not* consider that *it may be*.

Consider today's market turmoil. In previous notes, I have questioned the confidence that market participants have in central bank intervention. I discussed the "fed put" and the overwhelming belief that

fiscal and monetary stimulus can right any wrong; that the US Federal Reserve and its international peers can always find a way to buoy markets. This narrative seems to be broken. On Sunday, the US Federal Reserve hit the economy with a massive amount of adrenaline in the form of an emergency rate cut and massive quantitative easing. *It didn't work.* The patient is not responding positively. It seems that investors realize that economic solutions cannot solve a global health crisis.

### **OUR THOUGHTS and OUR PLAN**

We're told that the best healthcare decision we can make right now is social distancing and self-isolation.

Similarly, we believe the best investment decision we can make right now is to lay low. We trust our initial allocation decisions and will put more capital to work as markets are receding.

On February 19<sup>th</sup> we had approximately a 35% equity exposure. On Thursday of last week, we brought this equity allocation back up to 35% and initiated a position in the Dynamic Power American Growth Fund. The total net equity purchase was approximately 5% on a day that the Canadian market was off approximately 30% and the US market was off approximately 27% peak-to-close. This is, in our mind, a sound approach during the chaos. We are not trying to pick the bottom and we are not convinced that we are at an "all in" moment. We will continue to nibble around the edges and add more to our equity positions as prices drop.

Of note, our portfolio is holding up quite well. Please feel free to reach out to us directly for an update of your personal investment experience.

We believe most of one's lifelong investment returns are related to the decisions they make during a very limited period of their investing lives. We believe this is one of those times. We will continue to keep you informed about our allocation decisions. We will not get everything right in the short term, but we think that we're in a great position to be right in the long-term.

Thank you for the trust and faith you put in our team.

We will continue to work hard for you and your family during these uncertain times.

Please feel free to reach out to one of us directly if you have any questions.

Have a wonderful week.

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