F&A Foster & Associates
# Quarterly Report
First Quarter Report 2020

# Planning, Thinking, Acting. In that Order.

*As we move through life, certain biases are formed that become difficult to overcome. Two big ones that can bedevil investors during challenging times are the Availability and Confirmation biases.*

The events of the past six weeks have been nothing short of shocking: From the loss of life, worldwide travel restrictions and quarantines, closed businesses and schools, to record stock market corrections and sky-high volatility, we are all reeling. The physical and psychic toll they take on us is only amplified by the nonstop media coverage. All of which is impossible to escape, especially for those of us that are self-isolating.

As governments and leaders struggle to coordinate effective fiscal, monetary and health care policies, it's no wonder fear and panic are the order of the day. It's precisely at times like these that the value of working with a trusted financial professional really becomes apparent.

Below is a chart provided by our friends at National Bank Investments, highlighting the 10 worst quarters the TSX has ever experienced in its history, along with performance in subsequent years. The common takeaway in each instance is to stay invested over the long term.

What the chart doesn't display are the investors who lost money, or missed out, by allowing emotions to cripple decision-making. Investors today are faced with difficult choices that could greatly affect how comfortably they can retire. Unfortunately, there are a couple decision-making pitfalls that can really hurt investors.

| | | 2020 Q1 | 12 Month Returns |
|---|---|---|---|
| S&P/TSX* | 13379 | -21.6% | -16.9% |
| S&P 500 | 2585 | -20% | -8.8% |
| Dow Jones | 21917 | -23.2% | -15.5% |
| Nasdaq | 7700 | -14.2% | -0.4% |
| $CAD | $0.7109 | -7.7% | -5.1% |
| Crude Oil (WTI) | $20.48 | -66.8% | -66.6% |
| Gold | $1,577.2 | 3.9% | 22.0% |

** The S&P/TSX, the S&P500, the Dow Jones and Nasdaq indices are not investable indices, and as such are not a direct comparison to any investment product available at Foster & Associates Financial Services Inc, and therefore should therefore be considered hypothetical in nature and for illustrative purposes only.*

**S&P/TSX Total Return Index**

| 10 Worst Quarters | Performance | Following Quarter | Following 3 Years (Annualized) |
|---|---|---|---|
| Q3 1998 | -23.5% | 16.0% | 8.3% |
| Q4 2008 | -22.7% | -2.0% | 13.2% |
| Q3 1981 | -19.4% | 5.1% | 13.1% |
| Q2 1970 | -18.6% | 13.2% | 15.9% |
| Q4 1987 | -18.3% | 5.7% | 4.7% |
| Q3 2008 | -18.2% | -22.7% | 2.7% |
| Q1 1982 | -17.7% | -12.7% | 23.0% |
| Q3 1974 | -16.5% | 2.9% | 11.7% |
| Q2 1974 | -16.1% | -16.5% | 5.9% |
| Q1 2001 | -14.5% | 2.1% | 6.0% |
| **Average** | **-18.6%** | **-0.9%** | **10.5%** |

Courtesy of National Bank InvestmentsSource Datastream Period Jan 1959 - Sep 2018

The good news is that once they are identified, investors are part way down the road to addressing them.

As we move through life, certain biases are formed that become difficult to overcome. Two big ones that can bedevil investors during challenging times are the Availability and Confirmation biases.

The Availability bias is a mental short-cut we take, a kind of mental laziness. For example, our most recent crisis is the Global Financial Crisis of 2008 and it's likely the one most burnished into our memory. This can lead investors to react the same way they did back then. When framing the decision, the 2008 template can influence the decision-making, blinding them to the fact that every crisis is unique and presents distinct risks and opportunities.

Confirmation bias is another bias to look out for. Once a decision is made, we tend to confirm the decision by paying attention to information that supports it, while discarding opposing opinions. So, if an investor has already taken risk out of their portfolio, it is vindicating to hear that things are getting worse. In subtle ways we may reorient what information and media we consume,

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guiding us towards bearish news. This will make it hard to commit to investing more aggressively again.

Making all this much easier is the easy availability of negative commentary. Television and radio editors love nothing more than amplifying doomsayers, or the success stories of fund managers who managed to profit by correctly timing the market decline.

So, what should an investor do in times like these? Emotions are poor counsel. Decisions need not be made quickly. Focusing on your plan and reviewing your asset allocation is imperative. Take the time to rebalance your portfolio and adjust your alternatives and fixed income towards equities. History shows that we will likely be okay eventually, and so will your investments.

At Foster & Associates we'd like to highlight the careful and deliberate approach we take to providing wealth management advice for our clients. Using a needs-based approach, a comprehensive financial plan lays the roadmap for getting from today to the future you envision for your family. This includes a current accounting of assets, liabilities and cash flow, as well as comprehensive insurance planning – but the proper implementation of that plan during times of crisis is where great advisors separate themselves from the ordinary.

**Philip Marion, Portfolio Manager**

## The 12-Month Market Outlook

| | |
|---|---|
| Stocks (U.S.) | ▲ |
| Stocks (Canadian) | ▲ |
| Bonds (US) | ▼ |
| Bonds (Canadian) | ▼ |
| Canadian dollar | ▲ |
| Crude Oil | -- |

This table represents the way the firm is leaning in particular market sectors over the next 12 months. It does not represent a trade recommendation, nor does it play a major role in our portfolio construction, which involves much more than having a view on a particular market index, currency or commodity.

# New Tax Guidelines due to COVID-19

### Details for Individual Investors

- Minimum withdrawals from Registered Retirement Income Funds (RRIFs) are reduced by 25 per cent for 2020, in recognition of volatile market conditions and their impact on many seniors' retirement savings.
- The tax filing deadline for individuals has been pushed back to June 1, allowing all taxpayers to defer until after August 31, 2020 the payment of any income tax amounts that become owing on or after today, and before September 2020. This relief will apply to tax balances due, as well as instalments, under Part I of the Income Tax Act. No interest or penalties will accumulate on these amounts during this period.
- There will be increased flexibility for lenders to defer mortgage payments on homeowner government-insured mortgages for the benefit of borrowers who may be experiencing financial difficulties related to the outbreak. Insurers will permit lenders to allow payment deferral beginning immediately.
- There will be a six-month, interest-free, moratorium on Canada Student Loan payments for all individuals who are in the process of repaying these loans.

### Some changes for Employers

- All businesses will be allowed to defer, until after August 31, 2020, the payment of any income tax amounts that become owing on or after today and before September 2020. This relief would apply to tax balances due, as well as instalments, under Part I of the Income Tax Act. No interest or penalties will accumulate on these amounts during this period. This measure will result in businesses having more money available during this period.
- There will be an increase in the credit available to small, medium, and large Canadian businesses. As announced on March 13, a new Business Credit Availability Program will provide more than $10B of additional support to businesses experiencing cash flow challenges through the Business Development Bank of Canada and Export Development Canada.
- The federal government will provide eligible small businesses a 10 per cent wage subsidy for the next 90 days, up to a maximum of $1,375 per employee and $25,000 per employer. Employers benefiting from this measure would include corporations eligible for the small business deduction, as well as not-for-profit organisations and charities. However, if your business has decreased by 30%, that 10% wage amount has now been increased to 75%. The government expects businesses & charities to pay the other 25% of salaries.

# A Bevy of Black Swans

**Briar Foster**
*is a retired Portfolio Manager and remains an active investor.*

There is a justifiable crisis of confidence among Canadian investors. The pipeline projects are under attack from Indigenous and environmentalist groups. The drop in the price of oil from $60 to $20 a barrel is a further setback for an economic recovery in Western Canada. Most serious is the near-shutdown of the Canadian economy to stop the rapid spread of the COVID-19 virus.

The Canadian economy is clearly in recession. While Paul Samuelson said of the stock market's ability to forecast recession, it has "predicted nine out of the last five recession", I'm confident the stock market got it right this time.

Most industries face massive layoffs. People are running out of money. Governments have been slow to implement promised corporate bailouts, loan guarantees and, for many, cash needed for rent, groceries and medicine. And while investing is about the future, not the present, with the future so overloaded with uncertainty, buying a stock is likely accompanied by that giddy feeling people get from buying lottery tickets.

What makes our current situation unique is that it's more like a disruption than an absolute destruction of a significant part of our economic infrastructure. For this reason, I regard our situation as being more akin to the post-1987 stock market crash, from which we quickly recovered. The Global Financial Crisis of 2008-9, on the other hand, was a destruction of the U.S. banking system. Similarly, 1973-5 saw runaway inflation and a radical tight-money solution which made rational business investment impossible.

Today, we can be somewhat confident about a few things. First, if China' experience is any guide, COVID-19 will be contained in North America by mid June. On the oil-shock, the Saudis and Russians will eventually cut oil production to bring the price of crude oil back above $40 a barrel. With some time and some diplomacy, the Federal government can reach an agreement with Indigenous groups on infrastructure projects.

Where a question remains is on the pace of our recovery. We are certainly going to see some jaw-dropping drops in gross domestic product. Still, I expect a tsunami of pent-up demand as those fortunate enough to have kept their jobs through this calamity come out of their homes. Price will be no object - for travel, entertainment, dining, whatever - as people seek liberation from their government-imposed imprisonment.

Some industries will be very slow to recover. The shutdown will have weakened the already struggling retail sector. More and more traffic will drift toward Walmart, Amazon and Costco. Smaller independent retailers, lacking the resources of the major chains, will suffer dearly from this crisis. The reputations of cruise lines will take time to recover. The hotel and entertainment industries may be slow to rebound because they depend on foreign travel. It may take some time before people feel comfortable being penned in with their fellow humans.

Still, while we now know what the consequences of this dislocation are likely to be, it's time to think about what the consequences of the cure might be. Lower tax revenues, massively expanded central bank balance sheets, and huge government deficits will not disappear with the passing of COVID-19.

The time-honoured way to handle excessive government debt and under-funded pension funds is inflation, so I anticipate that interest rates will normalize upwards. Gold may lead a revival in commodity prices. On the equity front, biotechnology and healthcare are good candidates to lead a market recovery. A broad market recovery will have to come later. The wounds of shattered confidence need time to heal.

*The views as articulated in this article are those of Briar Foster alone and do not necessarily reflect the opinion of Foster, and do not constitute a solicitation to engage in any specific investment or strategy.*

# Our core beliefs

What defines the culture of a firm is what stays consistent no matter what's going on in markets. Politics, market trends, and the business cycle will cause us to think different about the way we invest our clients' money. However, there are a few things you can count on from us, through good markets and bad, through recessions and buoyant recoveries:

## Asset Allocation is Key.

While some individual securities will do well, and some less well, most of what will make or break your portfolio over time is asset allocation. Of course, we all remember our great buys, and mourn our missteps, but the key to how well you do in the markets will come from how much you owned of various asset classes, and when you owned them.

## We Love Canada.

But it's not where we want to put all your money. The Canadian stock market is heavy on banks and resource companies, making true diversification hard to achieve. Venturing abroad can improve returns and lower volatility. You'll also find companies where Canada isn't as strong, such as in consumer staples and biotechnology.

## Alternatives aren't that Scary.

Sure, some hedge funds can be dangerous, but there's more to the Alternatives space than hedge funds. There's private debt, real estate, infrastructure and market-neutral funds, all of which can provide a place of refuge during periods of excessive market volatility.

## Costs matter a Great Deal.

Over time, even small increases in costs can significantly lower returns. If you pay us to manage your money, we will pinch your pennies for you.

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