LEE, TURNER & ASSOCIATES INC.
INVESTMENT QUARTERLY

REVIEW April 2020

The world was turned upside down in a matter of days in mid-February due to the spread of the COVID-19 coronavirus. As one country after another, one jurisdiction after another, declared states of emergency and began shutting down people's everyday lives, the world stood still. Panic abounded, toilet paper did not. We of course do not wish to diminish the human toll that this virus has taken, but the bulk of the conclusions drawn from the statistics of its virulence, if not analyzed more closely, is quite overstated. Regardless, sense and sensibilities go out the window when fear of an unknown, invisible, and deadly enemy becomes the overriding modifier of human behavior. As such, there was no escaping the downdraft in the markets. Panic stricken investors took stock markets around the world down by between 20% and 30% over the quarter. The Dow Jones Industrials Average fell 22.7% while the S&P/TSX Composite Index fell 20.9%. The bond market should have been very strong given that North American Central Bankers cut interest rates to nearly zero, 0.25%, but liquidity problems kept bond prices from advancing. Canadian bonds had a 1.6% total rate of return over the quarter. The yield curve steepened noticeably when short to medium maturity bonds showed some price advances while the long maturities did not.

FORECAST

An economic recession is upon us, that much is certain; while its depth and duration may defy estimates, its eventual end, however, is not at all in doubt. The cause of this recession is the global leaders' response to the spread of the coronavirus, legislated lockdowns of their countries and their economies. The elusive nature of this virus' transmission and virulence characteristics has global politicians very fearful and anxious, leading them to uniformly conduct the strangest of all public policy making exercises. With one hand, they are choking their economies into a recession while with their other hand, they are simultaneously force feeding the very same choked economies with every fiscal and monetary stimulus known to them. Over the immediate term, all political edicts impacting our economies will be dependent on the progress of the fight to contain this virus. So for the time being, there is no point in attempting an economic forecast because the near-term reality is that our lives and our economies are on hold until some one can come up with an understanding of this virus and put an end to its spread. When this virus does eventually come under containment, politicians will quickly ease off on their economic lockdowns and global economies can resume functioning. For now, we will just have to ride out these unprecedented and difficult times, and put faith in the ingenuity of the legions of biologists, epidemiologist, immunologists and all the other health specialists who are working around the clock looking for a breakthrough in defeating this virus. On this front, we have no doubt that an effective treatment to this virus will be found. This virus will be defeated. This recession will end.

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INVESTMENT STRATEGY

Nothing makes sense in the financial markets right now. Panic has swept every corner of every market in the world. Regardless of the market in question, be it for bonds or for stocks, its pricing mechanisms have been disconnected from reality. Prices swing wildly, as if they are riding a rollercoaster, or as if they are yo-yos, or as can be described by any of the many metaphors for extreme volatility. So, what should we do in these crazy times? First, and above all, we must shut out the noise, keep our heads level, and have our eyes focused, not just on the short term but through to the long term. Let us draw inspiration from Rudyard Kipling's famous poem If: "If you can keep your head when all about you are losing theirs and blaming it on you. If you can trust yourself when all men doubt you but make allowance for their doubting too.", and take a deep breath, exhale, and assess our portfolios. What you will find is that we have ownership of some very valuable businesses; reliable and profitable companies that have earned and shared their profits with us for decades; businesses that provide critical services to society and enable people's everyday lives; and companies that have the wherewithal to survive this crisis and the next and the next. To put it colloquially, we have good stuff; we always had good stuff. Second, be prepared for some disappointment. There is no escaping the paper losses as reflected on your statements. However, do understand that these figures are not reliable indicators of value at the moment because of the markets' extreme volatility. Also be prepared to see some small short-term shrinkage in the income payable to us. Here, we must realize that if some of our companies have been forced to shutter their doors by law, they simply cannot earn their regular levels of income to pass on to us. Third, reflect on the many crises that have come and gone before, and know that as far as this one goes, it too shall pass. The panic will stop, people will come to their senses, and proper valuations will return to the markets. Recall the last market scare of 2008-2009, after a decline of 50% over just 6 months, the markets recover nearly all of their losses in 24 months. Lastly, follow recommended personal hygiene etiquettes, keep up your spirits and maintain a sense of humour in these troubled times. Perhaps Gloria Gaynor's "I Will Survive", with just a small tweak, might help. "At first, I was afraid, I was petrified. Kept thinking I could never live **with**(out) you by my side… Go on now, go, walk out the door. Just turn around now, 'cause you're not welcome anymore… Did you think I'd crumble; did you think I'd lay down and die? Oh no, not I, I will survive!"

ANNOUNCEMENT

We are not at all fazed by the current market developments. Indeed, we are very excited and confident of the growth and long-term prospects of our firm. As such, we are thrilled to announce that we have added another Senior Associate to our firm, Seth Sherwood. Seth comes to us after four years at Morningstar in Chicago, IL. Seth started at Morningstar in investment account servicing before moving into mutual fund research and eventually equity research where he has covered technology companies over the last three years. Aside from providing analysis and stock calls on semiconductor and IT hardware companies, Seth also led the department's ESG/sustainable investing strategy. Seth earned Bachelor of Arts and Master of Arts degrees from Brigham Young University and King's College London, respectively, and is a Level II CFA Candidate. He is very much looking forward to meeting and working with all our clients.