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Forward thinking. Finding value.

CIO'S COMMENTARY – PART 1 – FELIX NARHI

“There are decades when nothing happens; and there are weeks when decades happen.” - Vladimir Lenin

In this commentary we cover:

- A different kind of unexpected and an extraordinary downturn
- “Fog of war” and decision making in a time of extreme uncertainty

In our December [commentary](#), we offered our opinion that everything is still cyclical and investors should bet on the unexpected. *Alas, we had a different kind of unexpected in mind.*

The shockingly fast spread of COVID-19 and economic fallout has shown how interlinked, fragile and unprepared the global community was to face potential risks that are not well appreciated. After peaking on February 19, the S&P500's historic bull run crashed with breathtaking speed. By March 23, it had experienced its quickest downturn in history with a peak to trough loss of 33.9%. Canadian markets fared even worse as the Saudi/Russia oil price war piled further misery on our resource-heavy indices. The TSX declined an astonishing 37.4% between February 20 and March 23. But the maximum pain was reserved for smaller sized companies. The Russell2000 toppled 40.8% while the S&P/TSX SmallCap index fell almost half, down 46.3% from top to bottom. Unprecedented stimulus by global governments and money printing by central banks was unleashed to avert a deeper economic collapse. Global markets have rallied off those extreme lows but we are still in the very early days of dealing with the fall out.

While we worry about the inevitable second order effects from this massive stimulus and money printing, those are lesser considerations when, metaphorically speaking, the patient is still on the emergency operating table.

Much of the world's population is in some sort of quarantine to “flatten the curve” of coronavirus infections. This is meant to prevent health services from being overwhelmed, while saving lives and buying time for the development of vaccines and treatments which could be at least 18 months away. But in this case, what is good for human health is bad for the overall economy. Financial markets may have rallied off their lows, but damage to the economy from COVID-19 is quickly adding up and there is a palpable urgency to get the economy back on track.

As Howard Marks recently noted, *“One of the thorniest questions remains how society and its leaders will make the trade off between minimizing deaths from the virus and restarting the economy.”* In our view, this means inevitable trade offs. These are still very early days, but there is hope that a partial reopening is possible. China was the first to be hit by COVID-19 and the world is closely watching as it attempts to restart its economy. Other hard-hit regions appear to be cautiously re-opening to a new normal as well. Time will tell if this will be successful. But this could provide a potential template and timeline for other economies.

Investing and decision making in a time of uncertainty

The phrase regarding the military concept of the "fog of war" describes what is the uncertainty in situational awareness experienced by key decision makers in military operations. That is what investing feels like right now. We know it is important to make sensible decisions with the information we

currently have but we believe conditions are bound to get worse. We don't have all the data which is complicated further by the facts on the ground changing quickly. We are constantly reassessing our existing holdings as new facts come in (see [The Good, the Bad and the Ugly](#)). We have sold holdings that could be significantly impaired and where we believe the recovery will probably be muted. We are selectively adding to those we believe are poised to re-emerge even stronger. And we are trimming some select positions that have held up remarkably well where in our view the good news seems to be more than priced in. We have also initiated some new positions that we are excited about. We will provide some details about those holdings soon.

Please do not hesitate to contact me, should you have questions or comments you wish to share with us.

Felix Narhi

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