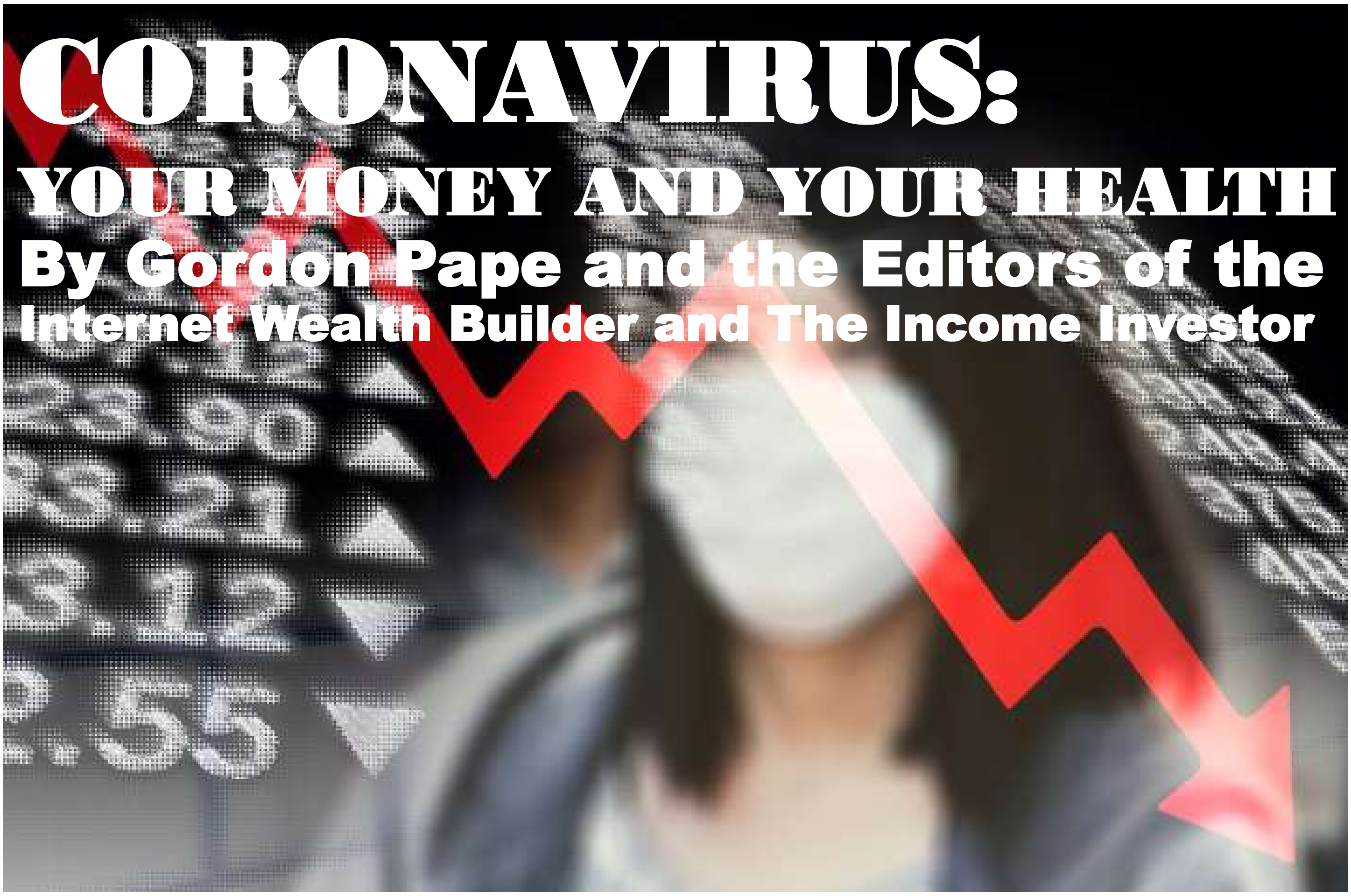
CORONAVIRUS:
YOUR MONEY AND YOUR HEALTH
By Gordon Pape and the Editors of the Internet Wealth Builder and The Income Investor



We've never experienced anything like this in our lifetimes. A tiny virus has pushed the global economy to the edge of recession, killed the longest bull market in history, disrupted our daily lives, and, worst of all, been a death sentence for thousands with the numbers growing daily.

When I was a boy during the Second World War, I recall seeing a sign on a store that read "Closed for the duration". That's how life seems today – everything is closed for the duration of this outbreak, however long that may be. Whole countries are on lock-down, with more undoubtedly to come. Airlines have grounded planes and cruise ships stand empty at their piers. People are reluctant to venture out of their homes, even to buy the basics. All the major sports leagues have suspended play.

Life as we used to know it has vanished overnight. Who knows when we'll see it again.

This special report was written in mid-March. Events are evolving so quickly that some of this material may already be outdated by the time you read it. But I hope you will find the basic advice to be useful to you in these troubled times.

Stay healthy!
Gordon Pape - **BuildingWealth.ca**

THE NEW BEAR MARKET

The longest bull market in history has ended, almost 11 years to the day from its start. The plunge has shocked investors, coming less than a month after the major U.S. indexes hit record highs.

We're now in bear market territory for the first time since the financial crisis. The main questions are how low the markets will go and how long this will last.

History tells us that bear markets tend to be short-lived (about 10 months is the norm), with an average price drop of 36 per cent. The 2007-2009 crash was longer (1.3 years according to Investopedia) and deeper (the S&P 500 dropped 50.9 per cent before the carnage was over).

But these are not normal times. No one knows how long the coronavirus crisis will continue or what its ultimate impact on the economy will be. It seems clear that it will plunge the world into a recession – we may be there now, but we'll have to await the numbers for verification.

Continued on page 3…

Bear market—continued from page 2…

But how deep will it be and how long it will continue is a matter of pure speculation.

Optimists are hoping for a V-shaped recovery. That's based on the unproven theory the virus will be slowed by the advent of warmer weather and the economy will snap back in the second half.

Pessimists see the virus continuing to spread and an Italian-like shutdown in most parts of the world that continues for many months.

In the face of such uncertainty, what should you do?

First, remember that at some point the bear market will end. It always does. Sound companies will still be in business and their stocks will be selling at rock-bottom prices.

Looking back at the financial crisis, investors who held on were richly rewarded when the stock market rebounded. Those who locked in losses took years to recover, and some never did.

If you've followed my advice over the years, you have a balanced portfolio that includes a high percentage of bonds, dividend-paying stocks, and some cash. If that is the case, I suggest you take a deep breath and prepare to ride this out. The overall value of your holdings may fall but the bonds will cushion the shock and the dividends will provide cash flow. The time to start to deploy any cash will be when the market rebounds 20 per cent from its low, a signal that a new bull may be underway.

If, on the other hand, you're holding a lot of marginal securities you may have to consider trimming your losses whenever there is a rally. Those stocks tend to underperform the broad market in turbulent times as speculators bail out.

Everyone is living with a lot of stress these days – both financial and health wise. You need to do whatever you can to reduce that stress level. The Wall Street Journal noted in a recent coronavirus section that stress weakens the immune system, making people more vulnerable to illness.

Health has always been more important than money. The bear market will eventually be history and the value of your portfolio will recover. Keep that in mind in the days and weeks to come.

For more information and the latest updates on these rapidly evolving stories, go to BuildingWealth.ca.

Subscribe to our newsletters at BuildingWealth.ca/subscribe.

BEAR MARKET DOS AND DON'TS

Don't sell quality. Think back to what happened in the fall of 2008. Even the best companies lost value as the entire market collapsed. But once the blood-letting ended in early March 2009, almost all these stocks came back and eventually went on to new highs. Anyone with some cash available could have doubled their money in a couple of years by investing in blue-chip stocks near the bottom.

Do sell speculative issues. I never recommend buying speculative stocks, but some people can't resist in the hope of scoring a huge gain. In a buoyant market, that can happen. But when everything is selling off, it's far less likely. In fact, some borderline companies may go under if things get too bad, leaving you holding an empty bag. Better to take a hit now than to lose it all.

Do keep bonds. After last year's strong gain of almost seven per cent in the FTSE Canadian Universe Bond Index, spurred by falling interest rates, there didn't seem to be much upside left.

But those calculations did not consider the impact on the bond market of something like the novel coronavirus. Investors have been scrambling for safety, pushing yields down and raising bond prices. (Yields and prices move in opposite directions.)

At the time of writing, the FTSE Universe Bond Index was up about 3 per cent year-to-date, much better than the TSX. The main exception is high-yield bonds, which were showing a loss year-to-date. Default risks for marginal companies rises during times of economic stress, putting downward pressure on their bond issues. Bond ETFs are the best choice for most people. The iShares Core Canadian Universe Bond Index ETF (TSX: XBB), which reflects the performance of the underlying index, has been a recommendation of both our newsletters for many years.

Do own gold. Like bonds, gold is considered a safe haven in times like these. The precious metal took a beating in mid-March, with the price dropping more than US$100. But I expect it to recover the longer this crisis lasts.

Don't try to time a recovery. We have no way of knowing how long the virus will remain a disruptive force. Some health officials believe the coming of spring and warmer temperatures may slow it down, but that's an untested theory at this point. If you have some cash to invest, keep it in reserve until the market has moved up 20 per cent from its low. At that point, the recovery should be well established, and you can deploy your cash.

CRISIS ETFs

March 9 marked the 30th anniversary of the birth of exchange-traded funds (ETFs). What many people don't know is that Canada was the originator of what has become an international investing phenomenon.

The first-ever ETF was known as Toronto Index Participation Fund (TIPS). It tracked what was then the TSE 35 index, which measured the performance of the largest 35 companies on the Toronto Stock Exchange. The first units started trading on March 9, 1990.

At the time, only a few investors were interested. But that changed as prominent money managers like John Bogle began aggressively promoting the low cost, transparency, and simplicity of these new securities. Investors no longer had to pay hefty mutual fund commissions or trailers. ETFs could be bought and sold through discount brokers at the click of a mouse.

It took some time, but the concept eventually caught on. According to the Canadian ETF Association there are now more than 760 ETFs listed in Canada, which accounted for $211 billion in assets under management (AUM) as of Jan. 31.

In AUM terms, mutual funds still lead by a wide margin. But ETFs are growing faster. Over the year to Jan. 31, mutual fund assets increased by 12.5 per cent, according to the Investment Funds Institute of Canada. ETF assets were up 28.5 per cent.

The original ETFs tracked the performance of widely-followed indexes, such as the Dow and the S&P 500. Your profits or losses were directly tied to how the underlying indexes

Continued on page 6…

Crisis ETFs—continued from page 5…

performed. If you have money in any of those ETFs today, you know the pain that a market meltdown can inflict.

But ETFs have diversified over the years. There is a whole range of options available, some of which offer protection from the market storms we are currently experiencing. Here are some ETFs that would look good in any portfolio right now.

iShares Core Canadian Universe Bond Index ETF (TSX: XBB). The fund tracks the performance of the total investment-grade Canadian bond market, including government and corporate issues. It tends to perform well when interest rates are falling – like right now, as central banks struggle to deal with the coronavirus shock. The annual cost is a minimal 0.1 per cent.

iShares Core U.S. Aggregate Bond ETF (NYSE: AGG). This is the American equivalent of XBB, except it tracks the U.S. bond market. It's even cheaper to own, with an expense ratio of only 0.05 per cent.

SPDR Gold Shares (NYSE: GLD). This is the world's largest gold ETF under management. Gold sold off recently as investors raised cash, deflation concerns took hold, and the U.S. dollar soared. But the precious metal is widely seen as a safe haven investment in troubled times, which these certainly are. The management expense fee is 0.4 per cent.

BMO Equal Weight Utilities Index ETF (TSX: ZUT). Some stocks perform better than others in falling markets. Utilities have held up reasonably well in the general market collapse because they are interest-sensitive. When rates rise, they suffer. But when rates fall, these stocks tend to hold their value or rise in price. This ETF invests in a portfolio of 16 Canadian utilities including Fortis, Brookfield Renewable Partners, Boralex, Algonquin Power & Utilities, Hydro One, and Canadian Utilities. It gained 35.8 per cent in 2019. The management expense ratio is 0.61 per cent.

CI First Asset High Interest Savings ETF (TSX: CSAV). You won't get rich with this ETF but if preserving what you have and earning some interest in the process is your goal, then this new fund is worth a look. The money is invested in high-interest savings accounts at five Canadian banks: CIBC, RBC, BMO, Scotiabank, and National Bank at above-average negotiated rates. The unit price hardly ever budges from the $50.00-$50.10 range but you receive monthly distributions, the most recent being for $0.0807 per unit. The management fee is 0.14 per cent. There's nothing exciting about this fund, which makes it a good choice for those who want a little stability in their financial lives.

NEGATIVE RATES LOOM

A reader sent in a very relevant question recently: “If we head towards negative interest rates like some parts of the world, where does one invest their money to earn a decent return?”

We may be closer to this scenario than most people think. The entire U.S. Treasury bond yield curve dropped below 1 per cent last week for the first time in history.

On March 15, the U.S. Federal Reserve Board cut its key rate by half a point to a range of 0% to 0.25%, the lowest since the financial crisis. The second half-point cut this month was unprecedented and shows how seriously the Fed governors view the current crisis. The markets responded by crashing again the next day.

Previously, the Bank of Canada announced its second half point cut this month, to 0.75 per cent, saying: “It is clear that the spread of the coronavirus is having serious consequences for Canadian families, and for Canada’s economy. In addition, lower prices for oil will weigh heavily on the economy, particularly in energy intensive regions.”

These moves raise the spectre of negative interest rates in North America.

We’ve already seen them for some time in continental Europe and Japan. Recently, the U.K. has joined the club,

with yields on two- and five-year government bonds (called gilts) dropping below zero on March 9.

According to a recent report from Bloomberg, almost $15 trillion worth of investment grade debt, more than a quarter of the global total, is in negative territory, including all of Germany’s government bonds. This means that investors who buy now will get less money back than they invested when the bonds mature.

Why would anyone do that? Fear. These people are telling the world they expect stocks, real estate, and all other assets to lose significant value in the years ahead. They would rather commit to a small loss over time than run the risk of catastrophic losses in other assets.

The big question is whether negative rates actually work to stimulate an

Continued on page 8…

Negative rates—continued from page 7…

economy. The jury is still out on that, even after several years of living with them. The Wall Street Journal reported in December that senior monetary policy staff at the European Central Bank (ECB) published a paper saying the benefits for the economy outweighed any damage from below-zero rates. These included lower borrowing rates and increased inflation.

The team that prepared the report was led by Massimo Rostagno, head of the ECB's monetary policy division. It concluded that negative rates encouraged commercial banks to lend and invest capital, rather than pay to leave money on deposit at the central bank.

The downside of negative rates is that they squeeze bank profits, forcing them to jack up fees on their other services to the detriment of their clients. That's not all. Pension plans, which have large bond holdings, will be hard-pressed to meet future obligations if their fixed income assets generate negative returns for a lengthy period of time. Insurance companies would also face problems, for the same reason.

Another negative effect of negative rates could be to exacerbate the housing bubble that is already making home ownership a distant dream for young people. Zero or negative mortgage rates would send house prices soaring. Negative mortgage rates may seem improbable, but we've already seen them in Denmark.

The effects on the stock market are debatable. Some analysts believe negative rates would drive up stock values, especially those of dividend-paying securities. Others see negative rates as a depressant because they signal worse times ahead. European and Japanese markets have not been stellar performers in recent years, but they held up reasonably well until the recent sell-off.

In short, we're moving into new territory and no one really can predict the consequences, especially if negative rates become an entrenched part of North American monetary policy for any length of time.

So, to go back to the reader's question, where do you invest in these circumstances?

Bonds, real estate, and gold look like the best choices. Stocks are problematic, although I like quality, dividend-paying stocks at any time.

If you don't like any of those, hold cash, even if your account pays zero interest. It's better than investing for a guaranteed loss.

The Search For A

The race is on to develop a vaccine against the novel coronavirus.

The prize could be countless lives saved and perhaps billions of dollars in revenue. But there are a lot of ifs involved.

Normally, it takes years for the U.S. Food and Drug Administration (FDA) to approve new drugs or vaccines. Every new product is subject to rigorous tests and clinical trials before receiving approval.

In serious situations like this, the FDA would certainly fast-track any promising cure or vaccine that is submitted. But even that implies a lengthy delay.

Many companies are racing to be the first out of the gate. Here are some of them.

Moderna Inc. (NDQ: MRNA). This biotech company based in Cambridge, Massachusetts appears to have been the first to submit a vaccine for testing. It specializes in RNA (ribonucleic acid) Science – RNA carries the genetic information of many viruses and can be used to create the codes to neutralize them.

On Feb. 24, the company announced it had released the first batch of mRNA-1273, its vaccine against the novel coronavirus, for human use. Vials of the vaccine have been shipped to the National Institute of Allergy and Infectious Diseases (NIAID), a part of the National Institutes of Health (NIH), to be used in a planned Phase 1 study in the U.S.

The test batch was delivered in 42 days

Continued on page 10…

The search—continued from page 9…

from sequence identification, said Juan Andres, chief technical operations and quality officer at Moderna. Tests are expected to start in April, but the process could take up to a year. One of the problems is that RNA vaccines are a new technology that has not yet been approved by the FDA.

Inovio Pharmaceuticals (NDQ: INO). This Pennsylvania-based company is unknown to most investors, but it is on the leading edge of developing therapies for cancers and infectious diseases using DNA sequencing.

Shortly after the coronavirus outbreak came to public attention, the company announced it has been awarded a $9 million grant by the Coalition for Epidemic Preparedness Innovations (CEPI) to develop a vaccine. The money will be used to support Inovio's preclinical and clinical development through Phase 1 human testing of INO-4800, the new coronavirus vaccine it has matched to the outbreak strain.

Inovio was the first to advance its vaccine (INO-4700) against MERS-CoV, a related coronavirus, into evaluation in humans. Inovio is currently preparing to initiate a Phase 2 vaccine trial for INO-4700 in the Middle East where most MERS viral outbreaks have occurred. (MERS stands for Middle East Respiratory Syndrome).

“The world needs to act quickly and in unity to tackle this disease,” said Richard Hatchett, CEPI's CEO. “Our intention with this work is to leverage our work with Inovio on the MERS coronavirus and rapid response platform to speed up vaccine development."

Sanofi (NDQ: SNY). Paris-based Sanofi Pasteur, the vaccines global business unit of Sanofi, is joining forces with U.S. Department of Health and Human Services (HHS) to advance a novel coronavirus vaccine.

On Feb. 18, the company announced it will leverage previous development work for a SARS vaccine in an effort to unlock a fast path forward for developing a COVID-19 vaccine. Sanofi will collaborate with the Biomedical Advanced Research and Development Authority (BARDA), part of the Office of the Assistant Secretary for Preparedness and Response, expanding the company’s long-standing partnership with BARDA.

“Addressing a global health threat such as this newest coronavirus is going to take a collaborative effort, which is why we are working with BARDA to quickly advance a potential vaccine candidate,” said David Loew, Global Head of Vaccines at Sanofi.

Continued on page 11…

Continued from page 10…

"While we are lending our expertise where possible, we believe the collaboration with BARDA may provide the most meaningful results in protecting the public from this latest outbreak."

Sanofi will use its recombinant DNA platform to produce a novel coronavirus vaccine candidate. This technology produces an exact genetic match to proteins found on the surface of the virus, the company said. From there, an antigen can be developed to provide immune system protection against the virus.

But even with a leg up after its work on SARS, we're not looking at a quick fix here. John Shiver, the head of the company's vaccine research and development team, said that even with fast-tracking it would probably be three to four years before a product is generally available. By then, the virus may have run its course.

Regeneron Pharmaceuticals (NDQ: REGN). This biotech company, based in New York State, has announced an expanded agreement with HHS to develop new treatments to combat the novel coronavirus, working through BARDA.

The company had been working with the federal agency since 2017 on researching and developing a portfolio of antibodies targeting up to 10 pathogens that pose a significant risk to public health. The extended arrangement will target the novel coronavirus, using the company's proprietary technologies.

The focus will be on Regeneron's VelocImmune platform, which uses a unique genetically-engineered mouse with a humanized immune system that can be challenged with all or parts of a virus of interest. This can speed up the process of identification, preclinical validation, and development of promising antibody candidates.

The company says its systems are particularly well-suited for use in quickly-developing outbreak situations, as was done for Ebola.

Regeneron was founded 30 years ago by a team of physicians-scientists. It develops products for patients with eye disease, allergic and inflammatory diseases, cancer, cardiovascular and metabolic diseases, infectious diseases, pain, and rare diseases.

Gilead Sciences (NDQ: GILD). This major biopharmaceutical company announced that it is launching two phase 3 clinical studies to determine whether its anti-viral drug remdesivir can safely and effectively treat people with COVID-19.

Continued on page 12…

Continued from page 11…

The initiation of these studies follows the FDA's rapid review and acceptance of Gilead's investigational new drug filing for remdesivir for the treatment of the new disease.

The new studies expand the ongoing research into remdesivir. These include two clinical trials in China's Hubei province (where the novel coronavirus originated) led by the China-Japan Friendship Hospital as well as the recently initiated clinical trial in the United States led by NIAID. Gilead has donated drugs and provided scientific input for these studies, with results from those in China expected in April.

Remdesivir is an experimental antiviral drug, designed to be used against emerging viral pathogens including Ebola, Marburg, MERS, and SARS. It has not been licenced for use anywhere in the world to this point. The tests are being done on a compassionate use basis for emergency treatment. If it is proved to be effective, it would be used as a cure for patients, not a vaccine for prevention.

The first of two new studies will evaluate the safety and efficacy of both a 5-day and a 10-day dosing regimen of remdesivir, administered intravenously in patients with severe cases of COVID-19. It will involve about 400 people.

The second study will look at the effect of the drug on people with more moderate symptoms of the disease. It will test about 600 infected people.

Many other companies have set up research teams to find a vaccine, but Gilead appears to be the front-runner in terms of a potential cure with a drug that already exists. At this point, the long delays in obtaining approval mean there will be no immediate vaccine. But if Gilead's clinical trials are successful there may be hope for a treatment within a shorter time frame.

GlaxoSmithKline (NYSE: GSK). In February, it was announced that Glaxo was contributing its adjuvant platform for pandemic vaccines to the Coalition for Epidemic Preparedness for the fight against COVID-19. The report stated that by using only small amounts of the vaccine antigen, output of vaccine does can be increased, giving researchers a crucial edge in pandemic situations.

The use of Glaxo's program would help scientists at the University of Queensland, who were conducting key pre-clinical experiments to assess the effectiveness of the vaccine for COVID-19 they are working on. As with Gilead Pharmaceutical's new retroviral drug, which is being used in a trial in Wuhan, medicines originally designed to counter SARS and Ebola, an area of expertise for Glaxo too, may be effective in counteracting the coronavirus, but we likely won't see it before the end of 2020.