



# CORONAVIRUS: YOUR FINANCIAL SURVIVAL GUIDE

By Gordon Pape, Ryan Irvine, Shawn Allen

and the Editors of the Internet Wealth Builder and The Income Investor

Back in February, when the coronavirus first came to public attention, few people outside the medical community recognized its implications. By mid-March, when the lockdowns began, most people believed they would be temporary. By the end of April, we had come to understand just how devastating this pandemic was.

Our lives have been shattered in so many ways. The economy has seized up. Millions of workers have been laid off while many of those who still have jobs are working from home. Our social world has vanished. We hesitate even to invite family members to our homes, much less long-time friends. Bars and restaurants remain closed in most parts of the country and even when they reopen many people will be reluctant to take the risk, perhaps remembering the man in South Korea who infected dozens after nightclubs were reopened there.

Stock markets fell off a cliff in March, ending an 11-year bull run. They then rallied in April but by mid-May investor enthusiasm was waning as the long road ahead became more apparent.

We can't do anything to fix the economy or to mend the tears in our social fabric. But we can do what we do best, which is to provide sound financial guidance to help you survive these troubled times without serious loss and perhaps even some profits.

That's what this special report is all about – providing the help you need to get through to the other side without serious damage. We hope you find it useful.

Stay healthy!

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# FIVE LESSONS FOR MANAGING YOUR PORTFOLIO



**By Ryan Irvine**

In a time of crisis, investors have two choices. Number one, you can ignore

your portfolio and do nothing. While we advise against rash decisions during these times, sticking your head in the ground should not be an option.

Number two, take action.

Stock market crashes and economic downturns have happened before. That alone should give us a reassuring perspective on how this crash is likely to turn out. There's much we can learn from previous market crashes that can help you better manage your portfolio.

While painful in the near-term, an economic crisis should sharpen your resolve – I know it does mine.

Here are five guidelines for handling your investments during this crisis period.



## Lesson #1

### **Review your portfolio**

The first step is to look at your portfolio. Many of us are at home so you should have some spare time. Start by looking at each ETF, fund, and individual stock and see if you want to continue to own them. For individual stocks, make sure the main thesis for purchasing that business still makes sense. Focus on core dividend and quality growth stocks. Then look at potentially rebalancing. Sell small to partial positions in winners that have become significantly overweight and remain at premium valuations (despite the drop, many stocks are still at well above average historical multiples). Cut losers where the original thesis for owning the stock has changed. However, do not sell shares in companies have dropped in price but

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remain good long-term businesses at a reasonable price. By taking these minor actions, you can raise cash, which you can deploy when new opportunities present themselves.

## Lesson #2

### Cash is king



Keep some cash on the sidelines ready for opportunities. There have already been some, but we believe the markets may give us more attractive possibilities. We also recommend looking for cash-rich businesses with a history of profitability.

These types of business can survive a downturn (they have a cash buffer). Perhaps most importantly, those with cash can take advantage of their strong balance sheets to make opportune acquisitions, allowing the businesses to thrive when the recovery begins – and it always does.

An excellent example of this is Enghouse Systems Limited (TSX: ENGH). In the lead-up to the 2008-2009 financial crisis, analysts were screaming at ENGH to deploy its nearly \$100 million in cash on hand to grow via acquisition. But prices were too high, and management was disciplined, waiting patiently for better values. The business was profitable, with decent growth and an excellent balance sheet.

Soon after, the financial crisis hit and ENGH began to deploy the cash in smart, reasonably priced acquisitions. From this cash flow, the company bought more businesses and the growth built on itself. ENGH went on to buy 20+ businesses from cash flow and continues to do so today. Over this past decade, the company was one of the top four performing stocks on the TSX

We recently released a report to clients with a detailed risk assessment of our Canadian Dividend and Canadian Small-Cap Growth Stock coverage. We detailed 4-5 cash rich, profitable companies that hold high cash positions, which we are monitoring during this current crisis. The names include a number of stocks we have introduced to *Internet Wealth Builder* members, including:

- Sylogist (TSX-V: SYZ)
- Dynacor (TSX: DNG)
- Photon Control (TSX: PHO)
- Enghouse (TSX: ENGH)

Each of these companies, if managed well, may be in the enviable position ENGH was in coming out of the 2008-2009 financial crisis. These are smaller companies to put on your radar. While they may face near-term pain, they have the balance sheets to handle it.

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### Lesson #3

#### Do not buy on margin

Buying on margin means borrowing money to invest. Rates may seem attractive, but it makes absolutely no sense to take further risk in an uncertain market (we advise against it at the best of times). Use the cash you have and nothing more.

### Lesson #4

#### Don't try to time the bottom

Trying to time or buy into the market at the precise bottom is a fool's game. There is no reliable method of finding a market bottom. Anyone trying to predict one is selling you false hope. What you can do is find some businesses you want to own long-term and start layering in. Many investors operate under the idea that when you buy a stock, you buy it all at once. This does not have to be the case. In fact, in uncertain times, such as we are currently facing, it is perfectly normal and, in fact, advisable to first identify the stock you want to buy, and then buy in pieces. Specifically, one can split buying a quality stock into 3-4 tranches. Here is an example using round numbers. If you had a \$500,000 equity portfolio designed to purchase an equal dollar amount in 20 stocks or \$25,000 in each, the initial 25% position in the stock would be \$6,250. Start with

the initial purchase and add in tranches over the year. Blended purchases such as this help mitigate against buying too early or too late in a crisis.

### Lesson #5

#### Stick to your plan (assuming you have a good one)

Panicking and making rash decisions in a crisis is often the worst thing you can do. While it may feel like you should swear off stocks forever, this is typically the last thing you should do. Again, this is assuming you have a good stock portfolio plan that is focussed on quality dividend and growth stocks. If you do not, now is a great time to start.

At times like these, everyone needs some optimism. In any market downturn, I am reminded of one of Warren Buffett's famous quotes.

*"Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."*

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# BALANCE SHEET STRENGTH IS NOW CRITICAL



## By Shawn Allen

Almost everyone assumes that the current economic shutdown will end and at least most of

the economy will return to something resembling normal operations. But meanwhile, most companies are facing sharply lower revenues, which will likely last a while. Equity investors will now want to hold or buy companies that are best positioned to both survive the economic shutdown and to return to prosperity afterwards.

Some companies are in industries that will be the last to return to normal, if ever. That includes cruise ships, air travel, hospitality, and tourism. It seems wise to avoid these sectors at this time. Another area to avoid is companies with excessive debt and therefore weak balance sheets, since they may not even survive until such

time as the shutdown ends. In general, a company with little or no debt is much better positioned to survive a period of sharply lower revenues. In contrast, a company that already has a large amount of debt in relation to its assets and revenues could face insolvency in short order. There are several ways to judge whether a company's debt is excessive:

1) The debt to equity ratio. This compares the level of debt on the balance sheet to the amount of shareholder equity. A debt to equity ratio of 1.0 means that the balance sheet is financed equally by debt and equity. That's often a reasonable level of debt but it depends on the industry. In general, the more dollars of debt that there are for each dollar of shareholder equity, the weaker the balance sheet.

2) Debt or interest coverage ratios. These compare the earnings or cash flow to either the level of debt or to the interest amount being paid. In normal situations, and especially for non-cyclic companies, this is the most relevant measure of balance sheet strength. In this case, earnings and cash flow are expected to continue and if they exceed interest by several times or more or if the debt amounts to only a few years of

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# RESTRUCTURING YOUR PORTFOLIO



**By Gordon Pape**

Stock market volatility continues as investors try to figure out where we are going economically.

Indexes post big gains one day and then turn upside down the next.

What should you do in these circumstances? Some people have succumbed to fear and put all their assets in cash. Others are looking at overhauling their portfolios but aren't sure where to start.

One reader wrote: "I have increased my cash position from roughly 15-20% to about 35%. Given the market losses in March and subsequent recovery, I was wondering whether this is a good time to re-balance the portfolio with increased weight on stocks (vs. fixed income) or vice versa. Or should I maintain a cautious position overall

and wait for a potential re-testing of the market lows?"

Good question, but one with no easy answers. However, let's look at some possibilities.

Although stocks have rebounded from the March lows, they are still a long way from the February all-time highs and the rally is very uneven. I believe we will test new lows in the next few months as more people come to realize how long and difficult the recovery is going to be.

We are in the worst economic slowdown since the Great Depression, both in terms of GDP losses and skyrocketing unemployment. As the actual numbers are released, more investors are going to lose heart and sell, sending indexes plunging again.

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The only thing that could change that outlook is if the U.S. economy opens up sooner rather than later. President Trump is pushing for that to happen. The obvious danger is a second wave of the coronavirus, which could force another shutdown. That would completely destroy any investor confidence that remains.

So, to return to our reader's question. What should your portfolio look like right now? Here are my suggestions.

*Cash.* Our reader has about 35% in cash. That's a reasonable target at this point in time. Cash won't earn you much of a return, but the risk is low, and it provides ammunition to buy good companies at bargain prices if, as I expect, the markets do test new lows.

*Fixed-income.* Many people were shaken by the sudden, unexpected plunge in bond ETF prices in March. The underlying reason appears to have been a liquidity issue. ETFs trade on stock exchanges and can be bought or sold in a minute. The bonds that make up the underlying portfolio, and whose cumulative valuation forms the ETF's net asset value, trade much less frequently. The result was that the high volume of sales orders for the ETFs pushed down prices to well below their net asset value.

The U.S. Federal Reserve Board quickly stepped in with a Quantitative Easing plan that went beyond Treasuries to include corporate bonds and fixed-income ETFs holding investment grade securities. The Bank of Canada has also introducing Quantitative Easing for the first time and extended the plan to include provincial bonds and investment-grade corporate issues. Those actions have restored a degree of stability to the credit market and to the ETFs that invest in it.

But the March shock has raised questions about whether using ETFs to hold fixed-income securities is safe. Preferably, it's better to buy high-quality individual bonds directly, but the bond market is extremely opaque and only experienced traders should go that route.

The rest of us will have to rely on mutual funds or ETFs for our fixed-income allocation. To reduce the risk, zero in on ETFs that invest in government-issued debt. The iShares Canadian Government Bond Index ETF (TSX: XGB) is a good choice. For a U.S. position, look at the iShares U.S. Treasury Bonds ETF (NYSE: GOVT), which invests in a portfolio of U.S. Treasuries with maturities of between one and 30 years (the effective duration is 6.91 years).

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I suggest a fixed-income position of 20-25%.

*Equities.* This is a time to be very selective in your stock choices. Do not buy the broad indexes. We are seeing the classic example of a stock pickers' market. Some companies continue to perform relatively well, while others have fallen off a cliff. If you buy the indexes, those losers will drag you down.

Your goal at this point should be to focus on quality stocks that are holding up well, pay a sustainable dividend, and will be around long after COVID-19 is defeated. My suggested equity allocation is 30-40%. For suggestions, read Cornerstone Stocks, which follows.

*Gold.* The price of gold is over US\$1,700 as this is written. I believe it will go higher as Quantitative Easing (which simply means printing money) erodes the value of the U.S. dollar. Some, but not all, gold stocks have soared. My favourite, and one that I own, is Franco-Nevada (TSX, NYSE: FNV). It was up almost 33% for the year as of the time of writing. The widely traded SPDR Gold Shares (NYSE: GLD) were ahead about 13%. I suggest a weighting of 5-10% in gold stocks or ETFs.

That's how I would re-balance a portfolio at this point in time. But the situation is highly fluid so stay on top of events and be prepared to act quickly.

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earnings or cash flow, then the debt would be considered reasonable and the balance sheet strong.

Interpreting balance sheet strength is very much a company-by-company process. Even in normal times, companies with reliable earnings and cashflows can sustain higher debt ratios than companies in cyclical industries.

In the circumstances of the current economic shutdown, debt levels that previously seemed very reasonable and manageable could become problematic. Consider the airline and cruise line industries, which are experiencing a near total collapse of revenue and where business is unlikely to return to anything approaching normal in the foreseeable future. In these cases, even a modest amount of debt could be enough to drive a company into insolvency.

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### By Gordon Pape

We are living in unpredictable times. No one can say with any certainty what the world

will look like in October, or next May.

Based on what medical experts are telling us, we will still not have a coronavirus vaccine by autumn, although we may be getting close. Without a vaccine, a major economic recovery is highly unlikely. That means the scenario for the next year or so is likely to be similar to the one we're experiencing now. Unemployment will be high, corporate profits will be suppressed, global supply chains will be strained, demand for oil will remain low, money for new capital expenditures will be scarce, and many people will need government help to survive.

That's not a recipe for a rising stock market. I think once investors realize how long and difficult the road back is going to be, we'll see a new downturn

that will test the March lows. I don't expect a true recovery to begin much before the first quarter of 2021.

I'm not suggesting you should avoid stocks during this period. But they must be carefully chosen. I would not invest in broad market indexes at this point.

Rather, look for stocks that are likely to at least hold their value during this crisis and will emerge in a stronger position when it is over. I call these Cornerstone Stocks. They offer products or services that are in high demand (many are essential services), have a sound balance sheet, and pay a sustainable dividend.

Here are ten Cornerstone Stocks that I believe are worth considering right now.

## Healthcare

**Pfizer Inc. (NYSE: PFE).** This is one of the world's leading biopharmaceuticals companies and a leader in the race to develop a vaccine for the coronavirus. Recently the company announced it is aiming to have 10-20 million doses available by year-end – assuming it meets regulatory standards. Right now, it's in the trial stage in Germany. But the company's portfolio goes well beyond a COVID-19 vaccine. Its business units include Oncology, Inflammation & Immunology, Rare

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*Cornerstone stocks—continued from page 9...*

Disease, Hospital, Vaccines, and Internal Medicine. Its Upjohn division focuses on off-patent and generic medicines. The company recently released first-quarter results, in which it reaffirmed its guidance for earnings per share of US\$2.82-2.92 for 2020 and says it has adequate liquidity for the foreseeable future. The stock pays a secure quarterly dividend of US\$0.38, to yield about 4%.

## Retailers

**Walmart (NYSE: WMT)** Many companies are suffering during this downturn, laying off millions of workers in the process. Walmart is not one of them. Sales are booming. As a result, the company is hiring, big time. The retailer has added 150,000 new jobs and plans to hire another 50,000.

**Costco (NDQ: COST)** Costco is another retailer that's doing well. March sales were up 11.7% year-over-year, although the numbers going forward may not be as impressive due to new social distancing rules at its stores. The company showed confidence by raising its quarterly dividend by 7.7% to US\$0.70.

## Resources

**Franco-Nevada (TSX, NYSE: FNV)** Gold has always been a safe haven

investment and it looks even more attractive now as the U.S. Federal Reserve Board has become a money-printing machine, weakening the U.S. dollar. I like this stock because it's a royalty company – it doesn't have to carry the cost of finding, developing, and operating new mines.

## Technology

**Amazon.com (NDQ: AMZN)** Amazon's business is booming – sales in the first quarter were up 26% to US\$75.5 billion. However, profit came in below expectations at US\$5.01 per share. And the company announced plans to spend the entire second-quarter profit – an estimated US\$4 billion – on COVID-related costs, including getting products to customers faster, raising wages, and keeping employees safe. The latter includes investing hundreds of millions of dollars developing the company's own testing facilities. "We're not thinking small," said founder Jeff Bezos. Amazon is one of the few stocks to have gained ground this year, up 28% from its Dec. 31 close of US\$1,847.84. And the longer the crisis continues, the more sales will rise.

**Microsoft (NDQ: MSFT)** Microsoft's latest quarterly revenue (to March 31), was US\$35 billion, up 15% from a year ago. Earnings per share were up 23% to

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*Cornerstone stocks—continued from page 10...*

US\$1.40. More people working from home increased demand for its Windows operating system (Windows runs 90% of the world's personal computers), while its commercial cloud revenue was up 39% to US\$13.3 billion. The company also reported a big jump in users of its Teams service for video conferencing, distance education, and personal use. The stock is up 10.7% for the year and the shares pay a quarterly dividend of US\$0.51.

## Telecoms

**AT&T (NYSE: T)** Communications companies may suffer some revenue declines this year, but these are solid companies with steady cash flow and solid balance sheets. AT&T's CEO has stated the company has a strong balance sheet and is committed to fulfilling its dividend obligations. Despite that, the shares are trading below US\$30. With a \$2.08 annual payout, that works out to a yield of better than 7%.

**BCE Inc. (TSX, NYSE: BCE)** This is another telecommunications company that offers an attractive dividend. BCE's first-quarter results were in line with expectations, with revenue down slightly because of advertising weakness in its media operations. The company withdrew its financial

guidance for 2020 but said it has significant financial flexibility to manage through the crisis, with \$3.2 billion of liquidity at end of the first quarter and substantial free cash flow generation for planned 2020 capital spending and dividend payments. With a yield of 5.9%, this is a core stock to hold through the crisis and beyond.

## Transportation

**J.B. Hunt Transport (NDQ: JBHT)** If we didn't recognize before that transportation is an essential service, we certainly do now. If it weren't for the big rigs delivering food to our grocery stores, we'd all be starving. J.B. Hunt is one of the biggest trucking firms in the U.S. and a Fortune 500 company. The company reported a 9% increase in revenue in the first quarter to US\$2.28 billion. Earnings per share were US\$0.98, down from US\$1.09 a year ago. But that was partly due to a one-time charge of US\$12.3 million in staff bonuses as a thank-you for their work during the crisis. The stock pays a quarterly dividend of US\$0.27 a share. It's a modest yield (just over 1%) but it looks safe.

## Utilities

**Fortis (TSX, NYSE: FTS)** No matter what the economic conditions, we need

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### *Cornerstone stocks—continued from page 11...*

utilities to keep the lights on and deliver the natural gas to keep furnaces running. Canadian-based Fortis is an international company, providing services in five Canadian provinces, nine U.S. states, and three Caribbean countries. The company has a strong balance sheet, having paid down \$2.2 billion in debt last year and the quarterly dividend of \$0.4775 looks safe. First-quarter revenue was down 1.8% from last year, due to reduced business demand because of lockdowns. Adjusted earnings per share were \$0.68, down from \$0.74 in 2019. However, the

company said that 82% of its revenue is protected by regulatory mechanisms or derived from residential sales, and that it does not face any liquidity issues. Fortis did not make any changes to its five-year capital expenditure plan or its dividend outlook.

A word of caution. While these securities should outperform the market in the coming months, prices look expensive at this point, as I noted at the start of this column. If you plan to make any purchases, use dollar-cost averaging. Buy 25% now and increase your position gradually until you reach your target.



## Readers Praise Us

Subscribing to your newsletters has been the best money I have spent.  
- Bill H.

We've been subscribing for nearly 10 years now and have benefited greatly from your advice and experience (and of your contributors). - Ian C.

Thanks for the great advice over the years. - Brian G.





# LIFE AFTER COVID-19



**By Gordon Pape**

The COVID-19 crisis will end at some point. No one can predict exactly when, but, unless the

virus magically fades away, as Donald Trump once predicted, I don't believe we will see the end of this until two things occur.

First, we need to develop an effective treatment for serious cases. That will reduce the death toll and ease the stress on the healthcare system. It appears from everything I've read that a treatment is likely closer than a vaccine.

The second stage is a vaccine that is effective and widely available at a reasonable cost. We need something that can wipe out this virus, in the way other vaccines eliminated polio and smallpox. Only then will people feel

comfortable socializing again.

Unfortunately, from everything I've heard, we're a year away from that, even in a best-case scenario.

Only when we have a treatment and a vaccine can the process of rebuilding the world's economy begin. That means governments are going to be stretched to their limits in providing the fiscal and economic stimulus needed to keep us going until we turn the corner.

When we finally emerge on the other side, we'll be faced with massive debt problems at all levels. But those are issues for another day.

So, what will the world look like when the crisis ends? Much different than before, I expect. Months of sheltering

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in place will fundamentally change our lifestyles and will continue to influence the way we live and do business, long after the coronavirus is history. Here are some of the changes I expect.

*More work from home.* In the space of a few weeks, we've discovered that jobs no one thought could be done remotely can be handled very effectively with a laptop computer and video conferencing. I spoke with a senior executive in the insurance industry who told me his entire office is now working from home and that, so far, it is going well.

There are many reasons why this trend might continue post-crisis.

It would reduce costs for cash-strapped businesses through the reduction or elimination of office space and its attendant costs. Teleconferencing will reduce the need for business travel, another cost saver. Commuting costs would be cut – a walk to the home office beats hours in a car or on public transit.

Of course, not everyone can work from home. Construction workers will still be needed on job sites. Staff will be needed in grocery stores and pharmacies. Delivery service drivers have become essential to our new lifestyle. We'll still need police, firemen, pilots, nurses, doctors, and others to report to work. But many

white-collar jobs that are now being done from home will remain there when the crisis passes.

The losers in this scenario will be office REITs and the energy sector. With fewer cars commuting to work, the demand for gasoline will drop – as we're already seen.

The winners will be technology companies, who will continue to make the whole work at home process easier. Microsoft is a great example.

*Expanded use of on-line commerce.* I've ordered a few things from Amazon and Walmart in recent years, but they've been a small part of my shopping routine. Now I'm in self-isolation and I've started to order groceries on line. It's been a frustrating experience – thousands of others are doing the same thing and the systems are overloaded. But based on news reports, the major grocery chains are hiring staff and gearing up to handle the sudden, sharp increase in demand.

Once that happens, I can see myself foregoing the weekly trip to the supermarket. Why take the time and the effort, especially on a miserable winter day, when everything you need can come to your doorstep? I'm sure many other people will feel the same way.

The winners here will be those

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companies that offer good prices, prompt delivery, and user-friendly websites built along the Amazon model. Delivery companies will also prosper in the expanded e-commerce economy – think FedEx and UPS.

The losers? Brick and mortar stores and retail malls, which were suffering before any of this happened. REITs that specialize in retail should be avoided.

*An accelerated move to robotics.* Robots can't catch COVID-19, or anything else. While the rest of us stay home, they can keep factory output going with a minimum of human intervention.

This trend is already been well-established. In mid-2019, a report from Oxford Economics projected that 20 million manufacturing jobs around the world will be taken over by robots by 2030. That could accelerate as the world emerges from the crisis, although much will depend on how much capital spending businesses can afford.

The rise of robotics is a two-edged sword. On the one hand, it will improve productivity and reduce the economy's vulnerability to future pandemics. On the other, it will leave millions of people without work. Managing that crisis will be a real challenge to business and governments.

One of the companies that should

benefit when this trend takes hold is ABB Group (NYSE: ABB). It's a Swedish-Swiss company based in Zurich that trades as an American Depositary Receipt on the New York Stock Exchange. The company is a world leader in robotics, industrial automation, clean energy, and software development. The stock has not performed well recently but the company appears to be well-positioned to emerge as a winner in the post-coronavirus world.

*More distance education.* Schools are not going to close permanently. Colleges and universities will eventually reopen. But this experience has showed us that more learning can take place through the use of technology and I expect that trend to continue.

There is nothing new about distance education. It was being used prior to the inception of the internet, through mail distribution of course material. But, as we're now seeing in homes across the country, the schoolroom can be brought into the living room through the use of increasingly sophisticated teaching materials and interactive programs.

This will benefit those who live in remote areas, children who have to stay home while ill, adults seeking to upgrade their skills, and more. We may

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even see a reduction in the number of days students must attend classes.

One of the companies that stands to benefit is Chegg Inc. (NYSE: CHGG). It operates an interconnected learning platform, which is on-demand, adaptive, personalized, and backed up by a network of human help. First-quarter 2020 produced 2.9 million new subscribers, a 35% increase year-over-year. The share price has been gradually moving higher from a mid-March low in the \$26 range, suggesting that investors feel this company is in the right place at the right time.

*Increased use of telemedicine.* I recently received an email from Toronto's University Health Network (UHN), a group that includes Toronto General, Toronto Western, and Princess Margaret Hospitals. It said that all in-person appointments that are not urgent are being cancelled for the foreseeable future.

Instead, patients may be contacted to arrange for "virtual visits" with their doctor that will take place by phone or, increasingly, by computer. According to the UHN website, during these visits "Your health care team talks to you about your current health status, any symptoms you are experiencing and your needs. If your care team feels that an in-person visit is needed instead of a

virtual visit, they will discuss your options and next steps with you".

The site goes on to say that this is not new. "UHN and health care teams across Ontario have been using virtual visits for some time through the Ontario Telemedicine Network."

Although UHN says this action is being taken due to COVID-19, it's not hard to see it becoming the new norm in a post-crisis world. Telus Corp. (TSX: T) has invested \$2.5 billion over the past decade to develop a wide range of telemedical services, including general medical advice, personalized diagnosis, prescriptions, and more. The company announced recently that its Health division now enables 26,000 family doctors to conduct virtual visits with their patients.

In the U.S., the hot stock in this field is Teledoc Health (NDQ: TDOC). The shares opened the year at US\$83.72 but then shot up to over US\$190 after COVID-19 hit. Teledoc is a growing company with a global platform and first-rate technology. But it's not making a profit yet so we advise caution. Buy this one on dips.

*Reluctance to travel.* It's going to be a long time before people will be comfortable boarding a cruise ship. Even before COVID-19, ships were a breeding ground for disease, such as

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the norovirus. I was on a cruise in December and everywhere you turned there were hand sanitizers – and this was before anyone but a few doctors in China knew of the existence of the novel coronavirus. The images of helpless passengers stranded on infected cruise ships with ports refusing them entry will remain with us for a generation.

Airlines will struggle. Schedules will be cut back, and many planes grounded for some time. Business travel will drop as videoconferencing replaces face-to-face meetings and tourism will probably suffer as families apply any extra money to paying off debts incurred during the crisis.

The bottom line is that I would not buy any airline or cruise company stocks at this point, no matter how cheap they appear.

*Bigger government.* On a macro level, get used to big government. The COVID-19 crisis has revealed how much we depend on our elected officials to provide leadership – and money – in critical times. You won't hear any talk of balanced budgets for the foreseeable future.

I see three things happening.

The first is a permanent guaranteed minimum income. The Canadian Emergency Response Benefit will help

people survive financially until the crisis is over, but I don't think the support will stop then. Spain has already announced that its temporary income support plan will be made permanent. There's going to be a lot more talk about it here as we emerge from the crisis. The NDP is already on-side if the Liberals decide to push ahead with such a plan.

Second, governments are going to take a more proactive role in industrial policy. This crisis has ripped apart the fabric of globalization and has shown how vulnerable we are to the self-interest of other countries, notably the United States. We're not going the way of China in terms of a directed economy, but I expect to see more programs aimed at providing political and financial support to the creation of industries deemed essential to national security. Sadly, the pandemic and the policies of Donald Trump are making isolationists of us all.

Finally, the economy will need to be revived after the shutdown. What better way than through a national federal-provincial infrastructure program, aimed at creating jobs and rebuilding our decaying bridges, highways, and airports. A 21<sup>st</sup> century version of Franklin Roosevelt's New Deal, if you like. Of course, none of this will be cheap. Don't expect any tax cuts for years to come.



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All of these are quality companies. They all have rallied from their March lows – even Suncor, despite the profound shocks to the oil industry.

But are they bargains at current levels? Yes, in terms of where they were priced in February. No, in terms of where they are likely to go from here.

The stock market has been persistently optimistic in recent weeks. Investors seem to have taken the view that by 2021 the COVID-19 crisis and the resulting recession it has created will be fading away in the rear-view mirror.

I wish I could share their positivity. But a realistic look ahead suggests otherwise.

We are experiencing the worst economic downturn since the Great Depression. Many businesses, large and small, will not survive. On May 4, the clothing chain of J. Crew filed for bankruptcy. A few days later, Neiman Marcus went the same route. There is speculation other retailers, including giant J.C. Penney, won't be far behind.

Coronavirus lockdowns aren't the only problem the world economy is

facing. The U.S. administration is aggressively moving to decouple its economy from that of China, seeking to repatriate industrial production or at least have it shifted to more friendly countries. To achieve this, President Trump has threatened to further increase tariffs on Chinese imports. As I write, it appears the two countries have reached a truce. That's good news because any such action would inevitably will result in a continued fracturing of global supply chains, with negative consequences for international trade. The question is, given the President's mercurial nature, how long will it last?

We saw something similar during the Great Depression, with the passage of the Smoot-Hawley Act that raised tariffs on a wide range of U.S. imports. Most economists believe that move prolonged the depression by several years.

The Macdonald-Laurier Institute said in a recent report that its leading economic index (LEI) dropped by 1.7% in March, the largest single month decline ever recorded. The LEI is a tool designed to predict Canada's future economic growth and track changes within the

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business cycle. It is comprised of ten components, including new Employment Insurance claims, commodity prices, the stock market, and consumer sentiment.

“The speed and depth of this downturn is simply unparalleled,” said MLI Munk Senior Fellow Philip Cross. “Statistics Canada has already posted huge losses both in GDP and employment, and this LEI update suggests that the worst is yet to come for the economy.”

He went on: “The economy will not come roaring back; policy-makers should, at this point, abandon the dream of a ‘V-shaped recovery’ and should instead brace for a long and deep economic contraction that may curtail growth and productivity for years to come.

“The word ‘recession’ doesn’t fully capture how bad this situation really

is. This situation is closer to a freefall of sorts.”

Bond investors are thinking the same way. They don’t believe the economy is going to snap back any time soon. At the time of writing, they were willing to accept yields of 0.61% on 10-year Government of Canada bonds and 0.63% on U.S. Treasuries. That’s hardly a sign of confidence in the future.

If you need any further evidence that this is not yet the time to go bargain-hunting, check out Warren Buffett’s comments at the recent Berkshire Hathaway annual meeting. The company is sitting on US\$137 billion in cash and isn’t buying anything.

When the world’s greatest value investor thinks stock prices are still too high, that should be a warning for the rest of us. Hold off on the bargain-hunting for now.

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