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This update is provided by Independent Accountants' Investment Counsel Inc.

The End of the Beginning…

As New York's Governor Cuomo recently stated, we may be nearing "the end of the beginning" of our experience with the historic Covid-19 virus outbreak. We've passed through several stages of the "beginning" phase, including dawning awareness, growing concern, sudden realization of the potential impact, real and accelerating trauma, emergency actions (including social distancing and economic shutdown) to stem the tsunami, and, hopefully, a "flattening of the curve."

It feels as though, in many parts of the world, society is entering a temporary holding pattern as we slow down death rates, shore up our beleaguered health care systems, increase the availability and efficiency of testing tools and contact-tracing tools and search for effective anti-viral drugs and, eventually, a vaccine.

The markets, which often move slightly ahead of the economic curve, have regained about half of the losses incurred during the steady fall from February 20 to March 23. Investors are now waiting for more information that will provide clues about how long it will take for society and the global economy to begin the path forward to full recovery.

So, how do we as investors respond to a "holding pattern" if indeed that's where the markets are currently positioned? We start by acknowledging one fact that never changes no matter what the current circumstances: we cannot predict the future of world events or markets. We don't believe anyone can. However, in planning for the future, we can anticipate the three main possibilities: the markets will move forward slowly but steadily, they might perform much better than anticipated, or they might perform much worse than currently projected.

If we could predict with certainty that the markets will perform much better than the stock market is currently anticipating, we could, for example, overweight our favourite corporate stocks and wait 12 or 24 months to be congratulated for our unrivaled foresight as our predictions rang true. On the other hand, if we knew beyond doubt that the markets were going to fare badly for a long period of time, we could strategically extricate our clients from the marketplace and look like geniuses 24 months out – and appear smarter yet if we then knew exactly when to re-invest our clients' money back into the market. But since we don't believe anyone can predict the future, we view those types of strategies to be speculative. Investors who are fortunate enough to have "play money" available may very well adopt speculative strategies since they can afford to "lose big" with that portion of their wealth in the hopes of winning big. Most clients cannot or do not want to risk such losses.

Since we don't know what will happen in the future or when, we set up diversified portfolios for our clients that are consistent with their financial needs and risk tolerance. We then adopt a disciplined "buy and hold" strategy, adjusted incrementally on a regular basis to rebalance the client’s portfolio for imbalances caused by industry sector or security-type value fluctuations. In markets such as these, we also look closely for “bargain prices” of our favoured picks, where we see that the marketplace is significantly undervaluing a company that our analysis shows has a high probability of performing well over the long-term. Armed with our research, we will look for opportunities to take advantage of these bargains within the boundaries of our disciplined investment guidelines.

If the markets perform unexpectedly well, our clients’ portfolios will perform well – perhaps not as well as speculators who aggressively purchased stocks, but much better than those who had converted fully to cash. On the other hand, if the markets perform poorly for a considerable period of time, our portfolios will have provided clients with their cash needs and will likely be well-positioned for the eventual uptick in the markets that history tells us will be inevitable. In this “bearish” scenario, our portfolios would, in the short-term, have underperformed in comparison with speculators who had moved into cash positions (but how do they decide when to being re-investing in the market?) while outperforming the “bull market” speculator.

The length of the holding pattern we are entering will be dictated by how well the measures already taken are working to protect the people who provide those essential services, including, of course, health care providers, and how quickly we are able to develop tools and practices that will enable the general public to congregate together again at work and for social and cultural activity. We do not know how the future will unfold but believe our diversified and disciplined investment approach will help our clients weather the short-term crisis and meet their long-term financial objectives.

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