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Investment Update for Q1 of 2020

Wow what a difference 3 months can make in the markets! Coming off the end of 2019 investors had just experienced a very positive year with many experiencing double digit returns. Unfortunately, COVID 19 has reared its ugly head and caused complete havoc with global markets and with the global economy. With global equity markets all down around 20% in the first quarter, and some over 30% from their peak, we finally saw the end of the longest bull market on record. Some of the lowlights included:

1. The TSX suffered its worst monthly return since 1998.
2. The price of oil was down 66% in the first quarter and with that much of the energy sector has been severely impacted.
3. As mentioned, US markets ended their record long bull run with the fastest bear market fall on record.

The bull market has been completely forgotten now however as investors are now focused on what the future holds.

With most of the world still practicing social distancing, there is considerable economic uncertainty right now and many investors fear that the worst of the crisis could linger throughout Q2 and into the rest of 2020. On the other hand though, unprecedented action has been taken by central banks and by governments to try and step in and support the economy. We have yet to see the full impact of these policies as money is just now starting to flow, but investors are hopeful that this unprecedented amount of money will be enough to backstop the economy and allow it to recover without too much permanent damage being done. While we are being cautious throughout this crisis, we are also being cautiously optimistic as we know that a recovery will eventually materialize.

Oil markets globally have suffered through an unprecedented double whammy of problems in the first quarter. Just as the demand destruction caused by COVID 19 was starting to materialize, OPEC+ members failed to reach an agreement to cut production further which led to an all-out price war between Russia and Saudi Arabia, the two heavyweights of the cartel. This double whammy caused prices to drop 55% in one month and return to levels that haven't been seen since 2002. This huge drop in the price has led to severe pullbacks in the price of many energy stocks in Canada and around the world. In some cases, this meant that companies could be bought for approximately 1/10th the value of their assets. In addition, it's clear that the price war between producers cannot continue forever as it is completely unsustainable for everyone as evidenced by this chart from the Economist. We've already seen OPEC+ work out a deal to cut production early in the second quarter and we've also seen dramatic cuts to capital spending by

North American producers which will lead to lower production in the second half of the year. The market will eventually correct and go back to equilibrium but it could take more than a few months as the demand shock caused by the virus is really unprecedented. For those people with an investment time horizon of greater than a few months however, the opportunities are also unprecedented. We've maintained our position in Whitecap Resources despite the difficulties the industry is facing. Whitecap has the benefit of a relatively low production cost, a low decline rate on their production, a strong balance sheet, and price hedges for approximately 44% of their 2020 production which partially insulates them from the drop in prices. They did decide to cut their dividend in half which I think was only prudent given the drop in prices, but they are in a very strong position to come out of this crisis even stronger. Many of their competitors will likely not survive the crisis which should bode well for them in the future. We think we will be very happy to have maintained this position and even added to it at these lower prices.

We've benefited from the buildup of cash that we had leading into the end of 2019. As we mentioned in our last quarterly update, prices at the end of 2019 had left us with few opportunities except to stockpile cash and wait for better prices. We didn't think we would get an opportunity so quickly but nevertheless we're happy that we had the cash available to take advantage.

When crises like this occur, it can present phenomenal once in a lifetime opportunity for investors. When there is so much fear and panic in the markets, even really great businesses can trade at huge discounts to their fair intrinsic value. We've worked hard to try and identify these opportunities in order to take advantage of them. In addition, we've tried to stick to very high-quality businesses with extremely strong balance sheets that will have the financial strength and flexibility to whether these kinds of storms. These moves have already paid dividends as the market has rebounded slightly towards the end of the first quarter. But more importantly, we believe that the investments we made in the last three months will set us up for very strong returns over the long term, regardless of what happens in the rest of 2020.

Warren Buffett's famous quote is "be fearful when others are greedy and greedy when others are fearful". We went from being fearful at the end of last year to being quite greedy at points in the first three months of this year. While we recognize this can be a difficult time for all investors when they're watching the value of their portfolios go down, we are very excited about the opportunities available to us and will continue to look for those opportunities while remembering that our first priority at all times is to protect our clients principal so that you don't lose money.

Should you have any questions or concerns about your portfolio or about the topics discussed in this letter, please feel free to reach out to me.

- Craig White, *BA, LL.B., CIM®*

Craig White is an Investment Advisor at Endeavour Wealth Management with Industrial Alliance Securities Inc, an award-winning office as recognized by the Carson Group. Together with his partners he provides comprehensive wealth management planning for business owners, professionals and individual families.