

ODLUM BROWN REPORT

06 2020



From the entire Odlum Brown family, thank you to our heroes on the front line.



#OBGivesThanks

Hello everyone,

Amid all the up-and-down emotions of these last few challenging months, I have been experiencing one overriding feeling lately: gratitude. I am grateful for the health of my family, for my colleagues at Odlum Brown and for all of you, our valued clients. I am also grateful for the outstanding community we are fortunate to be a part of, and for all of the essential workers on the front lines of this crisis who are demonstrating enormous effort and personal sacrifice to keep us safe.

I suspected a lot of others at the firm were feeling the same way, and thus #OBGivesThanks was born. We invited our team members to share how they and their families are showing their appreciation for our frontline heroes – and they delivered. We received countless submissions capturing team members doing the 7 PM cheer on their balconies, kids' artwork hung in windows and even a heart mowed into one of our Traders' lawns! We showcase these images on our corporate website and social media to share our gratitude with the community.

#OBGivesThanks has also been a fun way to stay connected with one another and keep our culture strong while working remotely. If you know Odlum Brown, you know we are extremely proud of our corporate culture and that our people are what make us special. That's a big reason why we are distinguished nationally as one of Canada's Most Admired™ Corporate Cultures. Although we are physically separated right now, we have made it a priority to stay connected in other ways. One of our first initiatives back in late March was to share selfies from our home offices – and I have to say it was fun to see my usually polished colleagues in casual attire and in need of haircuts!

We have also stayed connected with the many community partners we support throughout BC. If you visit our social media pages, you can learn about how many of these organizations are adapting their initiatives to continue their important work virtually. Still other community partners have been forced to make the difficult decision to cancel or postpone events, and we look forward to being by their sides when they come back, bigger and better than ever!

As our province continues to flatten the curve and BC's Restart Plan comes into effect, know that we at Odlum Brown are engaged in thorough planning for a gradual and safe return to our physical premises. We look forward to that day in the future when we can welcome you back into our offices. Until then, #OBGivesThanks – to you, to each other and to the communities where we live and work.

Be well,



DEBRA HEWSON
President and Chief Executive Officer



ODLUM BROWN
Investing for Generations®

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Having digested the experience, this year's Berkshire meeting was one of the best we have had the pleasure to attend – or stream, in this case. Each year, we highlight the key takeaways, which are important in any market environment, but perhaps even more so today.

First, when the odds are not in your favour, create value by doing nothing. Second, the most powerful means of compounding returns is not to lose money in the first place. Finally, for those investors with a long-term horizon, holding high-quality companies should generate a reasonable return over time.



Homeschooling for Investors

Each year we look forward to the Berkshire Hathaway shareholder meeting. It's an opportunity to reset and come back to some stalwart investment principles. This year's meeting was unusual, to say the least. There was no pilgrimage to Omaha, no 6:00 AM lineup to get a decent seat and no Charlie Munger. Instead, we tuned in online to see Warren Buffett and Vice Chairman Greg Abel sit six feet apart in an empty convention centre.

The lead-up to the meeting was different too. As the market was plummeting in March, many wondered what Buffett was thinking. He was notably silent on the market decline and announced no plans to speak publicly until the Berkshire meeting in May. It seemed odd that he would shy away from the media during one of the fastest market selloffs in history, especially given his public appearances during the 2008/2009 Financial Crisis.

Dedicated Buffett followers recall October 16, 2008, with pride. That was the day he wrote an op-ed piece in *The New York Times* titled, "Buy American. I am." (This article highlighted his much-quoted philosophy, "Be greedy when others are fearful," which we discussed in last month's *Odium Brown Report*.)

It was a scary time back then. Financial market issues were spreading to the broader economy. People were anxious as unemployment shot higher and weaker business activity dominated the headlines. Sound familiar? Buffett's response to the doom and gloom, as his title suggested, was to buy U.S. stocks. Admittedly, he was early. The U.S. stock market continued to decline before bottoming on March 6, 2009. Still, it was an inspirational moment and one of several occasions where Buffett solidified his reputation as a dependable voice of reason. So, we waited with bated breath for the 2020 Berkshire meeting to glean more wisdom from the Oracle himself.

There was one hint prior to the meeting that Buffett's appetite for risk was less than enthusiastic. Charlie Munger noted in an April interview with the *Wall Street Journal* that "Warren wants to keep Berkshire safe for people who have 90% of their net worth invested in it. We're always going to be on the safe side."

Berkshire Hathaway always discloses quarterly earnings on the morning of its annual shareholder meeting. Investors who were expecting significant new equity investments or share repurchases woke up to disappointment. The results showed that Berkshire was relatively inactive in the quarter ending March 31. Action (or inaction) really does speak louder than words, and it was clear that Buffett was preserving capital rather than being greedy.

When the U.S. market took a nosedive in 2008/2009, Buffett was buying – so why not now? Warren Buffett is a master investor because he assesses opportunities in the context of probabilities. In other words, he considers what's *most likely* going to happen. And when those probabilities are in his favour, he takes bold action. When he talked at this year's meeting about the impacts of COVID-19 on the economy, he described the uncertainty as an extraordinary range of outcomes. It's a reasonable observation; any number of things could happen. Some savants are predicting a V-shaped (or similarly configured consonant) recovery, implying that we will be quick to return to "normal." But the truth is, nobody knows what happens next when global economies are nearly completely shut down. Not even the Oracle of Omaha.

To consider the future, Buffett turned to the past. He opened the meeting with a 60-minute review of American financial history. He noted how people were scarred for decades following the Great Depression and that many living in 1930 had no idea they were in the early days of tougher times ahead. While he emphasized the long-term resiliency of the United States, his tone was unmistakably cautious.

What lies ahead for the economy in general is unknown, but Buffett did speak specifically about some of Berkshire's holdings and how the pandemic is affecting them.

Insurance

Berkshire does not expect to incur any COVID-19-related insurance losses. While litigation is likely to be a concern in the industry going forward, Berkshire's primary exposure is to auto insurance, which is actually benefitting from the current situation. As people are driving less, claims are also declining. Overall, Berkshire shareholders should rest easy knowing that the company has a long history of conservative insurance accounting.

Airlines

Adding to the defensive and cautious tone of the meeting was news that Berkshire Hathaway sold its airline investments. In 2016, the company bought shares in the four largest U.S. airlines: American, Delta, Southwest and United Continental. Berkshire paid roughly \$7.5 billion for a 10% stake in each company, and sold the positions in April 2020 for \$6.5 billion.

Buffett's sell discipline is impressive. His thinking around the airline business is also instructive. While he doesn't know what the airline businesses will look like in three to five years, he is realistic enough to appreciate that the equity in those businesses can be wiped out entirely if the travel industry is slow to come back. The opportunity to compound wealth quickly disappears when money is lost. Buffett's willingness to change his mind when the facts change is no easy task and sets him apart from others. It's a trait all investors should embrace and emulate.

Share Buybacks

Buffett's comments on share repurchases underscored the notion of safety over risk. He said, "I don't feel that it's far more compelling to buy Berkshire shares now than I would have felt three months, or six months, or nine months ago." Buffett went further, essentially saying that Berkshire shares appear less attractive than the option value of money. He is clearly comfortable holding onto Berkshire's \$137 billion in cash.

Succession

Also on stage was Berkshire's Vice Chairman of Non-Insurance Operations, Greg Abel. While Charlie is irreplaceable, we were impressed with Abel's commentary. Like Charlie, his candor was refreshing. And, he's Canadian, eh! In terms of succession, we would be quite comfortable if Abel took over management of the company.

Reflections

Having digested the experience, this year's Berkshire meeting was one of the best we have had the pleasure to attend – or stream, in this case. Each year, we highlight the key takeaways, which are important in any market environment, but perhaps even more so today.

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STEVEN ZICHERMAN, MBA, CFA

Equity Analyst

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Life Happens™ and That's Why There is Life Insurance

Every day, we protect ourselves and our loved ones in various ways as we go about our day-to-day activities, and yet life can take a sudden turn at any time. If you have recently updated or are considering updating your will and estate plan, it may also be time to review your life insurance coverage.

Who should consider life insurance? If your family members would need financial support after you die or if they would be negatively impacted by paying your last expenses and outstanding debts, then you may need life insurance. The following are a few of the different reasons why people purchase life insurance, who it can benefit and who it can protect.

Individuals Most people who are single believe that they do not require life insurance because no one is financially dependent on them; however, there are some exceptions. For example, some individuals may support elderly parents, while others may carry large amounts of debt, such as student, business or family loans. An additional reason to purchase insurance early is the cost savings from buying coverage at a younger age.

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Married or common-law couples Today, many couples need both incomes to maintain their standard of living, to meet ongoing expenses and to reach their long-term financial goals. A common issue young couples face is not having adequate protection on the outstanding mortgage of their family home. Owning your own life insurance policy often provides more flexibility and lower costs versus buying creditor mortgage insurance from a lender such as a bank.

Couples planning to have children While many couples wait until they have children to consider their life insurance needs, it is important to note that changes in your overall health may affect your eligibility to purchase coverage in the future. For example, many companies will not offer women preferred rates during pregnancy. By putting off this important foundation of financial planning, many young parents can be exposed to unnecessary risks because they have not had sufficient time to build the wealth needed to withstand the loss of a partner.

Stay-at-home parents The roles performed by a stay-at-home parent can vary from an academic advisor and dietitian to an event planner, nurse and program manager. It has been estimated that a stay-at-home parent's role, based on the work that he or she does on average, is worth an annual "salary" of \$162,581.¹ Yet many families with a stay-at-home parent do not have adequate financial protection to cover the added expenses they would face in the event of the loss of this extremely important family member.

Single parents It is often easy to overlook the importance of having insurance coverage as a single parent. As the primary caregiver and income earner of the family, it is important to review your insurance needs to ensure adequate coverage for your family's financial future. In addition to life insurance, obtaining insurance products to provide income protection in the event of a disability or critical illness is also extremely important, particularly for single parents when there is no secondary income to fall back on.

Retirees Retirement portfolios can be strained or depleted faster than expected in the event of unforeseen health care costs, long-term care expenses or even premature death. The end result may mean the surviving spouse needs additional capital to supplement their ongoing retirement income, future care or medical costs. Other issues to consider are certain types of retirement income, such as Old Age Security, Canada Pension Plan or private pension benefits, which may be greatly reduced or lost when one's partner passes on. Life insurance can guarantee a source of tax-free funds, without delay or the need for probate, to replace lost government benefits or pension income.

Business owners In addition to the various concerns mentioned above, many business owners have additional insurance needs, such as key person insurance, business loan protection, buy-sell funding or funding capital gains tax on a business upon death. Business owners have unique circumstances that need to be carefully reviewed to avoid double or even triple taxation on death.

The fact is, most people need life insurance. As you move through the different stages in your life, your insurance needs will change. Life insurance should serve as the foundation of a family's financial security and be an integral part of any financial plan. Regardless of your age, marital status or whether you have children, take a moment to consider how life insurance might fit into your financial plans.

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¹ "Moms: we know you're worth it." Salary.com, 2018, salary.com/articles/stay-at-home-mom

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