

# ODLUM BROWN REPORT

## 05 2020



**ODLUM BROWN**  
Investing for Generations®

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Odlum Brown Limited



Odlum Brown Community



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## A Message from Our President and CEO

Hello everyone,

I hope you and your loved ones have been keeping well since my last message and getting what you need to stay safe and take care of one another.

I don't need to tell you what an unusual time we are living through. With simultaneous health and economic crises turning our world upside down, this is uncharted territory for all of us. It's almost impossible to believe how much things have changed in such a short time, and it's a lot to deal with; that's why I want to stay connected to all of you.

As you know, Odlum Brown is fully operational, and we are doing everything necessary to take care of our team and our clients. I am so proud of the resilience and creative energy our team has displayed in adapting to this "new normal." As I write this in April, most of our team members are working from home, but there are still a few of us left at the office, and it's awfully quiet. I'm sure that's not the case for those of you with kids now attending school virtually, or with your whole family suddenly working from home!

I want you to know that regardless of where we are working, we are all available to help you navigate these turbulent times. Odlum Brown is a strong, independently owned and well-established company. We have been proudly serving our clients for close to a century. You can be assured that we are ready and able to face the current challenges with you, regardless of how long they persist.

I am confident that we will weather this storm as we always have – by working alongside our clients and our colleagues and helping each other through. I want to thank all of you for doing your part to help our community through this difficult time, whether you are one of our heroes on the front lines of this crisis, or even just practicing physical distancing to help our community flatten the curve.

I look forward to the time when we can welcome you back into our offices and see you in person. Until then, please know that we are here for you.

Keep well,



**DEBRA HEWSON**

President and Chief Executive Officer

## Be Fearful When Many Quote Buffett

**The COVID-19 health crisis was indeed an unexpected black swan event that triggered simultaneous credit and economic crises, as governments worldwide locked down their economies. To add insult to injury, Saudi Arabia intensified the world's financial woes by boosting oil production, pummeling oil prices in an attempt to drive higher-cost, financially leveraged oil producers out of business. The International Monetary Fund (IMF) has declared the current economic downturn the worst since the Great Depression.**

Markets reacted swiftly to the calamity, with the broadly based U.S. S&P 500 Index experiencing its steepest and fastest decline on record – down 35% in just 33 days.

Fortunately, governments and central banks reacted in record time as well. The massive monetary and fiscal support programs they enacted brought new meaning to "whatever it takes" and have virtually eliminated the risk of a depression.

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## BC Children's Hospital Foundation – Jean Up May 2020 Throughout BC

**This May, the BC Children's Hospital Foundation is on a mission to help kids get out of their hospital gowns and back into their jeans. This year's Jean Up initiative will be fully digital, making it easier than ever to participate and promoting a sense of togetherness during a time of physical distancing.**

**Odlum Brown is proud to be the School Match Sponsor of Jean Up, matching all donations made through schools' fundraising pages throughout the month of May.**

**Support for this month-long initiative will fund everything from innovative research and equipment to specialized care that's tailored to the unique needs of kids. For more information, visit [jeanup.ca](http://jeanup.ca).**

**Odlum Brown would like to thank the health care providers who continue to ensure kids and families get the specialized care they need during these difficult times.**

\*The Odlum Brown Model Portfolio is an all-equity portfolio that was established by the Odlum Brown Equity Research Department on December 15, 1994, with a hypothetical investment of \$250,000. It showcases how we believe individual security recommendations may be used within the context of a client portfolio. The Model also provides a basis with which to measure the quality of our advice and the effectiveness of our disciplined investment strategy. Trades are made using the closing price on the day a change is announced. Performance figures do not include any allowance for fees. Past performance is not indicative of future performance.

Investors were impressed, and the equity correction came to an abrupt halt. Stocks staged their briskest recovery since 1974. By mid-April, the S&P 500 Index was down just 13% for the year to date (less than 6% in Canadian dollar terms). Over the same timeframe, Canada's equity benchmark, the S&P/TSX Composite Index, was down 17%.

Remarkably, the Odlum Brown Model Portfolio\* was down approximately 10% for the same period, buoyed by our cash, gold and meaningful exposure to high-quality U.S. businesses. While all losses are disappointing, being down only 10% in the face of the worst economic shock since the Great Depression seems too good to be true, or perhaps too good to last.

No two economic crises are ever the same, although they often rhyme with those that have passed. While the speed and magnitude of the recent stock market drop is reminiscent of the 1987 crash, and the shock to the airline industry reminds us of the fallout from the 9/11 terrorist attacks, the present situation doesn't really compare to any cycle in the last 80 years.

Aside from the suddenness and magnitude, the most striking difference between this stock market setback and any other we have experienced (or even studied) is investors' relative complacency. Indeed, we have had more clients excited to make opportunistic purchases than we would have expected under these circumstances. Investors are normally more fearful during a crisis.

Never before have we heard more market commentators quote Warren Buffett's famous line, "Be greedy when others are fearful." We've used the line often ourselves in past corrections, but it hardly seems appropriate today when so many investors are upbeat about the prospect of making money.

Please don't take the title of this note literally. We don't really think it's a time to be fearful and make dramatic changes to our investment posture. We are cautious, not fearful. After all, the outlook is considerably better than it was just a few weeks ago. COVID-19 curves are flattening around the world; governments and the private sector are working vigorously on treatment options and vaccines; the U.S. Federal Reserve and other central banks are injecting massive amounts of liquidity into their financial systems; and sizable financial support programs are being rolled out to individuals and businesses.

Nonetheless, there are reasons to question whether investors are too upbeat and not being realistic regarding the scope and scale of the challenges ahead. The world's current problems are a lot more complicated than the issues we faced in the 2008/09 Financial Crisis. While the collective response of governments around the world has been huge, we wonder if it will be effective. Socially, we are more divided than we have been in decades, and it's impeding our ability to work together to fight a common threat. The approach thus far has been piecemeal when a globally coordinated, comprehensive plan is warranted. America could be orchestrating the effort, and instead they have suspended support for the World Health Organization. The lack of global leadership and coordination is notable, and disturbing.

There is a lot of pressure on politicians to restart their economies, but there could be a relapse if this happens too soon. Increased social unrest is also a concern. It's uncertain whether stocks are discounting these risks.

Individual and corporate balance sheets were stretched heading into the crisis, and they will be worse on the other side. An era of private sector deleveraging, where everyone focuses on paying down debt, is likely to follow, and could create troublesome deflationary pressures. Economists call the phenomenon the Paradox of Thrift. It's good to save individually, but paradoxically bad for society when we all do it at once, because one person's increased savings is a reduction in another person's (or business's) income. It's unclear whether all the government money printing, bond buying and increased spending will keep deflationary forces at bay, or if these policies will prove to be excessive and cause undue inflation. Regardless, bigger governments, bigger deficits and higher taxes are likely going to be realities for years to come.

While there are many reasons to be hopeful for a brighter future, it's also prudent to plan for the possibility that the recovery will be long and bumpy. Quality and balance matter more than ever, and investors should be thinking about the trade-off between protection and growth of capital. We'd rather risk being too conservative and wrong than too aggressive and wrong, as it's much harder to recover from the latter. Consequently, we have a defensive posture in the Odlum Brown Model Portfolio, with an elevated level of cash and a decent amount of gold, together with a collection of very high-quality businesses that we are confident will survive and thrive. Beyond our equity Model, investors should consider a more conservative overall asset mix of stocks and fixed income securities.

While Warren Buffett has been notably quiet since the crisis intensified, his right-hand man, Berkshire Hathaway's Vice-Chairman Charlie Munger, recently made it clear to a *Wall Street Journal* writer that it is a time for caution rather than action. We agree.

Stay safe, everyone.



**MURRAY LEITH, CFA**  
Executive Vice President and Director, Investment Research  
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# Canada's COVID-19 Economic Response Plan Highlights

**The information that follows was available as of April 23, 2020. Changes may have occurred since we went to publication.**

While governments across Canada have announced measures to help alleviate the economic fallout from COVID-19 on individuals, families, businesses and industries, the furthest-reaching initiatives have been announced in Canada's COVID-19 Economic Response Plan (ERP). The information below summarizes several key components of the COVID-19 ERP as we currently understand it. The plan can be viewed online in its entirety on the Department of Finance Canada's website.<sup>1</sup>

Federal COVID-19 Economic Response Plan Measures	
Initiatives	
Support for Individuals and Families	<b>People facing unemployment</b> <ul style="list-style-type: none"> <li>Canada Emergency Response Benefit (CERB)<sup>2</sup></li> <li>Employment Insurance (EI)</li> </ul>
	<b>People who are sick, quarantined or directed to self-isolate</b> <ul style="list-style-type: none"> <li>CERB</li> <li>Improved access to EI sickness benefits</li> </ul>
	<b>People who are unable to work</b> <ul style="list-style-type: none"> <li>CERB</li> <li>Canada Emergency Student Benefit (CESB)<sup>3</sup></li> </ul>
	<b>Individuals and families</b> <ul style="list-style-type: none"> <li>Extra time to file income tax returns and pay amounts owing</li> <li>Increasing the Canada Child Benefit (CCB)</li> <li>Mortgage support</li> <li>Special GST credit one-time payment</li> </ul>
	<b>Seniors</b> <ul style="list-style-type: none"> <li>Reduced minimum withdrawals from Registered Retirement Income Funds (RRIFs)</li> </ul>
Support for Businesses	<b>Supporting self-employed individuals</b> <ul style="list-style-type: none"> <li>CERB</li> <li>EI special benefits for the self-employed</li> </ul>
	<b>Avoiding layoffs and rehiring employees</b> <ul style="list-style-type: none"> <li>Extending the Work-Sharing program<sup>4</sup></li> <li>Temporary changes to Canada Summer Jobs program</li> <li>Canada Emergency Wage Subsidy (CEWS)<sup>5</sup></li> </ul>
	<b>Reduced and deferred payments</b> <ul style="list-style-type: none"> <li>More time to pay income taxes</li> <li>Deferral of Sales Tax Remittance and Customs Duty Payments until June</li> </ul>
	<b>Access to credit</b> <ul style="list-style-type: none"> <li>Establishing a Business Credit Availability Program<sup>6</sup></li> <li>Canada Emergency Business Account<sup>7</sup></li> <li>Canada Emergency Commercial Rent Assistance (CECRA)<sup>8</sup></li> </ul>
<b>Supporting financial stability</b> <ul style="list-style-type: none"> <li>Launching an Insured Mortgage Purchase Program</li> </ul>	

## Measures for Individuals/Families

**Canada Emergency Response Benefit (CERB)<sup>2</sup>** CERB is a taxable temporary income support of \$500 per week for up to 16 weeks (March 15 until October 3) if you are eligible for or exhausted your Employment Insurance (EI) regular or sickness benefits during the eligible period, or stopped working on or after March 15 for reasons related to COVID-19. Applicants must not have earned

more than \$1,000 of employment or self-employment income (including tips, honoraria, royalties and non-eligible dividends) for at least 14 consecutive days in the initial four-week period; for subsequent claims, the income limit applies to the entire four-week benefit period. You may be ineligible for CERB if you had less than \$5,000 of employment or self-employment income in 2019 or in the 12 months before applying.

**Employment Insurance (EI) changes** Your claim will be automatically processed through the CERB program if you become eligible for EI regular or sickness benefits after March 14; a medical certificate is also no longer required. The one-week waiting period is waived if you claim sickness benefits after March 14. If your EI benefits started before March 15 (including regular, maternity, parental, sickness or other benefits), you can apply for CERB once EI benefits end, if eligible. The EI Work-Sharing program<sup>4</sup> has also been made more flexible for employers and employees who reduce normal working hours to share available work.

**Canada Emergency Student Benefit (CESB)<sup>3</sup>** CESB will provide a monthly benefit of \$1,250 from May through August 2020 to eligible post-secondary students (\$1,750 if they have a dependent or permanent disability). Similar to CERB, students may also earn up to \$1,000 per month from work.

**More time to file and pay income taxes** In our *April Odium Brown Report*, we provided a summary of extensions to income tax filing and payment deadlines for individuals and businesses, including the self-employed.

**Reduced 2020 Registered Retirement Income Fund (RRIF) minimum withdrawals** The required minimum RRIF withdrawal will be reduced by 25% in 2020 to provide flexibility to seniors who are concerned about volatile market conditions when liquidating RRIF assets to meet minimum withdrawal requirements. The reduction is optional, and any excess amounts withdrawn may not be recontributed.

## Business Measures

**Canada Summer Jobs program** Private and public sector employers can receive increased wage subsidies of up to 100% of the minimum hourly wage, with flexibility to hire part-time staff, adapt projects and job activities, and extend employment to February 28, 2021.

**Wage subsidy programs** A business wage subsidy of up to 10% of an employee's wages (from March 18 to June 19), up to a maximum of \$1,375 per employee and \$25,000 per employer, is available to eligible employers (certain individuals, partnerships, non-profits, registered charities and Canadian-controlled private corporations). The subsidy reduces income tax withheld on employees' remuneration, but not EI or Canada Pension Plan (CPP) remittances.

Canada Emergency Wage Subsidy (CEWS)<sup>5</sup> is a separate 12-week program from March 15 to June 6 to support employers of all sizes across all sectors; it can cover 75% of an employee's wages, up to \$847 per week. Qualifying employers

*Continued on next page*

must have suffered a drop in gross revenues (at least 15% in March; 30% in April and May 2020); however, employers eligible in one period will automatically qualify in a subsequent period. Non-arm's-length employees may qualify.

A CEWS-eligible employer can also receive a 100% refund of certain employer contributions to EI and CPP with respect to employees on leave with pay.

**Establishing a Business Credit Availability Program (BCAP)<sup>6</sup>** The BCAP is offering \$40 billion of additional support for small and medium-sized enterprises through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC). Both programs support term loans of up to \$6.25 million through financial institutions. While BDC offers co-lending, EDC offers loan guarantees.

**Canada Emergency Business Account (CEBA)<sup>7</sup>** The new CEBA rolled out with financial institutions provides interest-free loans of up to \$40,000 to small businesses and not-for-profits to help cover their operating costs during a period where their revenues have been temporarily reduced. To qualify, organizations need to have paid between \$20,000 and \$1.5 million in total payroll in 2019.

**Canada Emergency Commercial Rent Assistance (CECRA)<sup>8</sup>** The CECRA will be implemented in partnership with provincial governments to provide loans, including forgivable loans, to commercial property owners who in turn will lower or forgo the rent of small businesses for the months of April (retroactive), May and June.

### Other Tax Measures

In addition, Canadian taxpayers may consider the following programs.

**Canada Training Credit** Taxpayers age 25 to 65 who are Canadian residents throughout the taxation year and earn \$10,000 to \$147,667 (as of 2019) through employment or self-employment can accumulate amounts available as a refundable tax credit for training or education costs. The maximum available claim for 2020 is \$250.

**More time to pay provincial taxes** BC has extended filing and payment deadlines until September 30, 2020, for Employer Health Tax returns and Sales Tax (including provincial sales tax, carbon tax, motor fuel tax and tobacco tax).

**BC Emergency Benefit for Workers** This measure provides a non-taxable one-time \$1,000 payment to BC residents who receive EI or CERB because of COVID-19.

**BC Temporary Rental Supplement** Renters experiencing financial hardship due to COVID-19 can apply to BC Housing for a rent supplement of up to \$500 per month, for up to three months, paid directly to the landlord. The tenant is responsible for paying the difference between the benefit and their rent.

Federal and provincial government responses to the economic hardships related to COVID-19 are constantly evolving. Odium Brown Financial Services Limited is committed to keeping Odium Brown clients informed and updated on the latest changes. Please visit the Client Financial Planning Centre within the Client Centre at [odlumbrown.com](http://odlumbrown.com) for updates on COVID-19 economic measures, or speak with your Odium Brown Investment Advisor or Portfolio Manager.



**HEATHER RIVERS, BA, CFP®, FMA**  
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1 [canada.ca/en/departement-finance/economic-response-plan.html](http://canada.ca/en/departement-finance/economic-response-plan.html)

2 [canada.ca/en/services/benefits/ei/cewb-application/questions.html](http://canada.ca/en/services/benefits/ei/cewb-application/questions.html)

3 [canada.ca/en/departement-finance/news/2020/04/support-for-students-and-recent-graduates-impacted-by-covid-19.html](http://canada.ca/en/departement-finance/news/2020/04/support-for-students-and-recent-graduates-impacted-by-covid-19.html)

4 [canada.ca/en/employment-social-development/services/work-sharing.html](http://canada.ca/en/employment-social-development/services/work-sharing.html)

5 [canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html](http://canada.ca/en/revenue-agency/services/subsidy/emergency-wage-subsidy.html)

6 [canada.ca/en/departement-finance/programs/financial-sector-policy/business-credit-availability-program.html](http://canada.ca/en/departement-finance/programs/financial-sector-policy/business-credit-availability-program.html)

7 [ceba-cuec.ca/](http://ceba-cuec.ca/)

8 [pm.gc.ca/en/news/news-releases/2020/04/16/prime-minister-announces-additional-support-small-businesses](http://pm.gc.ca/en/news/news-releases/2020/04/16/prime-minister-announces-additional-support-small-businesses)

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