

July 24, 2020

To All Our Valued Clients

Our last newsletter was almost two months ago, on April 23, 2020. At that time the Toronto Stock exchange was at 14,251 points. At the writing of this article, it is at 15,654 points, which represents an increase of almost 10% in just two months. It is amazing how quickly things can change in the markets. In February of this year, the markets were crashing as economies around the world were forced to shut down due to the COVID 19 pandemic. Central banks around the world reacted quickly, pumping trillions of dollars into the financial system to prevent it from collapsing. It seemed to have worked. While not quite a 'V' shaped recovery, the markets did come back quickly.

So questions are being asked, is that it, is it over, will things be back to normal soon? The simple answer is 'we don't know'. In the short term, what happens with the virus and world economies is anyone's guess. What we can say with a reasonable amount of certainty is that eventually (one, two, three years?) the world will have a vaccine for COVID and economies around the globe will return to some semblance of normalcy. What that will look like is unknown at this time, but we will all still need to buy toilet paper, use banks and phones, gas for vehicles and groceries. We may have to wear a mask when we fly, but people will still travel by air. The point is that world economies will still be functioning.

Does this mean that every business will survive this pandemic? No. Some companies have gone broke and some others may go broke in the near future. Stronger firms will buy bankrupt and weaker firms, and end up because of it. That is how capitalism works: strong companies survive and weaker firms die out.

One question we get from Trustees is 'what do we do to protect our money?' The short answer is "nothing". Trusts are usually around for several decades. If the trust has an appropriate Investment Policy Statement that dictates proper diversification, the portfolio will weather this storm. One of the huge advantages the trust has is the assets are diversified across different securities in different industries and different countries (basically not putting all your eggs in one basket). This means that a disaster in any one company cannot do a large amount of damage to the trust.



Another advantage the trusts have is that all the trusts we administer have their money managed by professional investment managers. Their job is to buy quality companies, with strong management and low debt that sell quality products. These are the types of companies that will survive the pandemic and continue to do well in the future.

The final, and probably biggest, advantage that trusts have is that they are around for a long time. The markets go up and down over time, but mostly they go up. With their long time frame, this allows trusts to ride out the rough times (like the credit crisis of 2008 and the pandemic we are now facing) and enjoy the good times. This allows the trust assets, and the annual income they produce, to grow over time.

Best Wishes,

Peace Hills Trust Company

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