RAYMOND JAMES | CHRIS RAPER & ASSOCIATES

Chris & Ryan's Timely Market Dispatch

A New Ball Game: Let's Not Squander the Opportunity – March 27, 2020

The purpose of this missive is threefold:

1. To recognize that the investment world post-COVID-19 will be substantially different from the pre-COVID-19 era we are leaving.
2. To give you some historical perspective on waterfall stock market declines and the general pattern for the months thereafter.
3. To inform you what we have been doing in our main program, **The Dividend Value Discipline™**, to both protect you and ensure that we have enough dry powder to take advantage of the bull market which will undoubtedly follow the current bear market we are in.

In terms of market context, it can only be characterized as extreme. Monday saw the S&P 500 index hit a new low of 2,196, falling some 4.7% in a single day. Tuesday, Wednesday and Thursday were all big up days and by close Thursday, the market had rallied ~20% off the bottom. It felt like the summer of 2008 all over again. Thankfully, I learned a few things through that period, so please read on as I share them.

Chart courtesy of StockCharts.com

Pre-Corona versus Post-Corona

First up, our hearts go out to all who are suffering economically (we all are), but especially to those who are ill and/or who have loved ones that are ill and/or have passed. We are already hearing stories and they certainly won't be the last. I am grateful to those readers who have reached out to us, kept us in your prayers, and the many people who have stepped up to help their neighbours and communities, financially and otherwise. I commit to do likewise and have been doing so. My most common prayer these days is for wisdom for the decisions I must make every day.

Turning to those decisions, we obviously have a major economic disruption on our hands and the first thing to recognize is that the economic drivers going forward are going to be different from the past. This happens with every major economic collapse and yes, we are now in a recession – it just isn't official yet. As we look to the future, one of the bright sides of this story is that we are all learning to live and work in a remote/wireless world. This will drive a tremendous growth in productivity and will fundamentally change the way we do work and the employee/employer relationship for the better. There will be winners and losers. On the downside and turning to stocks specifically, there will be many previously sound value propositions that turn into poor value propositions, virtually overnight. Burying our head in the sand will not change that. One such example is our previously held MTY Food Group. In the span of a month, it went from: a great culture, great business strategy, with reasonable debt levels and big tailwinds to: a great culture, the worst of business strategies, too much debt and not enough cash flow. In other words, possibly insurmountable headwinds. We sold and took our lumps. Conversely, a recent acquisition, Steris plc., which supplies sterilized medical supplies and services was added because we are going to go through a multi-year secular spend in healthcare and we had already done our due diligence on the company pre-corona. All of this to say, there are some difficult decisions to make and we are, and will continue to make them.

Historical Perspectives on Waterfall Stock Market Declines

Declines like we saw last week do not happen often – it was the worst week since 1933, whereas this week has been the best week since 1933. History isn't necessarily indicative of the future but in our view, it is all we have and we remain steadfast in that yes, it is different this time (it always is) but the way we humans react in the whole, changes very little from crisis to crisis. So how do the markets typically react after such a decline? Yes, a snap back rally is normal, much like we have seen this week. In the ensuing months, not weeks, there is a lot of back and forth and we often see another new low as investors look for the business models that will prosper in the new era. You saw this happen between the low of October 2008 and the March 2009 bottom. Six months doesn't seem very long a decade ago but when you are in it, it seems like eternity. All of this to say, it is going to be a tough six months mentally and emotionally and we need to prepare ourselves now to get through it.

Not Squandering the Opportunity

Having been through what seems like one too many bear markets in the past, and having made my fair share of mistakes, here is what I know (or at least, believe I know): A move to all cash will not serve us well. Nor can we hold the same stocks in the same weightings in the pre-post environments. Some business models are now broken and some business models have never looked better. Accordingly, we need to sell the former on rallies like we have had this week and accumulate the latter on the down days in the weeks and months to come. At the granular level, we have raised cash all week from those companies where we deem the business models to be most at risk; we now have a healthy cash build up for the weeks and months to come.

To close, again, thank you for all of your support and the encouraging calls and notes you send. The team and I truly appreciate it. In the spirit of weekend humor, please subscribe to our family dog, Finnegan's daily perspective "how we are coping in isolation", courtesy of our daughter Brittany.

Please forward this along to your family/friends if you believe we can help them and/or they can subscribe to these missives at http://www.chrisraper.com/contact-us.aspx.

Take care of yourselves and be safe, please.

Yours truly,

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