Opening Balance (November 1, 2019): $500,000

Ending Balance (April 30, 2020): $324,073

Performance Since Inception: -35.19%

April Commentary

There were no trades executed in the month of April. We were pleased to see that the account recovered somewhat from the end of March; however we are not confident that a broad market rally will continue.

It is the collective belief of the Investment Committee that we are (if I may use a baseball metaphor) in the first inning of this game. We believe that it will be a very long time before the economy recovers to where it was this past January – and if you recall, at that time we were concerned about valuations.

We have already seen unprecedented fiscal and monetary stimulus. It seems to us that there is little more that the Bank of Canada and Federal Reserve can do. Short-term interest rates will be at zero percent for a very, very long time. That means there will be massive fiscal stimulus, the only possible political response to keep the economy afloat. In the wake of this, there will be inflation, which is, essentially, a drag on everyone's real standard of living.

The basics of life are going to get more expensive. The collapse of oil prices has a strong anti-inflationary impact in the short run. However, at some point oil prices will firm, and then likely rally higher. (Even given the demand destruction that we will be witnessing.) We expect that necessities will become more expensive, and consumers to become much more cost-conscious. It will be difficult for producers to pass along price increases, which will depress corporate profitability. It will take a very long time – years if not a decade – for the consumer to come back… for a variety of reasons.

First, there is the employment picture. We do not see a V-shaped recovery in the labour markets… does anyone really believe that the airline industry is going to bounce back any time soon? Yes, over time resources will move to where opportunities lie, but it will be a long, drawn out process. Many businesses and individuals will have to declare personal bankruptcy along the way, destroying their ability to access credit in the future. We would not be surprised to see a great deal of regulation and legislation coming out of this: Is it beyond the realm of possibility that, for example, credit card companies will see limits on the interest they can charge? Bottom line: We don't see the consumer "bouncing back" any time soon.

So what are the investment implications? We are nervous about retail; however the companies we own: The Gap and Foot Locker, are not high end. People still need clothes and shoes and as weaker competitors fall by the wayside, more business will go to the survivors. US Steel and Alcoa will benefit from the infrastructure spending we see coming in advance of the 2020 Presidential Election. Senior citizens will still need a place to live, and Ventas with its solid balance sheet and diversified real estate portfolio, should be able to weather this storm. Kraft Heinz has seen its business benefit from more people staying at home and eating in.

When we formed this Investment Club, I and the Investment Committee – all CFA Charterholders – agreed that we would make our investment decisions based on fundamental analysis and discounted cash flow. Given the uncertainties faced right now, we will continue to monitor the economy and deploy our remaining capital (and we have a lot) when we feel that the time is right.