

Fastest Correction in History

At the risk of overstating the obvious, the month of February was challenging both psychologically and financially for investors.

As the spread of the Covid-19 virus escalated globally, fear and uncertainty took hold of the markets resulting in the fastest correction of U.S. and Canadian stocks in history.

After peaking near all-time highs somewhere close to the middle of the previous week, by market close on Friday February 28th, the S&P TSX composite Index, representing Canadian stocks, was down overall on the month by approximately 6 percent, while losses on the major U.S. indices ranged between 7 and 12 percent. Likewise, all major North American indexes were negative for the year, with losses of between 5 and 11 percent.

Buy the Rumor

The first trading day of March saw significant bounces across the board with as much upside volatility as we had seen to the downside the previous week. While there was no real evidence that the spread of the virus had been contained, there were several considerations supporting the probability of what is typically referred to as a relief rally.

As markets around the world continued to sell, investors began to expect a coordinated effort

amongst G7 leaders to offer some relief in the way of interest rate adjustments. Part of this was the expectation that the U.S. Federal Reserve was likely to offer a 50 to 75 basis point cut.

With the markets largely oversold, short sellers sufficiently profitable and looking to buy to cover their positions and in a typical buy the rumor fashion, the market snapped back in a combination of short covering, and a rush to buy the dip in fear of missing out.

Sell the News

As it would turn out, the G7 would take no action, offering only a promise that they stand ready to support if necessary. While, the U.S. Federal Reserve implemented the anticipated 50 basis point emergency rate cut, this move promptly facilitated a market sell off. Investors “sold the news”, taking the half-point cut as evidence that the situation was worse than anticipated and that these measures would do little to shore up the economy.

At the time of writing (March 5th), North American markets have once again rallied off their lows and then fallen back, as the roller coaster ride of uncertainty continues. Has the market found a bottom? We don't believe so.

Expect the Unexpected

Our major focus to date has been tracking the



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growth and spread of the Covid-19 virus and trying to make sense of the unlimited number of headlines and statistics.

The degree of impact to the global economy can't truly be assessed until there is evidence that things are under control. Until we finally see evidence of decreasing cases around the world, there is room for more surprises and further market downside.

So how have we been managing through this? As we highlighted in last month's video, we were positioned defensively into this sell off, holding cash and with hedges in place.

As the selling escalated, we continued to adjust our portfolios, closing out some positions and tactically adding to others that we feel are solid companies simply caught up in the widespread selling. We also continue to hold cash while adjusting and increasing the downside protection.

During periods of economic and financial market uncertainty, stocks can swing wildly in either direction, and it can be challenging to cut through the day-to-day noise. That said, based on our assessment of the current situation, continued defensiveness is warranted, and we are fortunate to be able to use sophisticated option strategies to help support our efforts as market conditions change and new information is considered. Moving forward, our focus is to continue to

manage the downside risk first while watching for signs of a potential turnaround. This much-needed correction means there will be some fantastic opportunities as markets stabilize. We encourage our investors to remain focused with us on the long-term as we actively manage through this current market volatility.

In closing, we'd like to once again express our concern and consideration for those impacted by the Covid-19 outbreak. While we hope that this will be brought under control in a timely fashion, we remain prepared and equipped to protect and preserve your investments as we manage through any further challenges that may come our way.

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