



UPPER CANADA CAPITAL

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Coronavirus, Cannabis and the US Election – Our Thoughts

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With a lot going on in the world today, we feel it is important to periodically chime in and share our thoughts on the potential impact of news events on global markets and ultimately your finances.

It is important to note that over the years a wide variety of news events come and go and the stock markets of the world shrug it off and march higher. It is important to keep your eye on the long game as many extreme news events in the past have turned out to be fantastic “buy low” investment opportunities. With that said, here are our thoughts on three separate news events going on right now:

Coronavirus Impact on your Investment Plan

Coronavirus (or COVID19 as it is now officially called) continues to grow in the number of infected people and deaths, mostly in China – so far. China has basically shut down parts of its huge country to try to stop the virus from spreading. This has led to factory and business closures that affect supply chains globally. Apple for example, has significant production operations with FoxConn in China. Tourism is already declining globally. Conferences are being cancelled. We can confidently say that gross domestic product of some countries, earnings for the first quarter of 2020 for companies and tax revenues for governments will face declines as a result of the decrease in people doing business and living their regular lives.

So far in 2020 the global stock markets are up – in our opinion this is occurring because investors may feel the virus so far is largely contained. Should we see other countries become infected in a large scale, this could scare investors and quickly see markets turn down for a while.

We would view this as a short-term buying opportunity after a long ten year market surge that has left a lot of securities expensive. For working Canadians with many years to their financial goals it’s a “buy”. For retirees spending their money now or investors with short

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term goals we should already have a conservative asset allocation in place with ample cash for spending banked for at least a year of need.

Our associates at Manulife Investments have written a very good piece on Coronavirus and their estimated impact. You can read their research here:

<https://retail.manulifeinvestmentmgmt.com/ca/en/viewpoints/capital-markets-strategy/coronavirus-a-disruptive-not-destructive-event>

Philip Petursson, a portfolio manager with Manulife is often found in well written videos on Youtube talking about short term market opinions. While we don't always agree with his opinions he does provide a lot of data and thought provoking commentary.

Cannabis

Two years ago as everyone waited for the official launch of legalized cannabis in Canada, dozens of companies were started to capitalize on the craze. Billions of dollars poured into the industry from around the world ahead of any finalized government rules into companies that had no profits and a long list of other challenges. But onward it went, penny stocks soon shot up in value based on hype and no profits similar to the dotcom bubble of 2000.

And here we are at the start of 2020 with some company stock prices down 80%, employees being let go and newspaper headlines stating companies have months of cash left before they run out.

The cannabis industry in Canada will survive and be successful but like any start up it will take many years of streamlining, rationalization, some bankruptcies and much more before a stable industry emerges. No one knows what companies today will be successful – only time will tell.

We coached any interested investors over the last two years to invest small amounts, be patient and expect a 5-10 year window for growth. Even with your securities down significantly, we still feel that if you are patient, time will turn this industry around and you will be rewarded. Stay clear of individual stocks where the future can be unknown – consider the broader cannabis stock index products that hold many stocks in one product to mitigate the risk.

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The U.S. Election

When you watch the daily two year election cycle in the U.S. you quickly appreciate the two month process in Canada.

Whatever your political stripe, many would agree that Trump's pro-business policies have pro-longed the stock market climb since he came to office. Tax cuts, fewer regulations and a climate where business owners feel confident to invest money have led to an increase in wealth generation at all levels of society in the U.S. More money to spend means more goods are produced and more corporate profit leads to a higher stock market.

In our opinion 2020 is poised to be a good stock market year because no politician wants bad news in an election year. With fiscal and monetary tools at their disposal, the U.S. government can stimulate markets if they feel it is appropriate. Any indication by a presidential candidate that they will back off on these pro-business policies could lead to a stock market decline and even the recession we are overdue for.

As always, we welcome your questions and articles that you send us and are happy to discuss our opinions and market conditions. Count on us to continue these discussions during our next call or next meeting.

- Kurt.

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"Kurt Rosentreter is the author of "Wealth Building, Lifelong Financial Strategies for Success with Your Money (Revised Edition)" (2009); Wealth Building (2005); Rosentreter's Rules 100 Financial Strategies to Achieve High Net Worth (2001); 50 Tax-Smart Investing Strategies (1998); 50 Tax-Smart Investing Strategies (Updated 1999); 50 Tax-Smart Investing Strategies (2002); 50 Tax-Smart Investing Strategies (2004). Manulife Securities has not created nor endorsed this book or any of its contents. Any opinions, advice, statements, services, offers or other information contained in this book are those of the author and not of Manulife Securities or any of its affiliates."

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