Tactical Investment Update

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Why are stocks surging to pandemic highs? The answer is, in part, FOMO and TINA.

The SARS-CoV-2 pandemic precipitated an unprecedented global social distancing lockdown. The ensuing economic contraction remains severe, and the corresponding market collapse was the fastest in history.

RAPID STOCK MARKET REBOUND

Despite a collapse in global GDP, $5 trillion of financial & monetary stimulus with prospects of a COVID-19 treatment and vaccine led to a swift stock market rebound. In April, the Thornmark Alpha Fund had its second-best monthly performance on record.

At the 2020 lows, Canadian and US stock markets were down more than 30%.[1] As of May 22nd, year-to-date (YTD), they were down only -11.4% and -7.8% in local currency. As shown in the table on this page, the Thornmark Investment Funds were down only -3.7% to -5.8%, YTD.

Thornmark Investment Funds
Short and Long-Term Performance

Thornmark Fund	2020 YTD	Since Inception		Asset Class
	Performance			
Dividend & Income Fund	-5.8%	6.3%	Dec-98	Cdn Equity Balanced
Enhanced Equity Fund	-4.1%	10.0%	May-93	Cdn Focused Equity
Alpha Fund	-3.7%	7.1%	Dec-05	Alternative Strategies

"O" class net of all fees and expenses for the period ending May 22, 2020

Why then, in the face of crushingly bad economic data, are stocks rebounding?

A POWERFUL COMBINATION – FOMO AND TINA

As economies imploded, natural emotional responses were fear and anxiety. However, panic selling, as occurred in March, usually precedes a rebound in advance of improving fundamentals. This cycle is no different, as fear works in both directions, down and up. During the rebound, fear transitioned to FOMO, or <u>**F**ear **O**f **M**issing **O**ut</u>. Nobody wants to be left out of the party, but FOMO alone can lift markets only so far. However, of the three primary investment assets - cash, bond and stocks – as explained below, cash and bonds offer unattractive returns. Therefore, investors perceive <u>**T**here **I**s **N**o **A**lternative</u> (TINA) to stocks.

STIMULUS PUSHES DOWN BOND YIELDS

Trillions, yes, trillions of dollars of monetary and fiscal stimulus pushed NA interest rates on 10-year government bonds below 1%. Equally depressing, 30-year bond yields are less than 1.5%. At a 1% yield, it would take a $6,000,000 bond investment to earn roughly $4,000 per month, after-tax.

On the flip side, the Canadian stock market offers a significantly higher dividend yield of 3.4%. Of course, stocks are more volatile than bonds, but volatility works both ways, down and up. Currently, investing in stocks provides significantly more yield than government bonds and the possibility of capital gains. Since 1934, the Canadian stock market has delivered a total return, including dividends, of 9.4%. US stocks, in Canadian dollars, have produced an 11.3% annual return.[1]

Therefore, with interest so low, it feels like TINA times, when <u>there is no alternative</u> to stocks. Hence the rapid stock rebound.

TIME FOR EMOTIONAL CONTROL

In the long-term, emotions undermine investment success. We need to understand investor psychology, but invest with discipline. At Thornmark, our discipline is tactical. Although we've enjoyed a significant rebound, we have no FOMO, and we know there are always alternatives. Our response to the stock market rebound is to deploy tactical strategies designed to reduce risk while preserving upside opportunities. These strategies have been discussed in prior communications, and they continue to be optimized to evolving market conditions.

If you have any questions or would like more information about Thornmark's tactical strategies to grow and protect your wealth, please reach out to us. We'd be pleased to speak with you.

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1. Canadian stocks is S&P/TSX, and US stocks is S&P 500, total return indices, in local currency.