Invest like a pro, with the pros.

This week, a multi-part series called *Market Insight.*

The series is based on an internal company letter written by **new Capital Ideas Media contributor John O'Connell,** the Chairman and CEO at money management firm, Davis Rea Investment Counsel.

He wrote to his team about the **questions and doubts** that have to be dealt with when it comes to taking care of their clients and their money.

Look for part one of *Market Insight* at the end of this Morning Note.

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Morning Need to Know

Getting you ready for your investing day

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Written & compiled by Mark Bunting, Publisher, Capital Ideas Media

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CANADIAN ANALYSTS' CALLS

INITIATIONS

GFL Environmental (TSX:GFL;NYSE:GFL). A number of analysts have started coverage now that they no longer have a research restriction following the company's initial public offering.

Scotia Capital rates it “outperform” with a $23 (U.S.) target.

RBC Dominion Securities also gives GFL an "outperform" and a $19 target.

And JP Morgan started with an "overweight" and a $19 target.

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Trilogy Metals (TSX:TMQ) gets upgraded to "speculative buy" by TD Securities with the target lowered to $3 (Canadian) from $3.75.

Canada Goose (TSX:GOOS) upgraded to "overweight" at Wells Fargo.

Fortis (TSX:FTS). BMO Nesbitt Burns upgrades a number of utility companies including FTS which is raised to "outperform" and designated a *"top three best idea"* with the target lowered to $55 from $57.

Lassonde Industries (TSX:LAS.A). Desjardins Securities upgrades to "buy" and maintains a $180 target.

Norbord (TSX:OSB). Credit Suisse cuts the price target to $28 from $45.

U.S. ANALYSTS' CALLS

NeoPhotonics (NASDAQ:NPTN).
Piper Sandler raises to "overweight" as the company's Chinese operations appear to be running at 100% capacity now that the country is opening up

again following the coronavirus outbreak.

Alphabet (NASDAQ:GOOGL) gets upgraded to "outperform"by BMO Nesbitt Burns with a target of $1,400 (U.S.), saying the company is one of the *"consensus, high quality stocks in the market"*.

STOCKS THAT MAY MOVE

Air Canada (TSX:AC). The airline's proposed $720 million (Canadian) acquisition of tour operator **Transat AT (TSX:TRZ)** is facing resistance from the Canadian Competition Bureau.

It said a combination will result in a substantial lessening or prevention of competition, increased prices, less choice, decreases in service and a significant reduction in travel on routes where their existing networks overlap.

Argonaut Gold (TSX:AR) is buying **Alio Gold (TSX:ALO)** in what the companies are calling an *"at-market merger"* agreement. Alio common shares will be exchanged for 0.67 of an Argonaut common share.

Premier Gold Mines (TSX:PG) has offered to acquire the remaining 50% interest in the Greenstone Gold Mines Partnership to **Centerra Gold (TSX:CG)** for about $205 million (U.S.).

MediPharm (TSX:LABS). The cannabis extraction company saw revenue and adjusted EBITDA rise in Q4 year-over-year but those numbers were down sequentially from the previous quarter and the firm took a Q4 loss of $2.4 million (Canadian) versus a profit in Q3.

Inter Pipeline (TSX:IPL) is cutting its dividend by 72%.

Hexo (TSX:HEXO;NYSE:HEXO). The cannabis company saw higher revenue and production in its most recent quarter but also an **impairment charge of $266 million**.

Abbott Labs (NYSE:ABT) is higher by 9% in pre-market trading after the company won U.S. marketing approval for a diagnostic test for COVID-19 that delivers results in minutes. The company will start distributing the test next week and plans to ramp up production to 50,000 tests per day.

Johnson & Johnson (NYSE:JNJ) is up 5% as it said its COVID-19 vaccine should be ready for clinical trials by September.

Sanofi (NYSE:SNY) and **Regeneron (NASDAQ:REGN)** have expended their clinical trials for their rheumatoid arthritis treatment Kevzara as a coronavirus treatment to include patients outside the U.S.

UBS (NYSE:UBS) plans to pay its 2019 dividend of $0.73 (U.S.) per share, or about $1.4 billion, despite advice from regulatory groups, the Swiss government and banking groups to limit payouts due to the uncertainty created by COVID-19.

Jefferies Financial Group (NYSE:JEF) said Peg Broadbent, the company's CFO, had died of coronavirus complications.

Microsoft (NASDAQ:MSFT) has decided to avoid the controversy surrounding facial recognition by selling its stake in an Israeli company that makes the technology.

MARKETS

S&P/TSX and U.S. equity indices have started modestly positive to mixed, unusually sedate, after the wild swings in volatility the past several weeks.

CURRENCIES

The Canadian dollar is down 1.3% to 0.7058 (U.S.).

COMMODITIES Market Musings

West Texas Intermediate is wallowing near a 17-year low at $20.32 a barrel amid a global glut and lack of demand.

Gold is down 0.6% to $1,643.50 an ounce.

Market Insight

by ***John O'Connell***, Capital Ideas Media Contributor
Chairman & CEO, Davis Rea Investment Counsel

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This week, in a multi-part series, we feature hi-lights of an internal letter written by John O'Connell to his team ahead of a meeting of Davis Rea's Investment Committee.

The thoughts expressed, insights provided and questions asked shed light on what this manager of hundreds of millions of dollars of client money is thinking about during this truly unprecedented time.

The Easter Bunny Rally and April Fools Day

Thoughts for an Investment Committee Meeting

General considerations:

Below are the questions that I imagine are in all of our heads as we set to meet and we will likely collectively ponder.

These are incredibly uncertain times, we all know that. I can safely say that except for brief periods in late 08-09, **I have never been so racked with doubt** with known unknowns and obviously, unknown unknowns.

The questions are multifaceted as to the outcomes that will affect not just our clients, our company but also, the world economic system.

The questions and doubts don’t stop there; what do we decide with regard to individual security decisions and individual client decisions. The issues before us are large and in the short term the answer is, we do not know many answers to the questions.

In the investment world **there are a number of truisms and faults** that we all share to varying degrees and as practicing professionals (algorithms suffer the same fate), **we all struggle with bias** and particularly for humans, cognitive bias.

We will never fully immunize from these issues because in the end, markets are a human construct and, I can't think many constructs, human or machine learned, have considered the circumstances we consider today.

That does not mean that we should not collectively try to challenge each other to view as many sides of the problem as we can. The issue is where to start?

I think when the fog is thick with uncertainty, we should always go to first principals, break down and compartmentalize issues and then frame constructs that form first principal rules and from those, build more rules and decision making criteria that support the first principals.

I think we do this now. But perhaps setting it down today will be useful as we think through the issues at hand. We are all operating under daunting circumstances. This is not easy stuff.

To my mind the following issues need to be considered and likely in order of importance.

Client considerations

1. The clients objectives, needs, tolerances, time frames income requirements and unique issues.

2. The allocation percentage and ranges best suited for that client.

3. The security selection within those asset allocations and the exposure to each security.

4. The certainty of decisions and within which time frames the above can best be ascertained within reasonable assumptions.

5. The risking of the assumptions so as to attain risk adjusted outcomes.

6. The temperament of clients and their ability to mentally withstand difficult realities for times.

That we are fiduciaries and we hang our hat publically on that hook is both comforting and sobering. Zach (Curry, President & Portfolio Manager, Davis Rea) and I both sat in a room a number of years ago when one of our largest clients told us that if we doubled their assets it would not change their lives but, if we cut it in half, it would.

I have heard this refrain before in my years expressed perhaps slightly differently, but it always has the same meaning: **'don't lose my money, I need it and that's all I have'**.

When we are faced with uncertainty, we should always think first of the downside framed in that statement.

Our job is not to be heroes; it's to ensure our clients are not zeros.

If our clients were to experience a 50% reduction in their accounts we need always to consider first:

1. Can they tolerate it?

2. Can they wait it out while not impairing their capital?

3. Are they aware it can happen?

4. If they woke up tomorrow and it ***happened*** what would they do?

We can never make decisions based on anything other than what is in our client's best interest and the primary objective is to protect capital, not to fear looking dumb by being conservative.

If we are faced with extreme risk (as I think we can safely assume we are today) and we do not know with any certainty the outcomes or time frames, I think it incumbent upon ourselves to ask them, our clients, what would they do. By doing so we are engaging them in the process not abdicating our responsibilities.

When gripped by fear and uncertainty, I do not think we do harm by speaking and listening. I think we have done a great job of communicating but I also think that perhaps, we could discuss and consider that we can position clients for success in achieving their objectives in these uncertain times and also high grade portfolios in a sensitive manner.

Talking about probabilities and risk may help them appreciate what we do and what their exposures are.

I think one of the biggest risks we run in discharging our duties is second-guessing our client's real feelings and objectives and tolerances because they invariably change.

In my experience (and statistically as fact) individual investor **clients weigh more heavily losses and regret losses more than the prospects of gain**.

Tomorrow, O'Connell explores various types of investor biases and behavioural patterns.

Disclosure: Bunting Media has provided marketing services to Davis Rea.

Please email questions, comments or concerns to:

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Access, insight and ideas.

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