

Inside Perspectives: An AGF Podcast Series

Managing Money in a Crisis

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DP The COVID-19 pandemic has resulted in an economic crisis like no other, but lessons learned from past experiences may help determine the economic landscape that lies ahead. On this episode of Inside Perspectives, Kevin McCreadie, AGF's CEO and Chief Investment Officer, welcomes Greg Valliere, AGF's Chief US Policy Strategist, and John Christofilos, AGF's Chief Trading Officer, to discuss the ins and outs of working from home and managing money in the unprecedented times. I'm your host, David Pett. Let's get into it.

How's work from home, how's it been so far for all of you? Kevin, maybe I'll start with you.

KM It's been an adjustment, week eight, I've finally gotten in the groove. It took me, probably, three weeks. But I think - it's probably more seamless than I would have thought, and I think most people are into a familiar routine now about using the technology, about conference calls, just what I call the work from home etiquette of putting yourself on mute when you're done, and taking a pause between statements. We've all learned a lot, right? But I think it's going pretty well for me.

DP John, I know that you're hunkered down in your living room. How's that been going, so far?

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JC Whether I like it or not, which I do like it, by the way, we are doing the right thing. It's as seamless as possible. Our technology team has done a terrific job getting

us on the trading desk operational with our Bloomberg terminals and our messaging systems and our phone turrets. It's been much easier and more seamless than I thought it would be. At some point, this might become the norm.

DP Then Greg, I know that working from home is your norm to a certain extent. What adjustments have you had to make over the last couple of months?

GV Not a lot. I get up really early, and after being immersed in all of this stuff for hours and hours, every day around 3:30, 4:00, I go for a nice long run, four miles, five miles, and it clears my head out, makes me think a little bit better.

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DP Anything else for you guys to add? What are some of the habits that you've picked up?

JC Well, all joking aside, as many pushups as I possibly can. Something you can't do in an office environment, but you can definitely do in your living room, so that routine will probably stay in my repertoire of activities, for sure. The other thing that I enjoy considerably is the 32-second commute to the office, versus the hour and ten minutes that it usually takes me. I'm not going to get too excited about it, because I'll just see how this all transpires, but the commute's terrific, the pushup activities are getting better and better. I joked with Kevin the other day that I'm up to 30 pushups, and I'm doing ten sets of three. I'm getting better as this thing gets longer in duration.

KM Yes, just trying to find a way to get normal exercise. I'm finding myself - there's been maybe a great restart for all of us. I find myself reading, again. Pleasure reading and things, versus work reading. So, there's been a big pause, and I think all of society has felt that pause, right? So, for me, I've actually found it somewhat refreshing, a little bit, and despite all the carnage around the economy and the markets, to be able to take a break from some of life the way it's been.

GV If I might just throw out an irony. Here we are, working from home, we're more isolated, yet everywhere I look, I see more teamwork. At AGF, I see teamwork, with my family, with my friends, we call each other, we check in on each other, we compare notes. I think we all know that we're in this together, and that sense of teamwork, I think, has been very gratifying.

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DP Then I got to ask, when was the last time you guys put on a tie?

KM Before work from home was mandated, we were moving to a casual environment as we were getting ready to go, so that's got to be almost three months for me.

DP What about you guys?

JC Yes, about - at least three months for me as well. Let me tell you, I don't miss it. In fact, I said to Kevin the other day, my goal, depending on what happens, is not to wear a tie for the rest of 2020. So, we'll see if I make that goal or not. But yes, don't miss it at all, being casual is not a bad thing.

DP What about shaving, are you guys having to shave? There's still all these video chats.

KM I went six weeks without shaving, and I have the worst beard in the history of beards. It was mostly white and splotches in it. I looked like an elderly homeless man. So, I shaved the entire beard off.

JC I've had a scruff for a period of time now, and I find that when I let it go, it gets a lot more grey, so I trim it back as often as I possibly can, just to try to get some color back into it. Because I don't want to look as old as Greg and/or Kevin, that's for sure.

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DP So, all kidding aside, when we look at this crisis over the last couple of months, have you ever been through anything quite like it before? Kevin, maybe I'll start with you on that one.

KM Yes, I've been in the industry for more than 30 years, and yes, there have been crises right, they're all different. They're all terrifying in one way or the other, if they're isolated to markets. I've never seen anything - probably the closest parallel, and it's terrible in terms of human life loss that impacted markets was probably 9/11, for our lifetimes, our investing lifetimes. But that, when we look at this all said and done, even that will pale in terms of the magnitude, the reach of this crisis into society, the markets, all of it. Then to get into the depth of the recession that we're going to be in. It's somewhat shocking. But yes, so for me, it's a new, larger version of anything I've ever seen.

DP Greg, from your perspective, you've been around the block a little bit here, I don't want to date you, but what's your sense of this crisis as compared to other events that we've been through that have been pretty catastrophic for markets?

GV Well, I was in lower Manhattan on 9/11 and saw the planes go in, very, very close up, so that's the sort of thing you never, ever, ever forget. This is different. This requires all of us to do something, to not shake hands, to keep our distance, to wash our hands obsessively. I mean, there are a lot of things that we all have to do for our fellow human beings, so it's a different story. But it's a story that doesn't have a definitive end. That's frustrating.

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DP John, or Kevin?

JC The Crash of '87, '96, 2000, 2008 and now 2020, and to Kevin's point, they are slightly terrifying, right? You sit in the middle of a market meltdown, watching your assets deteriorate over time. It gets more and more troublesome and terrifying. Early on in my career, in '87, I had \$1.25 to my name, so it really didn't matter that the market was down 30% or 40%, because it didn't matter to my \$1.25. But as you get older and you have family and you have other responsibilities, and you watch these sorts of things, it does affect you.

I think the key to the whole way of getting through this thing is being patient and being under control, and I think we've done a pretty good job of this scenario in 2020, that's for sure.

KM The other thing that I would add that is different, is that those events were market moving. 9/11 had some psychological effects on people and their ability to want to travel, get on an airplane. This really damaged people's wealth in the first go around of it. It's damaging many people's savings right now, as they're out of work, seeing these unemployment numbers are horrific, right? At the same time, it's also put a fear about their health. I've not seen all of that come together before. Then, it says, socially, to Greg's point, don't shake someone's hand, stand six feet away. We're having to learn things which are not innate to us about how to create a relationship. So, very, very strange time.

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DP Maybe we can just put a finer point on this, and we go back to the great financial crisis. There was a lot of talk at the start of this crisis that this time is different than what we saw in 2008 and 2009. But there have to be some similarities, or there seems to be some similarities between the two crises. Maybe we can just talk a little bit about that. John, maybe I'll start with you. From a market structure standpoint, have there been similarities?

JC Absolutely. If I think back to '08, we saw no bid on a lot of stocks. We saw spreads widen out, we saw liquidity dry up, we saw the depth of the market disappear, and if I fast forward to 2020, we saw the exact same scenario. We had dislocations in particular stocks and ETFs, we saw liquidity dry up, other than

that, with some of the high-frequency trading that was going on, and we saw the depth of the market, it was much, much more difficult to get things done when we wanted to buy and sell. From a market structures perspective, there were a lot of similarities between '08 and 2020, for sure.

DP Then Greg, I'm guessing on the political front, there's also some similarities that we can draw from, too.

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GV Yes, there are. Let me take a slightly contrarian view here. I think in some previous crises, we argued and bickered over should we spend money, should we raise the deficit? I was pretty proud of my city of Washington in the last few months, we were almost unanimous that we would do whatever it takes. This is triage, the main thing is to save the patient.

Jerome Powell, who in my opinion gets an A plus, did the right thing. The Congress did the right thing, they spent a lot of money. They didn't like doing it, but they spent a lot of money, because they wanted to avoid a depression. I think when the history of this horrible period is written, there will be, I think, compliments to both Jerome Powell and Congress for doing the right thing.

KM I think that that's right. The policy front was based on some of the things put in place in '08 allowed people to understand the need for speed, the need for size of these packages, right. So, I think the awareness on the policy front, and the quickness was certainly to be applauded. Things that were learned from '08, I think the recapitalization of the banks in '08, as painful as it was in the years after that, when you look at it now, was the right thing. The parallels to those two, for me, I would agree with Greg about what we learned and how we acted on this, it probably this from being much worse.

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JC One other thing here, from a regulatory perspective, when we were having that meltdown back in late March, we heard lots of people talk about closing down the markets, and stop short selling, and kudos to the regulators for not panicking, not doing something they shouldn't be doing.

We live in a free society with free markets, and we allowed the markets to do what they needed to do, allowed people to use their capital in the way they needed to use it, and they didn't listen to the pressures of the media and/or the pundits who kept talking about close down the market, which they should never have done, and didn't do. So, that's great.

KM One of the things that I would add to that, when I was with John on 23 March when this market was bottoming, there was a skeleton crew of us as we were

wrapping up before the true work from home began on us, but you know what it reminded me of was not '08. The names down 15, 20% in certain sectors reminded me of '87, and that was somewhat a gut check for a lot of people who had never seen that before.

Frankly, it was something I saw in '87, and I never expected to see again. I look at '08, policy wise to this, similarities and things we learned, I look at market - the speed of the correction and the damage in individual names and sectors looked more like '87.

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DP When we look back 20 years and talk about the tech wreck, is there any similarities to what we saw there, or is it a completely different scenario?

KM For me, the tech wreck was very different. That was a bubble that was fed by capital-chasing, the whole dot-com thing. You knew it was going to blow, and you just, you paid the bit of it in how fast it went, but it was isolated to the technology sector. The broader market recovered fairly reasonably, and you didn't create this great depression out of it. Certainly not even a magnitude of a recession that one would remember.

This is not that. This is not a bubble bursting; this is governments around the world saying stay home for the health and welfare of your fellow citizens. Go hibernate. Don't spend money. Don't go out. This was self-induced, very different than a blow off or a bursting bubble.

JC I would agree with that. When I think back to the tech wreck, I think about taxi drivers and hairdressers and shoeshine people giving us stock tips. The froth that we had in 2000 was like nothing before. I remember, a quick story, but I remember sitting on my couch with my laptop on my lap, watching CNBC with my online brokerage account, and they would mention a name, and I'd go in and buy 500 shares, and within ten minutes after the name was mentioned on TV, I was up ten or 15 or 20%.

It was absolutely so frothy, and there were so many amateurs, as I call them, or weak money in the market in 2000 that it made it almost impossible to invest in a logical way. It was completely different in 2000, and I'm not sure whether we're going to see a market that frothy ever again.

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KM I would add that the froth now involves vaccines. Almost every week, we have a new hot story. So, the real froth, I think for the next several weeks or months is going to be who's got the hot new vaccine?

DP Then in addition to the comparisons that we've already talked about, 9/11, Black Monday, the current crisis has also been compared to natural disasters or wartime. Are those apt descriptions for what we've been going through?

KM Yes. Economically, I would model it more like a natural disaster. Think about a hurricane coming through a city. Everything shuts down. There's damage, destruction, it takes a while to rebuild it, things to reopen. So, think of this as a self-induced natural disaster. Instead of the wind or a flood, it is literally human nature changing, staying inside and not going out.

So, you don't have the great rebuild, and the question is, when you find a restart, and you can do it safely, how quickly does the economic activity pick back up? So, I think it does have those characteristics more of a natural disaster, but one that is self-made in this case.

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DP Then, you and Greg were talking, before we started recording, you were talking about Churchill and some of his experiences during the war, and that there are some similarities there, in terms of how people reacted to that time, and how they're reacting today. It seems like that's an apt comparison as well.

GV As an American, I long for a Churchill. I long for a leader who is consistent, who doesn't change his story every few days, who doesn't tell Americans, maybe we should think about injecting disinfectants. I mean, there's a lot to be desired with Trump's leadership. I think Pence has done a good job, Mnuchin's done a good job, Dr. Fauci and others have done a good job, but let me tell you guys, there is no Winston Churchill in this country.

KM The Churchill, leadership thing Greg and I were talking about, and I agree with Greg. In times like this, you need strong, empathetic leaders. Because society is paralyzed. There's fear about people's health, as I've said, and the death tolls, we've sort of lost sight of it a bit, but they're going to continue climbing throughout the summer. Now that we've bent the curves, if you will, and states are reopening, it's almost taken a back seat, but the human life toll here is going to be pretty significant.

You look at what Churchill had to do during World War II, during the bombings of London, people didn't know what was going to happen, where would it end. But they believed, and they believed that it was going to be okay. I think you need that in this environment. I fully believe that this will be okay.

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JC David, I don't remember Churchill as well as Kevin and Greg do, being much younger than both of them, but I do agree with the fact that we are definitely in a wartime environment where we had to buckle down, we had to do what we needed to do to defeat the enemy. Whether that's calling it an invisible enemy, or whatever you want to call it, it is devastating, and it needed that sort of action to try to get through this, so we can get back to some normal, so you can get back out and do what you want to do.

DP Maybe let's turn to a little bit about how the pandemic is going to shape the economy and markets going forward. It's going to have a profound effect on both of those, both the economy and markets going forward. But how will it disrupt things?

KM We've had a pretty good recovery from that March low, about a 30% move, and it's really attributed to three things. It's the speed of that stimulus and the size of it, basically replacing the income that's been lost for now. People have been laid off or furloughed are getting various aid packages.

Second has been that you bent these curves, or flattened them on the virus, so they're not getting dramatically worse, and the hospital systems in the developed world aren't overrun. The third has really been this restart, that yes, not only are we putting it behind us, we're starting to move forward again.

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That's priced already all the way into this. Now we're in this wait and see game. For the markets to move much higher, you have to see that the data on the virus continues to fade, that the economies, as they open, actually start to see progress. That people do go back out, people do start to spend again. Then the pace of that. So, I think for the markets to move ahead of this, because they've already priced a fair bit in, you have to start to see the recovery.

GV I share Kevin's innate optimism, that things are going to work out, but once this is over, there are going to be two things that will be left, that we'll have to deal with. Number one, just a staggering budget deficit. Deficit in the US, that will be \$4 trillion this year, probably \$30 trillion total debt.

The other thing, it's hard to call right now, but could we have a residue of a very nasty relationship with China? Western Europe, Australia, Canada, the US, a lot of countries are upset over China's lack of transparency. Could that lead to some additional trade friction? To me, while I do think this will end well, I think the relations with China and the size of the deficit will linger.

JC Yes, and from a market structure perspective, David, I think the days of those 2000-person trading floors and open pit outcries trading floors could be a sign of the past, right? We've proven through this entire ordeal that we can manage our businesses, whether it's the broker dealer community, or the asset management community, remotely. We can do everything we did in the office, and not have to be six inches away from a coworker to get something done.

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So, I think we're going to see a number of changes in the industry, from a market structure perspective. It looks more like a remote office than it is everybody congregating downtown tower like we always have in the past. I think we're going to get a better work-life balance for our people, and I think people will be able to do everything they're doing today as efficiently as they used to do it, as well.

DP Maybe we can just talk a little bit about managing money through a crisis. What does a crisis like this - how does it inform the way you think about managing money, going forward? I'm guessing it does change the way you guys think about doing that, day to day.

KM Yes, I think that one of the great things that are going to come out of this, is going to be this massive technological advancement. Things that we have had on our desktops but didn't really ever use, we've embraced it. Some of them have become verbs. I've heard people start to say, I'll Zoom you, I'll Facetime you. Right?

But not just the video conferencing that we're all using now, pretty seamlessly, but it's also about how we're thinking about our days. Many of our workforce are working much longer days. There's a work-life balance issue here that comes into play. So, our industry will change. We've been pushing, at the firm, I think, as everyone knows, heavily on the data front with our quant teams and other things.

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That's about harnessing all kinds of new data. More powerful data, whether it be digital, non-structured data. I think that's going to be something we're going to learn here. You don't need to be in the office to sit down with three people and trade ideas around and think about how to do research anymore, right? We've just proven, you're going to have to do it differently. That will change our industry a fair bit. There'll be a lot that comes out of this that will be good, and productivity enhancing that we've all learned from it. That's part one of the change.

Part two is, we're going to find a market that has been much more volatile.

We've adapted as an industry, as a firm, in the fact that we've been able to navigate it really well, despite that volatility, without having to be onsite, on premise. We've actually, I think, as a society have navigated it the best we can, with people sitting remotely away. I think that's going to be a great learning, as we move forward.

DP Then, John, do you have any thoughts on that from a trader's perspective, how this might impact the way you think about that on a day-to-day basis?

JC I think the one thing that's a constant, David, through all these volatility activities and sessions, is that patience is a virtue. Market's up 100 S&P points one day, and you're a buyer, there's no need to chase it. You probably get an opportunity in the next day or two, if you want to buy that stock a little bit less expensive. So, patience has been a virtue through this, and I think our trading team has done a really good job of understanding that.

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We have a very experienced desk, all of our traders have at least 15 years of experience, and volatility events act the same way. As I said earlier, spreads widen out, liquidity dries up, and the depth starts to disappear. If you know that, and you have patience, you can get through and get things done the way you want to get things done. That's the biggest lesson that we've learned, but we've already learned that in the past.

DP Just on that note, John, and maybe this is something for Kevin to weigh in on as well, but does that get lost a little bit when you go through a bull market like we did, that was... seemed like it was never-ending? Although you never want to go through these crises, they end up being a bit of a reminder of those types of things?

KM I think that we'll learn a lot from this. There will be things that will change, for sure, and markets, we were kind of at the top of a market anyway. We were running at the end of the cycle. So, when you look through it, maybe some of the excesses that we saw, maybe they weren't apparent on the equity side, maybe they were on the credit side. Now we have a lot of companies dealing with maybe excess leverage, right, but we'll get through it.

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But I think people will look at our world differently. I think balance sheet strength will come back to something that people are going to look at in the future. People are going to look at how big a debt a company has, what is interest coverage again, all the things we grew up with and learned doing fundamental analysis that are going to become, I think, things that people will focus on again.

Not just growth.

I think we're also going to be in an industry that, because of what just happened, there will be new leadership emerging. There'll be new advancements in technology, there'll be whole secular changes to certain segments of society.

Think about the real estate industry. Do we need this much space? Think about remote educational. We finally have proven we can teach remotely, children. What implication does that have for society that couldn't afford it before, in some parts of the world? I think that there are going to be great investment opportunities that come out of that, but also, some re-learnings of things that maybe some of our younger investors forgot.

DP I want to just touch on something that you brought up earlier in the conversation about the role of government in all of this over the last couple of months. Has something changed fundamentally about the way that we view the role of government, in terms of interacting with markets?

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GV Well, I wouldn't say that people have learned to love government, that probably never will happen in the US or much of the world. But I do think people now view government as more of a necessary evil, that there are things the government has to do. Again, I think when the history of this is written, the role of government, especially the Federal Reserve, will be viewed as a very positive one. People acted almost heroically, obviously the medical personnel were the real heroes, but I do think that most Americans view the government role as being a positive one.

DP Kevin, any thought on that?

KM Yes, I think Greg is right. I think that there have been some partisan issues that will always emerge for the most part. The speed of which, and how, and who was taken care of here? Small businesses, basically, small business employees, this was a Main Street issue, as we force people in the service sector, the retail, leisure sector to have to not work. The speed at which politicians came together, and central banks around the world to get this done, really was impressive.

So, they may not love government, but they're going to love how these governments acted in this, to the extent they staved off personal bankruptcies. I've said it a number of times, the quickness of this has been as important as the size of this all. So, I agree with Greg.

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DP Greg, you touched on this a little bit about the geopolitical landscape is bound to change a little bit, from what we've seen, but maybe we can just make a finer point on what some of the implications on that front could be, going forward?

GV I think there's going to be more synergy around the world, I think the idea that the US could be isolated has faded. I think people have to accept new realities about what government can actually do. So, there are many, many silver linings. I think the biggest one, is the medical advances that we're going to see, and pray that by the end of this year, we'll be very, very close to a vaccine.

JC Yes, from my perspective, David, I'm actually looking forward to watching this onshoring event occur, where lots of our manufacturing and our supply lines come back to North America. I think that's going to be quite the scene as we watch some of this manufacturing come back.

The other couple of things that I think we're going to see as new themes, the mobile environment is going to get much, much better. Although we think our cell phones can do everything for us today, my guess would be that they're going to be able to do much, much more than we've ever expected them to do.

And the work from home environment, right, I think that this is going to change the way we think about work for a very long, long time, and the work from home technology and capability is just going to get better on a daily, weekly, monthly basis, and it's going to be fun to watch.

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DP Then lastly, Kevin.

KM On the geopolitical thing, first, I would say, I think in the near term the US will have found its friends again. It had lost them there for a bit, especially over the last two years, as Trump picked trade fights with everybody. I think where we go from here, though, is probably a little bit harder on that front. There may be an isolationist move against China by the Western world, because of how this was handled, but we're yet out of the woods.

You've seen borders still closed in Europe, to other countries. The US and Canada has border still closed. There will probably be some disputes about how fast to open those up, and they'll be, as Greg pointed out, there's going to be a massive amount of debt around the world that will have to be dealt with later on. That's going to cause countries to probably think differently about their own physical situation and those of others. We may never see the rancor that we

saw last year, around trade and tariff, but it probably hasn't gone away.

But I agree with John. Fundamentally, at the end, we will get through this. The debt and those issues are way down the line. What will happen, as we move through this and find a vaccine or a therapy, and economies start to reopen, we'll find different ways. I think everything that both Greg and John have said. The great thing about our societies is the technological advancements that will come out of this are things that we can't even imagine today. That will propel a whole new cycle. So, it's a function of time, and how quick we get there.

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DP That feels like a pretty good place to end our conversation today. Greg and John, thank you for the time, and Kevin, until next time. After our brief hiatus, it's good to be podcasting again. For a full transcript of today's episode, visit AGF.com/podcasts, and don't forget to subscribe to hear more from us at Apple Podcasts, Spotify, Google Play Music, Stitcher, Podcast Addict, and Pocket Casts.

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