Anniversary of a Bear Market

Speaker Key:

DP	David Pett
KM	Kevin McCreadie
JC	John Christofilos
SB	Steve Bonnyman
DC	Dillon Culhane

Time code	Speaker	Text
00:00:06	DP	It's been one year since markets collapsed from the initial onslaught of the COVID-19 global pandemic, but has the experience of the past year changed us as investors? On this episode of Inside Perspectives, Kevin McCreadie, AGF's CEO and Chief Investment Officer, is joined by AGF's Chief Trader, John Christofilos, as well as Portfolio Manager, Steve Bonnyman and Analyst, Dillon Culhane, to discuss how their particular roles have been affected and what it could mean for investment management, going forward.
00:00:36		I'm your host, David Pett. Let's get into it. Guys, thanks for being here today. This time last year, markets were just starting to get their feet again after the tremendous downturn in markets at the end of February and through much of March. What has been the biggest difference in terms of how you approach your role since we've gone through this? And Kevin, maybe I'll start with you.
00:01:01	KM	You know I wear a couple of hats at the firm. I'm the Chief Investment Office but also the CEO. And when you go through an event like that, the weighting on those hats changes. Very different, but similar to the 2008 financial crisis. The markets were moving at rapid speed, I would even argue more rapidly this time around, given the amount of information, and it was all something

Time code	Speaker	Text
		new that none of us had ever dealt with before. Not in 100 years have we had a pandemic that shut down the world essentially. So, the CIO hat took a lot more weight than the CEO hat.
00:01:29		You start to micromanage. You start getting down into every asset class, how securities are pricing, etc. So, your focus, in my case, becomes almost consumed first and foremost by the investment side. And then you have to put the other hat back on, the CEO hat, and say, how are we handling things? But day to day, the weighting on the CIO versus CEO, when you go through an event like that, changed dramatically.
	DP	And then, John, what has been different about going through this past year than perhaps some of your experience beforehand?
00:01:57	JC	Listen, I've always thought that next to being a professional athlete or an actor in Hollywood, being a trader is one of the greatest professions. And the reason for that is because trading is truly a team game. And having people around you listening to what's happening on the street, dealing with other dealers, talking to your traders and people around you, portfolio managers and the like, was part of what we did to add value. And that part of the job has gone away, and gone away in a big way. As you sit here alone, whether it's in your home or in the office on your own, much of that buzz has disappeared.
00:02:27		So, it's been an adjustment to try to figure out new ways to stay connected with both internal PMs and analysts and the like, and then also externally to all our dealers. Our dealers are going through a massive change on their end as well, so technology has become much more important to us than face-to-face interaction. But nothing will ever beat face-to-face interaction and that's why I think we need to get back to an environment where we're able to be in that locker room together, and fighting the good fight as a team rather than a bunch of individuals scattered across the city, country, continent and the like.
00:02:58		So, I think trading is, as I said, a team game and we've got to get back in that dressing room so we can add continued value to our clients.

Time code	Speaker	Text
	DP	And then, Steve, as a money manager, as someone who is managing money, a portfolio, what's it been like over the past year and how different has this year been to previous years?
	SB	Well, this had a lot of aspects that were really completely different than anything we'd ever seen before, but in small ways. Following up on John's point, our business is one of information flows and information analysis. And as we all moved further and further apart and became more reliant on technology, the latency of that information became a problem.
00:03:30		In the past, one good holler off the trading desk and it migrated its way through the firm very, very quickly. Obviously, with us operating remotely, that level of speed of information flow was much more challenging and everybody has had to work a heck of a lot harder, both to stay in touch and to keep that flow of information and the regular flow moving. The other part of it that goes back to the technology is it's a business of information and trust. Do we trust the suppliers that we're getting? Is the information we're getting good? Is the analysis good? Is it something we can use and would want to use?
00:03:59		And with broker side analysts no longer doing as much travelling or investment banking or all of the other things in face-to-face meetings that they'd done, the sheer volume of research probably ramped up between 25% and 50% relative to prior years. So, while we thought we were drinking from the firehose a couple of years ago, that volume just ramped right up and I think everybody had to both raise their game and commit a lot more hours to staying on top of what was moving through the system.
	DP	And then, Dillon, from an analyst's perspective, what has been different about the past year?
00:04:29	DC	I would say the core job function in analysts hasn't changed. You have your coverage of your sectors, your company holdings, keeping the PMs and the investment team informed, finding new ideas. But the biggest change has been probably interaction, so both internally and externally. On the internal side, communication hasn't really suffered. On our team, we quickly replaced in-person, casual chats with weekly meetings for each PM and the mandates, and we have our daily flash meetings, constant

Time code	Speaker	Text
		Bloomberg chats, texts, messages and calls, things like that, just to stay up to date.
00:05:00		And on the external side though, the bigger change here, before COVID, AGF would have five, six, maybe more management teams per day of companies we invest in coming through our offices just to meet with our analysts and PMs. And analysts would be travelling to a couple conferences per year, attending meetings in Toronto. Now that's all virtual. So it is much more efficient. You can switch back and forth between conferences, internal meetings, things like that. I find you can actually stay on top of your companies a lot better.
00:05:28		But on the downside, there's a bit of conference overload that's possible. You feel compelled to attend more of these things when they're all virtual. And sometimes, it is hard to get a feel for management teams versus being in person.
	DP	So, maybe I can just pick up on that, Dillon, because I'm curious about those adjustments that you've had to make as a team. And Kevin, maybe I'll go with you here. Has it been the work from home that's been the biggest adjustment, or is it with respect to information flow or the technology? What part of it has been, in your mind, that biggest adjustment that you've had to make as a team?
00:05:58	KM	For me, I think everyone who is on this call knows I sit on the investment floor down in the corporate end of the floor. I sit with the teams. And so when I want to know something that I can't readily access, I just walk out on the floor and sit down at somebody's desk and ask, or if I walk down the hall and poke my head into someone's office if I want to know. And to John's point, when everyone's gone, you're left to try to figure out call, texts, etc. So, it's not as effective as having a quick conversation. And I grew up always sitting around a trading desk too. So, the daily interaction I have with John and others is gone immediately. And so it was an adjustment.
00:06:30		But I look at it, we all as an industry have learnt. A lot of this is going to stay with us. To what Dillon said, there's a good blend here of going to conferences in the future and using some of this technology to make yourself more productive. But I do miss the

Time code	Speaker	Text
		day we all can get back together and I can just step out of my office and go ask someone a question rather than try to hunt them down through a text or an email, etc. So, that's probably the biggest thing.
	DP	And then, John, you can't wait to get back to seeing people physically and in person. We don't know when that's going to happen.
00:06:57		But do you envision that investment teams like ours will end up reverting back to what they did before? Or will there be a slight change in the way that we go about doing our business?
	JC	I do think there'll be a slight change, David. But we're all creatures of habit, for the most part, and I do believe that over time, as things adjust and we are much more comfortable with taking transit back to the core and being downtown with people, that we'll get back to a sense of normalcy. We may not get back to 100% of normalcy like it used to be, but generally speaking, I'm an optimist that way and I think people will make their way back down to the office at some point in the near future..
00:07:33		I think one thing that people don't realise is, as much as they may like working from home, there's a bunch of stresses that come along with that. If you've got a young family, you've got kids running around and they're not going to school and the like. So part of the biggest adjustment that I've had to make is making sure that the team has available time to be off the desk and manage those situations, so when they're back on the desk, they're fully committed to doing what they're supposed to be doing on the trading side. So, having that compassion and that understanding, I think we've done a pretty good job.
00:08:00	SB	The return to work or the return to work flow is going to be different, depending upon what your position was. One of the things that we've been dealing with as an industry for the last 20 years has been margin compression and the necessity of active managers to find ways of pulling costs out of the system and reducing fees to our clients to be competitive in a market that's perhaps not offering double-digit returns going forward. So, we've been in communication with our suppliers consistently for the last half dozen years in terms of finding ways to get what we need as an

Time code	Speaker	Text
		industry, provide them with sufficient revenue and keep the unnecessary costs right out of the system.
00:08:35		And I think COVID has triggered a sea change in that, that is not going to be reverted back too easily. If we think back the last couple of years, as I'd mentioned, analysts would be flying all over the world to meet with clients. It was not time efficient, it was not cost efficient, and the brokers would come back to us, asking us to bear the costs. We've discovered now that we all can communicate electronically, whether it's with just audio or whether it's an audio-video, that we can move research products, that we can run a thousand-person conference off of a desktop.
00:09:02		And I think those are changes that will be more challenging to shift back to old ways simply because the old ways had cost associated with them that the industry, I don't think, is prepared to bear as it did in the past.
	DC	Building on what Steve said, these companies and sell-side firms, they've figured out that they can deliver access to management teams in a lower cost way, virtually. So, we can have more access and be able to valuate these companies a lot easier now. You could see the same company presenting at a couple different conferences in a month if you wanted to.
00:09:32		So, we can still be working from our offices at AGF, but we wouldn't have to fly to New York, for instance, to meet with a certain company at a conference. So, I think it actually helps you analyse companies a bit better.
	DP	I'm just curious in terms of habits or traits that you've had to pick up over the last year, if there are any of those traits, even as we revert back to normal. Are there any habits or traits that you see yourself sticking with, going forward?
	JC	We used to do a lot of our trading with dealers on the other side, pick up the phone, talk to them and whatever the case might be.
00:09:59		That number of calls is down considerably from where it used to be and more and more are being done by buy-side traders like ourselves through the algorithms. That number has gone from somewhere between 10% and 15% upwards to 25% to 30% of all

Time code	Speaker	Text
		the flow going through algorithms. So, that's not going to change. That's not going to go back. And that's also, to Steve's point earlier, about controlling the cost side of the ledger. It's less expensive for us as asset managers to trade using algorithms than actually paying broker-dealers' trading desks, longer term.
00:10:29	SB	One thing that I found is I increasingly am becoming a proponent of technical analysis, not in the sense necessarily that technical analysis is the be all and end all. I'm a fundamental investor, always have been, always will be. But I observed this time around that we saw a material change in who was the marginal trader or investor at various points in time through this last year, and that signal obviously didn't come through fundamental analysis but it came through conversations with John, it came through observations of what was happening in the market.
00:10:55		Because if we think of some of the extremes we saw over the last year, oil going to zero, looking at renewable stocks versus energy stocks, at one point, the discount rate on renewable stocks was effectively zero and the discount rate on energy stocks was effectively infinite, those assumptions implied a high level of either high-frequency traders or retail, which is a very different market than one dominated by the usual trade of large institutions. So, I think that's personally something that I'm going to keep more active at than I had in the past.
	KM	We all have been in this business for many years, me north of three decades.
00:11:27		And I will tell you, you learn every day, everybody that's on this call, everybody on any trading desk anywhere, from the climate we saw from those market highs in February to the speed of rebound to again what Steve said, you had people that saw commodity prices and prices on securities that we said are not even possible, and then you saw where interest rates went. So, you have to take all the things we knew about how different securities react or correlations, what you expect them to do, and you throw it out the window. And things are moving incredibly fast and we're trying to figure out things that we had never been exposed to.
00:11:57		The great thing about our industry, you become experts in a lot of things overnight if you have to be. I remember when the

Time code	Speaker	Text
		Deepwater Horizon… Everybody remembers that oil rig that blew up in the Gulf of Mexico. And all of a sudden, analysts and PMs are trying to figure out current flows to figure out what the economic impact is going to be. And it's no different than you go through a pandemic. All the core things we look at on the company side, you have to throw out and you're looking at all macro data. How many people are flying and going through TSA checkpoints? Are economies reopening? We look at open table statistics. Are people going back to eating out?
00:12:26		And all of a sudden, you take as much information as possible to try to weave in path that says, how do we get to be able to look at these companies fundamentally again, with some confidence that the economic backdrop will look the same? I'd say it's taking the things we all grew up with anew, processing things that we never thought we'd dream of having to figure out, like the R0 of a virus transferring to a population, etc., and weaving that into how are securities going to perform in the future?
00:12:51	DP	A lot of new dynamics have come to the fore over the past year. John, is there anything in particular in your mind that sticks with you in terms of a new dynamic or a new way of thinking about investing that you've seen over the past 12 months?
	JC	I don't know if it's a new dynamic, but this level of volatility that we've seen, whether it's single-stock volatility or sector-wide or market-wide volatility, has been with us now for a full year. And it's been a long time since we've seen a full year of the volatility that we've seen over the last 12 months. So, it's nothing new, but it is something that we haven't seen for a long, long time.
00:13:23		And that's made us think about executing our orders in a little bit different way than when there is no volatility in the market, like we saw a couple years ago. Patience now has become much, much more important than it ever has been. You don't need to rush in and buy your entire position immediately or sell it immediately. If you missed it on the first go because you've got a strategy, thinking it's going to move in your direction and it doesn't work out for you immediately, give it a few minutes. You'll probably get another shot at it. So, the volatility has really changed the way we

Time code	Speaker	Text
		think about things on our trading desk and we don't need to be rushed anymore into getting things done. So, that's the first thing.
00:13:55		The other thing that we've learned is, and I'm awful proud to say this, is that our capital markets have performed exceptionally well through this entire 12 months. If you think back to some of the commentary and some of the reporting back in March and April of last year, when people were calling really loudly to shut down the markets, it's too volatile, we can't afford to have this, the market is going down too quickly, regulators took the proper stance, in my opinion, and didn't shut down the markets and allowed the capital markets to operate the way they're supposed to operate and give people access to their money as needed.
00:14:28		So, that's the other dynamic that I found exceptionally interesting through the last 12 months, is that the capital markets' market structure has worked exceptionally well. Through some of the Robin Hood stuff that we saw a couple of months ago, it was proven out that once you start to restrict certain parts of the market, bad things can happen. So you want to try to keep these things open as much as you possibly can and not make rash decisions because of additional volatility. So those are the two things that come to mind over the last 12 months that I will continue forward if this volatility continues.
00:14:56	DP	John, maybe I'll just stick with you for a second, and the others, you can weigh in on this. But you've talked a lot about retail participation and you mentioned Robin Hood. Retail participation has grown exponentially over the past year. Is that something that you see will continue and become a more static dynamic within the broader marketplace?
	JC	Yes. First, let me say that this retail participation is unbelievably healthy for our markets. The more and more people, and if they're younger people, even better, that are participating in our markets, the better they will be, longer term, as investors and the better that our capital markets' infrastructure will operate.
00:15:29		So yes, I do believe this is a trend that will continue for a while, maybe not at this extreme level that we've seen and maybe not a bunch of penny stocks, but having more and more people participate. And here's a couple of interesting stats. Prior to the

Time code	Speaker	Text
		pandemic, I believe in the US, about 43% of households were invested in the market. Post pandemic, I think that number is now up to 56%. So, we've got more and more participants in the market. A second stat that's really interesting to me is somewhere around 50% of all the volume that you see on the screen that's traded on any given day is coming from retail buyers and sellers, 50%.
00:16:04		So again, that's a healthy dynamic. We hope that continues to stay in the market. That'll give us all more opportunity to get things done because of the additional volume in the market, and it'll make things much more efficient, longer term. So retail is here, it's here to stay, and I think it's very healthy for the markets.
	DC	I can just jump in and say this appreciation of the herd mentality and the impact these retail investors can have on the market is one of the big things that I've come to appreciate during these past 12 months.
00:16:30		And the other thing that John touched on is volatility. Like you saw in early March last year, oil prices started to sell off when the OPEC deal fell apart. Then COVID hit. Oil prices went negative. And now we're back to 70. I've almost come to expect the volatility in markets these days. And it just seems odd when things aren't volatile. And also, you've seen stocks become really disconnected from fundamentals, even though it can be on a temporary basis. Like Steve mentioned, oil companies trading at all-time lows, like we're never going to use their products again, versus renewable energy companies almost having zero discount rates.
00:17:02	KM	I would contrast that to literally before the pandemic. I remember John and I were out West in Vancouver and then Victoria. And he and I, because of our presence overseas, we'd been watching this virus unfold. And we'd go to meetings to talk to large groups of investors, and there'd be people saying, don't worry, it's not going to happen here. And we had come through a market high. We were heading into an election year in the US, post the Chinese and US trade banter. We had cut to this phase one deal.
00:17:29		And everyone was basically saying the world was going to be okay, don't worry about it. And then until it wasn't. And so I think we've removed the complacency in markets. If anything, we are

Time code	Speaker	Text
		forward looking, discounting mechanism markets, as active as ever now in terms of thinking and repricing events. So, I'd say volatility probably is a theme that'll play with us for a bit.
	JC	Just one other thing that Dillon and Steve both touched on that I think is really important is this whole idea around technical analysis. I can tell you back, call it ten, 11 months ago, when things were really disconnected and the fundamentals didn't matter, the one thing that stood up was the technical analysis.
00:18:02		Whether it's moving averages or trend lines or stochastics, any of those sorts of technical analyses, if you knew how to read a chart, it would help you to tremendously in trying to get things done on your orders. Because fundamentals were disconnected, people weren't thinking about balance sheet and income statements and the like. They were just reacting to the latest piece of news that happened to hit their Bloomberg screens. And technical analysis was there, tried, tested, and true, and worked exceptionally well during the most volatile times.
00:18:27	SB	John, I think that adds into your comment on retail as well because sometimes we forget, as professionals, that your average retail investor isn't sitting at a desk with four screens, a technical analysis programme and 100 pages of macroanalysis sitting on the edge of the desk. So they're going to approach the market very differently and often with a bias that may not have the same level of… I hate to use the term, fiduciary responsibility, but the same level of return bias that we might approach it in.
00:18:52		I think that's showing up now in flows, in fact, and in fact some of the valuation discrepancies that we're seeing into things like renewables, where people are prepared to take lower returns because they believe in the long-term outlook for some of these industries, which at least for the moment has definitely changed the way some of the investing is taking place.
	DP	Maybe we can talk a little bit about themes that have emerged over the past year. Any thoughts on that?
	DC	Yes. I think, over the last year, we've seen focus intensity on classifying companies and sectors into buckets to try and explain

Time code	Speaker	Text
		their performance, whether it's growth versus value, cyclical versus secular, stay-at-home versus reopening, all those sorts of things.
00:19:28		And some of the areas I cover are the exact opposite extremes. You've got energy, oil, traditional energy companies, very cyclical, got hit very bad with COVID. And then you have secular growers on the green energy and renewables side. So you've seen the cyclical names underperform, secular growth names through 2020, and that trend has reversed pretty violently here in the past few months. COVID vaccines roll out and growth stock multiples have contracted. We're just seeing this play out across the market, I would say.
00:19:54	SB	I think we're going to be reminded of the different cycle times of industries. The nature of the market right now has been very focused on shorter cycle. Software, things like that, can be developed quickly, can be scaled quickly, could be obsolete quickly. And that changes the nature of that business. The cyclical industries or the hard, real assets that I tend to spend a lot of time investing in tend to have much longer cycles. From discovery to production for a mine can be anywhere from seven to ten years. The oil industry, at least portions of it, have shortened that up.
00:20:21		But even then, you're talking about nine months from the decision to drill till getting oil out of the ground so that your supply-demand relationships are a little bit different. I think that's been forgotten here and I think we're going to be reminded of the capital intensive nature of some of these industries, and the fact that you can't have an ESG-compliant low without some of those raw, earthmoving type industries. You need cobalt. You need copper. You need steel. You need petroleum for the fibreglass that goes into the fans of wind turbines. So they've been forgotten for the moment, but I think the cycle will remind us that these are essential and require capital.
00:20:53	KM	On the sector front, to me, it's about the decade advance, if maybe not five years maybe at the shorter end, but maybe a decade of advancement in the digitisation of everything. These technologies, whether it be, we'll use them as verbs, Zoom, etc., they're not going away. We've embedded them now into how we operate. So, think about the core infrastructure that got us through this, was the ability to have things in the cloud, the ability

Time code	Speaker	Text
		for all of us to go work from home and the fact that these cable backbones and telecom infrastructure work.
00:21:24		And so as I look forward, I think that that's probably the key thing of change, that how does that ramp, how does that enable us in the future? This disruption has been the greatest in our lifetime, and out of this will come an incredible amount of productive change. I think about it now at the sector level, but even step it back up. When you unemployed 3 million people in Canada, 20 million in the US at its peak, you told them to stay home and you gave them enough aid to get through it, but they sat around and they had a rethink about what they were going to do. Many of them weren't working. They were contact workers.
00:21:53		And I've got to tell you, there's going to be great innovation that comes out of that many kids sitting home in their parents' garage with nothing else to do but getting paid and thinking about their future. Back to 2008, with things like why Airbnb was created. After, post the financial crisis, a bunch of people got laid off and these guys had to run out their bedrooms. Like war, this type of event will lead to some great productivity, despite the pain that we've been through.
	DP	I just want to piggyback on what Kevin was talking about, about this idea of generational change that comes out of what we've just been through.
00:22:24		I think of my dad who is 88, who went through the Depression in the 30s, which is a big chunk of time. It's a whole decade. And his generation is the frugal generation, the savers. We've gone through something that's a year and counting now. Do you think it will be indelible in terms of maybe labelling a generation of people in terms of their traits and characteristics, going forward?
	SB	Yes, I'll dive in because it follows on from Kevin's comment. If we think of who was impacted disproportionately through this, it was the younger generation, and in part perhaps a large group that is not in the market yet.
00:22:57		I think those over 45 that had large trading accounts probably were less impacted, other than the shock of seeing the numbers contract. Certainly, I see that with my own millennial children, and

Time code	Speaker	Text
		the way that they're approaching work and savings has already started to change. And I think that this will be embedded into their psyche for a long time to come.
	DC	I would say one thing here is probably people have a lot better appreciation now for experiences that they haven't been able to take advantage of during COVID, such as travel. I think there's going to be huge pent-up demand for personal travel, leisure travel.
00:23:28		And that could last for years, just given increased savings rates, skipped vacations, just mental health reasons. I think experiences like that are something that could really ramp up once COVID is behind us and things get back to normal. And also just in terms of social events. I think things like gatherings, sporting events, concerts, eventually those will all come back to normal because those are experiences that people value.
	KM	We, as an industry, are going to be facing things that maybe lost sight of for the last ten-plus years. We have to start worrying possibly about inflation. We have to think about how we're going to pay for all this down the line.
00:23:59		And in the nearest term, we have to still keep an eye on our health and getting vaccinated and through this so we can get to some normalcy in the future. And it'll be a different normalcy. It'll be a hybrid world of work, where we're not going back to what we knew and we have to all embrace that in terms of how that will look. But it's going to be, I think, a terrific world when we get there.
	DP	Okay, that sounds like a good place to end. Thanks again to John, Steve and Dillon for joining us, and Kevin. As always, until next time.
00:24:26		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.
00:24:54		This podcast is for informational purposes only, and is prepared by AGF. It is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or adopt any investment

Time code	Speaker	Text
		strategy. The views and opinions expressed in this podcast are based upon information available as at the publication date and are subject to change. The opinions provided are those of the speakers and not necessarily those of AGF, its subsidiaries or any of its affiliated companies. References to specific securities are presented for illustrative purposes only and should not be considered as investment advice or recommendations.
00:25:23		The specific securities identified and described herein should not be considered as an indication of how the portfolio of any investment vehicle is or will be invested and it should not be assumed that investments in the securities identified were or will be profitable. Any discussion of performance is historical and is not indicative of, nor does it guarantee, future results and there can be no assurance comparable results will be achieved in the future. Reliance upon information in this material is at the sole discretion of the listener. The information provided is neither tax nor legal advice, and investors are expected to obtain professional investment advice. The AGF logo and Invested in Discipline are registered trademarks of AGF Management Limited and used under licence.
00:25:55		