

# PALOS

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### Palos Weekly Commentary

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By *Charles Marleau, CIM*

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## The Coronavirus is Shaking Markets

News on the Coronavirus has been quickly spreading through newswires and social media and this has made global markets nervous. The Coronavirus should not be taken lightly as this will likely impact consumer behaviour and supply chains. Unfortunately, the impact cannot be quantified and its very difficult to predict when this will be resolved. While the tendency is for fear to become overblown, emotions and fear will continue to drive the market until we see a slowdown in new cases. It will take some time before we see an improvement.

Historically, we have gone through several epidemics; Spanish Flu, AIDS, SARS, H1N1, MERS, Ebola, and Zika. While these pandemics were resolved overtime there were certainly consequences for the economy, but short lived. Not to diminish the seriousness of the Coronavirus, but according to the World Health Organization (WHO), the seasonal flu kills an estimated 400,000 people every year, or 1,100 per day. As of Thursday, there was 7,900 cases of Coronavirus and 170 deaths. Headlines are increasing investors' nervous and as a result, we've seen a flight from specific sectors or industries. Airlines, hotels, restaurants, cruise lines, casinos & resorts, energy, and materials were under selling pressure.

The Palos Income Fund is taking advantage of volatility in those sectors by purchasing companies that have strong fundamentals but are oversold. At the same time, the fund is hedging risk by shorting either an Exchange Traded Fund (ETF) or a weaker company in a related industry. This strategy allows the fund to take advantage of an oversold condition, but at the same time reduce market risk.

As an example, the fund has accumulated Cenovus Energy Inc (TSX: CVE) and shorted Vermilion Energy (TSX: VET) in a pair trade. Palos analysis sees positive tailwinds for CVE such as the narrowing price differential of Western Canadian Select (WCS). On the other hand, VET has significant risk to its dividend as the payout ratio is well above 100%, and its evaluation is at the high end compared to its peers. In addition, its balance sheet is weak, and the company has exposure to falling European Natural Gas prices.

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In another example, the fund has accumulated Teck Resources (TSX: TECK/B) and shorted the iShares S&P/TSX Global Base Metals Index ETF (TSX: XBM). TECK/B is down 17.5% since the Coronavirus was announced, while the XBM is down 10% in that same period. Secondly, TECK/B fundamentals are now in deep value compared to other integrated resource companies.

The unknown brings volatility as fear shadows fundamentals. I'm of the opinion that, in this kind of scenario, we like to take advantage of these opportunities, but at the same time keeping a focus on capital protection.

*Disclaimer: Palos Funds are shareholders of CVE, VET, TECK/B, XBM.*

By Charles Marleau, CIM

*La version française suit*

Dear Palos Friends,

The deadline for your 2019 RRSP contribution is quickly approaching and we would like to remind you of the importance of contributing for the future. The earlier you start contributing to an RRSP or TFSA, the more money you'll have when it's time to retire. There's nothing like the power of tax-free compounding of returns.

You will find enclosed instructions to access your RRSP and TFSA contribution room available, via the CRA online portal, under the "My Account" section.

<https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html>

### Important Reminder to Contribute to Your RRSP and TFSA

**Maximizing contributions to your RRSP and TFSA are two of the most important ways that Canadians can accumulate wealth. Here's what you need to know:**

<b>RRSP Advantages</b>	<ul style="list-style-type: none"><li>• <b>RRSP contributions are tax deductible.</b></li><li>• Savings grow tax free.</li><li>• When you retire, you can convert your RRSP to get regular income.</li><li>• A spousal RRSP can reduce your combined tax burden.</li><li>• You can borrow from your RRSP to buy your first home or pay your education.</li></ul>
<b>RRSP Contribution Details</b>	<ul style="list-style-type: none"><li>• The deadline for making your 2019 RRSP contribution is March 2, 2020.</li><li>• Your 2019 RRSP contribution limit is based on any unused contribution room carried forward from 2018 plus your 2019 contribution amount (18% of your prior year's earned income, subject to a ceiling of \$26,500 in 2019)</li><li>• If you have already made your 2019 contribution, consider making your 2020 RRSP contribution now to benefit from the tax-deferred growth of an RRSP. The maximum RRSP contribution limit for 2020 is \$27,230.</li></ul>
<b>TFSA Advantages</b>	<ul style="list-style-type: none"><li>• You can save tax free.</li><li>• You don't need to earn income to contribute.</li><li>• You can take the money out whenever you want, without paying any tax.</li><li>• If you take money out, you can re-contribute the amount the following year.</li></ul>
<b>TFSA Contribution Details</b>	<ul style="list-style-type: none"><li>• The annual contribution limit for 2020 is \$6,000.</li><li>• The TFSA contribution room is cumulative and has been accumulating since 2009. Unused contribution room carries forward, currently up to \$69,500.</li></ul>

If you would like to open, contribute or have any questions about RRSP or TFSA accounts, contact your investment advisor or email us at [info@palos.ca](mailto:info@palos.ca).

By Charles Marleau, CIM

Chers amis de Palos,

La date limite pour votre cotisation REER 2019 approche à grand pas et nous aimerions vous rappeler l'importance de cotiser pour votre avenir. Plus tôt vous cotisez à un REER ou à un CELI, plus d'argent vous aurez. Il n'y a rien de tel que l'avantage des types de comptes libres d'impôt (CELI) ou de report d'impôt (REER) pour faire fructifier votre argent.

Vous trouverez ci-joint des instructions pour accéder à vos droits de cotisation à un REER et à un CELI disponibles, via le portail en ligne de l'ARC, dans la section «Mon compte». <https://www.canada.ca/fr/agence-revenu/services/services-electroniques/services-electroniques-particuliers/dossier-particuliers.html>

### Rappel important pour cotiser à votre REER et à votre CELI

**La façon la plus productive d'accumuler la richesse pour les Canadiens est de maximiser les contributions aux comptes REER et CELI. Voici ce que vous devez savoir :**

<b>Advantages du REER</b>	<ul style="list-style-type: none"><li>• Les cotisations à un REER sont déductibles d'impôt.</li><li>• Vos épargnes augmentent sans impôt.</li><li>• Lorsque vous prenez votre retraite, vous pouvez convertir votre REER pour obtenir un revenu régulier.</li><li>• Un REER de conjoint peut réduire votre fardeau fiscal commun.</li><li>• Vous pouvez emprunter à votre REER pour acheter votre première maison ou payer vos études.</li></ul>
<b>Détails sur la cotisation au REER</b>	<ul style="list-style-type: none"><li>• La date limite pour verser votre cotisation REER 2019 est le 2 mars 2020.</li><li>• Votre plafond de cotisation REER 2019 est basé sur les droits de cotisation inutilisés reportés de 2018 et le montant de votre cotisation 2019 (18% du revenu gagné de votre exercice précédent, sous réserve d'un plafond de 26 500\$ en 2019).</li><li>• Si vous avez déjà effectué votre cotisation 2019, songez maintenant à cotiser à votre REER de 2020 pour bénéficier de la plus-value d'un REER avec impôt différé. La limite de cotisation maximale à un REER pour 2020 est de 27 230 \$.</li></ul>
<b>Advantages du CELI</b>	<ul style="list-style-type: none"><li>• Vous pouvez économiser en franchise d'impôt.</li><li>• Vous n'avez pas besoin de gagner un revenu pour cotiser.</li><li>• Vous pouvez retirer l'argent quand vous le souhaitez, sans payer d'impôt.</li><li>• Si vous retirez de l'argent, vous pouvez réinvestir ce montant l'année suivante.</li></ul>
<b>Détails sur la cotisation au CELI</b>	<ul style="list-style-type: none"><li>• La limite de contribution annuelle pour 2020 est de 6 000 \$.</li><li>• Les droits de cotisation CELI sont cumulatifs et s'accumulent depuis 2009. Les droits de cotisation inutilisés sont reportés, jusqu'à présent ils se soldent à 69 500 \$.</li></ul>

Si vous souhaitez ouvrir, cotiser ou avoir des questions sur les comptes REER ou CELI, vous pouvez contacter votre représentant ou envoyez-nous un courriel à [info@palos.ca](mailto:info@palos.ca).

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.51	0.10%
Palos Equity Income Fund - RRSP	PAL101	\$5.74	0.48%
Palos Merchant Fund L.P. (Dec 31, 2019) <sup>2</sup>	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$7.66	0.07%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$10.05	-3.13%
S&P TSX Composite (Total Return with dividends reinvested)			1.74%
S&P 500 (Total Return with dividends reinvested)			-0.04%
S&P TSX Venture (Total Return with dividends reinvested)			-0.39%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.51%
Canadian Government 10-Year			1.27%
Crude Oil Spot			US \$51.56
Gold Spot			US \$1,582.90
US Gov't10-Year/Moody BAA Corp. Spread			206 bps
USD/CAD Exchange Rate Spot			US \$0.7554

<sup>1</sup> Period ending January 31, 2020. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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