

2020

A YEAR IN REVIEW



**MONIC
FINANCIAL**

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Alex is a financial advisor with Monic Financial Ltd. where he brings experience from his diverse background in non-profit to deliver a responsible and compassionate model of investment for his clients.

A graduate from the University of British Columbia with a Bachelor of Arts, Alex gained extensive experience throughout his career in fundraising and direct care in his years working with non-profit organizations across Vancouver, British Columbia. From his unique financial background, Alex is committed to providing an exceptional client experience based on a deep understanding of client concerns and needs.

2020 A YEAR IN REVIEW

Hello Everyone,

With the year of 2020 now behind us, we at Monic Financial want to wish you a happy new year abundant with prosperity, wellness, and opportunity!

Though much remains uncertain as the effects of the global pandemic have continued into this year and continues to permeate throughout our daily life, as we move forward into 2021, we believe it to be paramount to reflect upon the remarkable year which has passed as well as provide a glimpse of what may lie ahead in the coming months.

As such, in the current edition of this publication you will find a review of past and ongoing financial events while in the future, the newsletter will also cover topics such as current events, financial concepts, and interview content from our partners.

We hope that you will be able to find useful and informative explanations through our publications and encourage you to reach out with any questions you might have.

Sincerely,

Alex Ho & the Monic Financial Team

EXISTING BUSINESS

THE AUSPICIOUS BEGINNING

"We expect 2020 to be another year of positive growth [...] we don't see a recession in 2020."

Andrew D. Goldberg

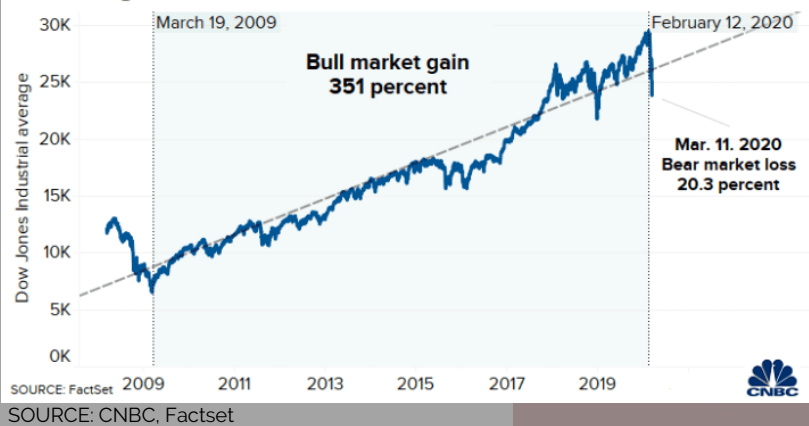
Global Head of Market Strategy and Advice
J.P. Morgan Private Bank

While in economic terms, the year of 2020 will be remembered for the financial turmoil caused by the Covid-19 pandemic throughout various lockdowns and challenges the pandemic created, it would be easy to forget that the year began with a cautious optimism.

Despite uncertain tensions surrounding the United States and Iran, ongoing instability in Europe with Brexit, as well as the ever-present issue of Climate Change coming again into the forefront of news cycles with fires reaching a fervor in Australia throughout and beyond January – these uncertainties had not affected the U.S. Federal Reserve's assessment that economic activity remained on the rise and that the American consumer was strong.

The Federal Reserve's confidence was matched by the markets as the Dow Jones Industrial Average neared a record-breaking 30,000 points. The economy of the United States continued to march onwards to grow to its longest historical expansion on record.

The long bull run



By the early months of 2020, the Dow Jones Industrial Average had managed a growth of over 351% from its lowest point while the S&P 500 Index in the same period had managed growth that amounted to over 329%. As the market neared March, the long bull run approached an unprecedented 11th anniversary should it have maintained its course.

WHAT GOES UP...

While in retrospect, 2020 was a year of positive growth in some regards. While particularly so for the stock market, few could have anticipated the path which led us there.

As the threat of the coronavirus grew to a pandemic level and global shutdowns along with mass layoffs began occurring across the globe, by early March this volatility and uncertainty was reflected in the market. Over the course of a week, records for the most points dropped in a single day by the Dow Jones Industrial Average were broken on

March 9th, followed by the record for the greatest single-day percentage loss by both the Dow Jones Industrial Average and the S&P 500 Index.

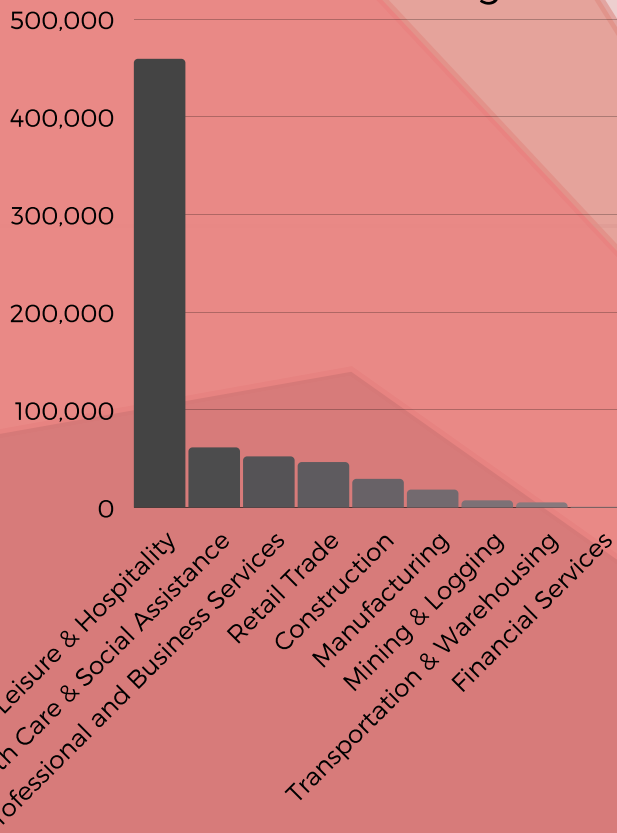
Domestically, the Canadian TSX Composite Index had not experienced such volatility in its 12% drop since 1940. These unprecedented declines occurred globally across different markets, be it the Foreign Exchange Market or commodities like crude oil. Remarkably, as demand for crude oil declined throughout

lockdowns, crude oil futures went negative as the West Texas Intermediate - a benchmark for crude oil prices - traded between -\$40 - 0 per barrel of oil. Futures owners expecting to resell and profit off of their oil futures would find themselves unable to offload their contracts and lacking the means to physically accept the abundance of barrels of oil accounted for in their futures causing massive losses among commodities traders.

LOSSES VISUALIZED

March Job Losses

One Month Net Change



Coronavirus impact on stock markets



THE FEDERAL RESERVE'S "FULL RANGE OF TOOLS"

"When it comes to this lending, we're not going to run out of ammunition."

Jerome Powell
Federal Reserve Chairman
Federal Reserve System

On March 23rd, the Federal Reserve outlined its willingness to utilize all of its tools to support the U.S. economy in the challenging times ahead to promote employment and price stability goals.

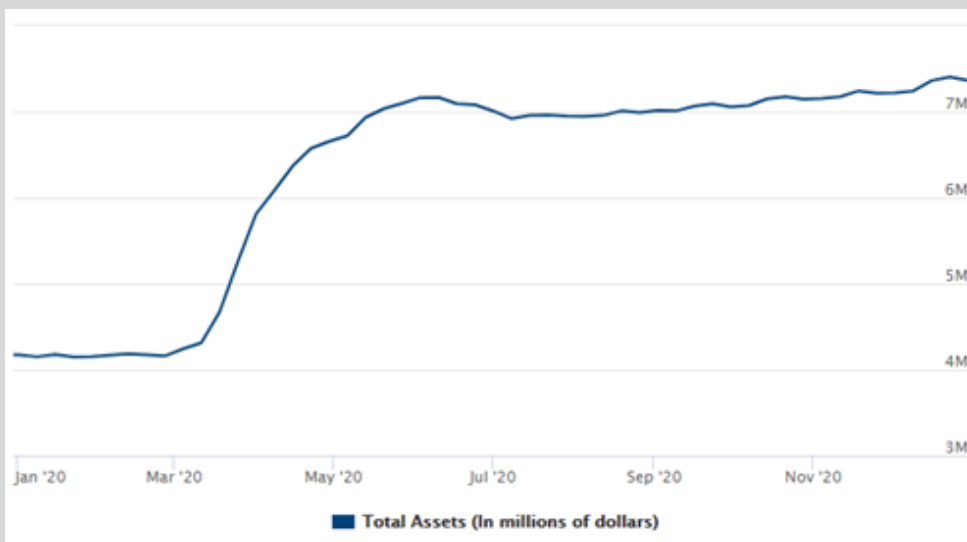
These tools alluded to by the Federal Reserve included a slashed interest rate that now sat between 0 - 0.25%, restructuring of their repurchase agreement operations to provide liquidity, and initially what was assumed to be over \$700 billion in quantitative easing by way of purchasing various Treasury securities and government-guaranteed mortgage-backed securities (MBS) to again provide liquidity back to the market.

Soon after this announcement, the Federal Reserve further expanded the scope of their quantitative easing to not only include the purchases of commercial MBS as well, but would also make purchases in what would functionally be considered unlimited amounts to "support smooth market functioning". In the period between mid-March to early December, the Fed's portfolio of securities grew from \$3.9 trillion to \$6.6 trillion.

As the House and the Senate passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a further \$2.3 trillion to be distributed across various forms in direct payments, tax breaks, unemployment benefits, but primarily loans to large and small businesses and households.

With all of this liquidity in the market at a near zero percent interest rate, what were the functional consequences of this unprecedented intervention by the government and Federal Reserve?

The Federal Reserve's Balance Sheet - 2020



SOURCE: Federal Reserve System

...JUST KEEPS GOING UP

*"How was a 20 year old with no income able to get assigned almost a million dollars' worth of leverage?"**

Alexander E. Kearns
University of Nebraska Student

As the coronavirus continued to cause turmoil, enforced lockdowns intertwined with government stimulus along with the growing popularity of apps such as Robinhood and Questrade created a powder keg which meant retail investors not only had accessible way to invest, but also the time and sudden liquidity to do so.

What followed was an explosive market rally that saw even the most unlikely corporation's stock rise.

After Hertz, the car rental company, filed for bankruptcy protection late-May, Hertz shares reached a low of 40 cents before the arrival of the retail investors who managed to drum the stock back up to \$6 a share by early-June.

Armed with a mix of long and short "strategies", options trading became increasingly popular for retail investors due to the use of leverage allowing for larger margins as well as those trades being incentivized by the online trading platforms. Corporations such as Tesla and Apple Inc. soon saw their stock rise to multiples of their value before splitting them in 5-for-1 and 4-for-1 shares.

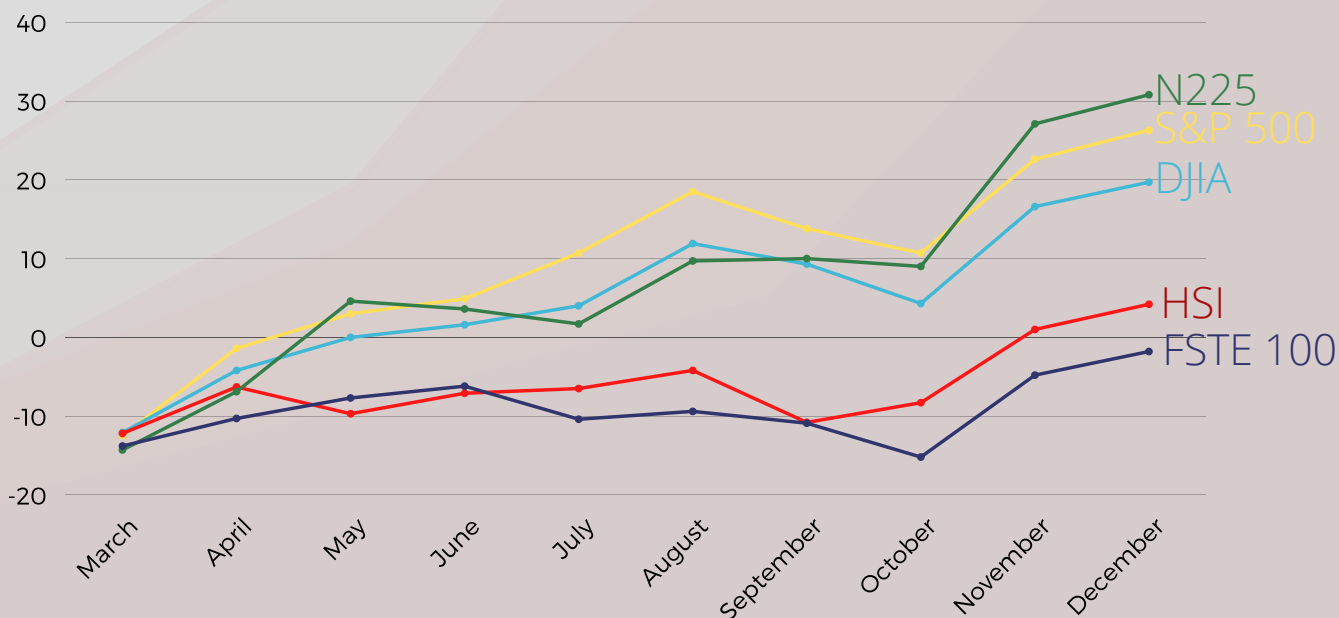
By September, Bloomberg reported that forums frequented by these retail investors had also soon become must-read material for Wall Street themselves and the impact of retail investors could not be denied.

By November, the stock market had achieved what was thought to be impossible in March, surpassing 30,000 points to reach a record high despite a second wave of lockdowns in Europe and ongoing tensions in a tumultuous and contested election year.

**Note which was left on Kearns' computer after having taken his own life from his parents' home in Naperville, Illinois due to losses from options trading*

GROWTH VISUALIZED

PERCENTAGE GROWTH CHART OF MAJOR INDICIES



SOURCE: Yahoo Finance

NEW BUSINESS

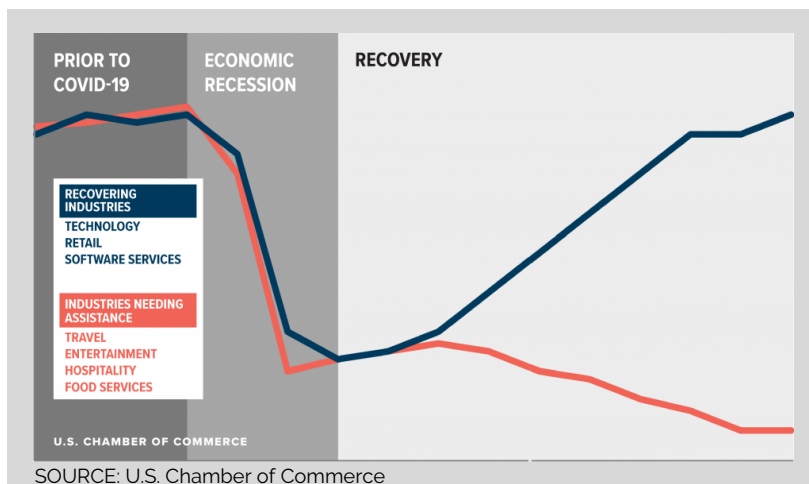
Future Market Trends

THE K-SHAPED RECOVERY

With the stock market continuing to grow despite a lack of fundamental growth or change in many of the core business functions of companies which comprise the market, this growth has led to an economic recovery that in many ways mirrors the recovery of the 2008 Financial Crisis.

Characterized as a “K-Shaped” recovery, this economic recovery from the Covid-19 crisis attributes its namesake from the divergent lines in the letter “K” wherein as one portion of the economy returning to or exceeding previous prosperity while another portion of the economy continues to fall behind.

In the case of this economic recovery, the divide lies between wealthy asset owners who by September of last year managed to make over \$637 billion in collective net worth while regular wage, the



other portion of the economy, remain in contention with unemployment and delayed stimulus packages.

While in an ideal recovery, progress and growth would occur by the majority of a population getting richer during growth periods rather than the majority getting poorer, the current shape of the economic recovery resembles the latter.

In the coming months, governmental policy will determine the future shape of the ongoing recovery and prove to hold large scale implications for many people from all backgrounds.

A SPAC-TACULAR TREND

"i am sick of SPACs!"

Jim Cramer

Host of Mad Money
CNBC

Posted via Twitter 2:50 PM September 30, 2020

"Why?"

Chamath Palihapitiya

Founder & CEO
Social Capital (Currently leading 6 SPACs)

Replied via Twitter 7:30 PM September 30, 2020

In 2020, corporations seeking to go public and raise capital through the public markets found themselves eschewing the traditional Initial Public Offering (IPO) process for the faster and cheaper SPAC or Special Purpose Acquisition Company. These SPACs, functionally "blank-check" companies, are formed with investors capital in a blind pool with the intention of acquiring or merging with a private company as a means to bring them public. On average, SPACs have two years to complete an acquisition before they must return funds to investors.

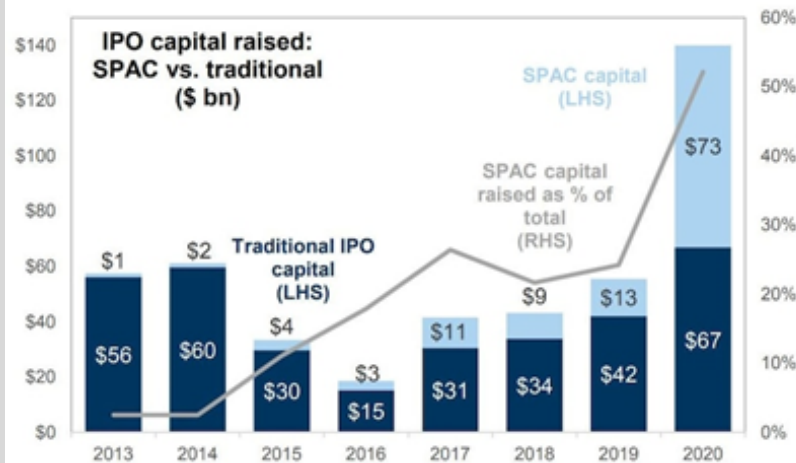
Though SPACs have existed since the 1990s, in recent years, SPACs have found resurgent interest from investors and corporations seeking to go public alike. The continued interest in SPACs proved to reach a frenzy in 2020 as SPACs, for the first time, outpaced traditional IPOs with over 219 "blank-check" companies raising \$73 billion in proceeds as per a note from Goldman Sachs. High-profile companies from a variety of diverse backgrounds and sectors have embraced the SPAC method of

going public, with corporations such as Virgin Galactic, DraftKings, QuantumScape – representing space exploration, sports betting, electric battery manufacturing – all raising capital by way of SPACs.

As the velocity of the SPAC trend continues to accelerate, Goldman Sachs suggests that investors should expect this trend to continue well into 2021 as activity will likely continue at a high

pace through the year as SPACs show no signs of slowing down.

Exhibit 1: SPAC IPO volumes have surged in 2020
as of December 16th, 2020



Source: Dealogic, Goldman Sachs Global Investment Research

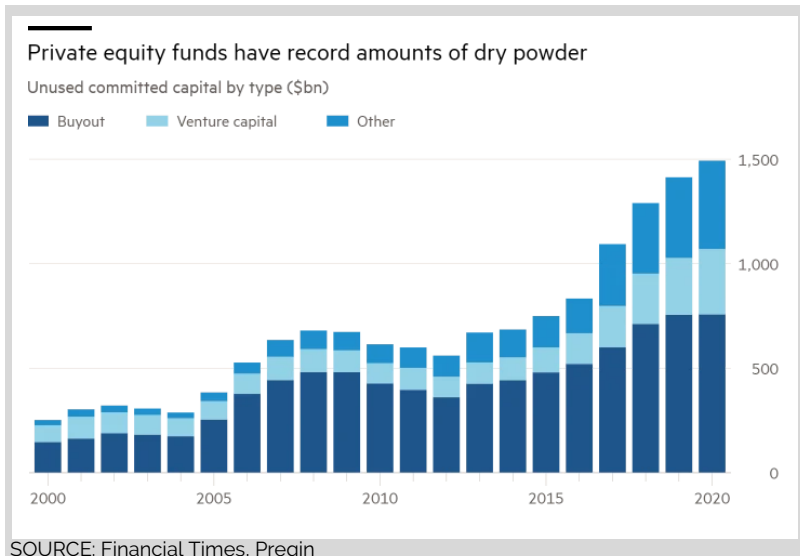
SOURCE: CNBC, Dealogic, Goldman Sachs Investment Research

PRIVATE EQUITY'S "DRY POWDER"

"[We] are in a truly distinctive position to deploy \$152 billion of dry powder"

Jonathan D. Gray
President & Chief Operating Officer
The Blackstone Group Inc.

As the public markets were embroiled in volatility and uncertainty throughout the early months of the pandemic, it was unavoidable for the private markets to similarly react to the initial shock of lockdowns and an economy that ground to a halt. Private funds had to contend with investors who increasingly sought to liquidate their investments, managing portfolios to ensure their businesses had sufficient capital to operate with, and private lenders suddenly found themselves having to slow down the velocity of their lending to closely analyze each transaction. Yet, as the health implications and pandemic management was understood better by the summer, the private



markets found themselves primed to outperform the market in the short term downturn and set themselves up for profits in the next 3-5 year investment cycle. Benefiting from the sustained low rate and low yield environment of the current economy, the private industry also managed to reach a historic high in "dry powder" - capital of which to invest with - of over \$1.5 trillion.

This positions the private sector at a highly opportune time to invest capital into the markets as they see opportunities to profit from. Domestically, this opportunity for investment into the private markets is reflected by the Canada Pension Plan which has already committed a major portion of their fund - approximately 55% - to broadly diversified investment in the private markets.

CLOSING REMARKS

As we move past 2020, reflection shows us that while there is plenty to be weary of going into the new year, there remains even more to be optimistic about. Especially for those of us working within the private sector, we stand at a uniquely opportune time to find growth opportunities. We at Monic Financial look forward to working closely with you in the coming year to develop strategies and methods to best optimize your portfolio heading into the next growth cycle.

As such, we hope that you have publication informative and helpful. Please do not hesitate to reach out if you have any questions.

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