Gold Investment
Portfolio Manager

January 21, 2020

Gold Investment Management Ltd.
Q4-19 Investment Letter (No. 50)

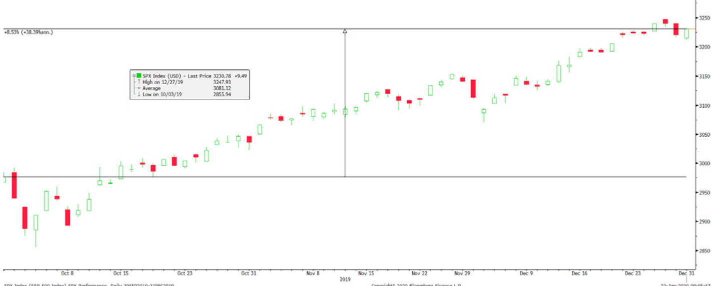
OVERVIEW

Dear Clients and Friends,

We are pleased to provide this quarterly report for the period ended December 31, 2019. The letter will be divided into three parts: (1) Market Recap, (2) What's New and (3) Commentary.

MARKET RECAP

The S&P 500 Index (in USD) soared by 8.53% for the three month period ended December 31, 2019. The net increase over the quarter was 254.04 points; the Index hit a high of 3,247.93 on December 27, 2019 and a low of



The S&P/TSX Composite Index rose by 2.43% in the fourth quarter of 2019, climbing 404.80 points. The Index hit a high of 17,230.58 on December 27, 2019 compared to its low of 16,198.09 reached on October 3, 2019.

The Canadian Dollar quoted in USD (CADUSD) increased by 1.92% during the quarter ended December 31, 2019. CADUSD closed at 0.7698 on December 31, 2019 versus a close of 0.7553 on September 30, 2019.

WHAT'S NEW

2020 INVESTMENT SEASON

The TFSA limit for 2020 is $6,000; you can deposit up to $69,500 ($139,000 per couple) if you have never contributed to a TFSA. Other great ways to invest include pre-authorized monthly contributions (PACs), RRSPs RESPs, RDSPs and open/taxable accounts. Please visit GIM's Investment blog for more information.

TAX DOCUMENTS

2019 tax year documents will be released by Credential Qtrade Securities Inc. over the coming weeks. We would like to provide you with some information on how to retrieve tax documents for your account(s).

Clients registered for *electronic documents,* please log in to Credential Online. Navigate to the e-Services page where you may filter for tax documents and download items you require. Please check for any messages in your Inbox from Credential that may contain updates on tax information.

Clients registered for *paper documents,* all tax documents will be sent by mail to your address on file.

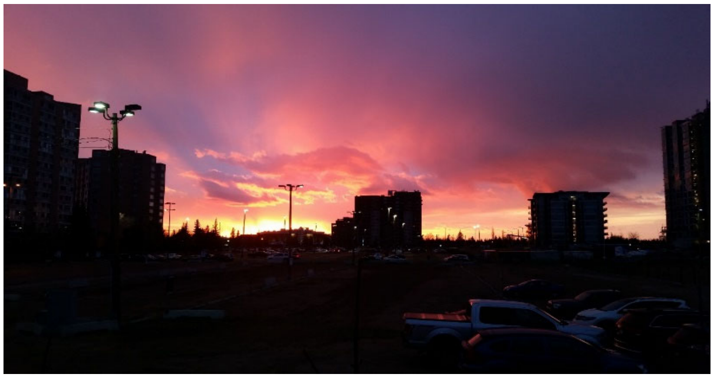
All tax documents are expected to be available by March 30, 2020. If you do not see any tax documents issued in 2020 in Credential Online or you have not received anything by mail, then you may not have tax documents for your account(s) for the 2019 tax year. If you have any questions regarding tax documents for your accounts, Online login information, document delivery preferences, or your mailing address, please do not hesitate to contact us.

NEW WEBSITE

After months of hard work and perseverance, we are pleased to announce the launch of our new website. Please visit us at gold-im.com. We hope you enjoy it!

COMMENTARY

Happy New Year! We hope you had a great holiday season. From our head office in Alberta the days have been getting longer. The northern prairie sunrises are also spectacular. We took this image on our way to work. In addition to being crack portfolio managers we sometimes pose as amateur photographers.



Part 1: The U.S. Presidential Cycle

Our discussion for this quarter starts with the Presidential Cycle and the U.S. S&P500 large cap composite index. The Presidential Cycle looks at how markets perform in each of the 4 years of an incumbent President. However, it is of limited value unless we put some context around it first. We will start with how the U.S. economy is doing.

There is a caveat – we are of the view that as goes the U.S. economy, so goes Canada's. As can be seen in Table 1, below, the U.S. economy has been very strong. Canada's national economy is also doing well, although we fully appreciate the prairie provinces are in recession.

Table 1

U.S.	**2018**	**2019E**	**2020E**
Real GDP*	2.9%	2.3%	1.8%
Consumer Price Index (CPI)*	2.4%	1.8%	2.2%
Unemployment	3.9%	3.7%	3.6%
Housing starts	1.25m	1.28m	1.35m
Fed Funds target rate (avg)	1.83%	2.13%	1.63%
Canada	**2018**	**2019E**	**2020E**
Real GDP*	2.0%	1.7%	1.8%
CPI*	2.3%	2.0%	1.9%
Unemployment	5.8%	5.7%	5.8%
Housing starts	214k	209k	205k
Bank of Canada overnight rate (avg)	1.44%	1.75%	1.75%

* Real GDP is after inflation (measured as CPI). BMO focus, Jan. 3, 2020

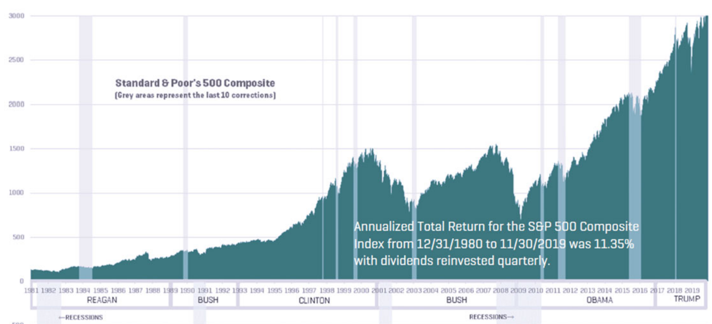
[1] CFRA The Outlook, Dec. 16, 2019
[2] Bloomberg, Jan. 14, 2020

The red-hot U.S. economy is expected to continue its expansion into 2020, barring any unforeseen events. The U.S. has plowed through problems in the past 2 years including the China-U.S. trade discord, the new Canada-U.S.-Mexico free trade agreement, falling interest rates worldwide, impeachment proceedings of President Trump and ongoing problems in the Middle East. Despite these factors, our southern neighbors ended 2019 with unemployment at less than 4% -- an astounding number. To cap this all off, after initially raising interest rate expectations in early 2019, the U.S. central bank guided interest rates lower through the second half of 2019 and they continue to have a dovish posture[4].

In the context of a strong U.S. economy, we can now have a frame of reference for the market performance and the Presidential Cycle. The next chart shows the S&P500 has climbed dramatically since the 2016 Presidential election, although there have been periods of volatility. There has been no recession during this time.

The Presidential Cycle is indifferent to the party in power, whether Democrat or Republican. The bottom of Chart 1 lays out the last 6 Presidents. The S&P500 fell during the last 2 recessions. These periods were the end of both the Bill Clinton (Democrat) and George W. Bush (Republican) administrations. However, economists do not expect a recession in 2020 and the Presidential Cycle looks to be intact.

Chart 1



CFRA The Outlook, Dec. 16, 2019

From December 31, 1944 to November 30, 2019, the third year of a Presidential cycle, which we just passed, averaged a 15.6% price gain and this occurs 84% of the time[1]. The actual total return of the S&P500 for 2019 was much higher at 29% -- an amazing year[2]. The fourth year of a Presidential cycle, which we are currently in, had an average gain of 6.3%. This is more modest but still positive.

Table 2

S&P 500 RETURNS IN THE PRESIDENTIAL CYCLE

	AVERAGE PRICE % CHANGE					FREQUENCY OF PRICE GAINS (%)				
PRES. CYCLE	Q1	Q2	Q3	Q4	YEAR	Q1	Q2	Q3	Q4	YEAR
Year 1	-0.1	2.6	1.3	3.8	8.2	53	58	63	79	63
Year 2	1.1	-1.9	-0.5	6.4	5.0	47	53	63	84	58
Year 3	6.9	4.6	0.6	3.2	15.7	89	74	58	72	84
Year 4	1.2	2.3	0.6	1.8	6.3	61	67	56	78	78
All Years	2.3	1.9	0.5	3.8	8.8	63	63	60	78	71

Source: S&P Capital IQ. Data: 12/31/44-11/30/19. Past performance is no guarantee of future results.

CFRA The Outlook, Dec. 16, 2019

Chart 2 – S&P500 2019 Return

Source: Bloomberg

There are a couple of interesting side notes. Firstly, in the 28 years since 1945 where the S&P500 rose in both January and February the average total return that year was 24%. Secondly, the S&P500 has gone up an average of 10.4% in the half year after a Fed rate cut[1]. After raising interest rates in 2018, they were lowered 3 times in 2019[3]. We are fairly early in the stages of a Fed easing cycle and Fed Chairman Powell recently said monetary policy is "in a good place"[4]. BMO expects the Fed Funds rate to average 1.63% in 2020 (Table 1).

Conclusion. Correlating the market to things like the election cycle is interesting but in all honesty, we do not trade on this type of information. This is what investment textbooks call "weak form efficiency". There is too much room for error. But what is abundantly clear is the importance of investment discipline. *Our clients tell us how much investment risk they wish to take, and they will stay invested within those boundaries at all times.*

If an investor broke discipline and went to cash in the November 2016 Presidential election, the November 2018 mid-terms, or for any other reason in 2019 they would have been left behind as the markets rose. These investors will be in the unfortunate situation of having to buy in at a much higher price if they wish to participate in the markets again. This is not a position we want our clients to be in.

Part 2: Event Risk

The corollary to Part 1 is what can possibly go wrong or *event risk.* What we cannot predict are individual events which will change the fundamental outlook of a company or industry.

But the investment market is not some nebulous construct. It is made up of thoughtful and analytical investors and, beyond the short term, the fundamental factors that drive the market will be more important than any single event.

We acknowledge the current Iran-U.S. tensions in the Middle East and the tragic downing of Ukrainian Airlines Flight 752 on January 8. After a brief swoon in early January, global stock markets are rallying again. This is not unusual. The next table shows that since the Pearl Harbor attack in WWII the S&P500 fell an average of 1% on the day of a violent political event and averaged a 4% decline at the worst. The bottom was occurred within 21 calendar days and the initial losses were recouped within an average of 46 days[5].

Table 3

SELECTED MILITARY & TERRORIST MARKET SHOCKS SINCE WWII

	EVENT	% CHANGE		CALENDAR DAYS TO	
MARKET SHOCK EVENTS	DATE	ONE DAY	TOTAL	BOTTOM	RECOVERY
North Korea Missile Crisis	07/28/17	(0.1)	(1.5)	14	36
Bombing of Syria	04/07/17	(0.1)	(1.2)	7	18
Boston Marathon Bombing	04/15/13	(2.3)	(3.0)	4	15
London Subway Bombing	07/05/05	(0.8)	(0.8)	1	4
Madrid Bombing	03/11/04	(1.5)	(2.9)	14	20
U.S. Terrorist Attacks	09/11/01	(4.9)	(11.6)	11	31
Iraq's Invasion of Kuwait	08/02/90	(1.1)	(16.9)	71	189
Reagan Shooting	03/30/81	(0.3)	(0.3)	1	2
Yom Kippur War	10/06/73	0.3	(0.6)	5	6
Munich Olympics	09/05/72	(0.3)	(4.3)	42	57
Tet Offensive	01/30/68	(0.5)	(6.0)	36	65
Six-Day War	06/05/67	(1.5)	(1.5)	1	2
Gulf of Tonkin Incident	08/02/64	(0.2)	(2.2)	25	41
Kennedy Assassination	11/22/63	(2.8)	(2.8)	1	1
Cuban Missile Crisis	10/16/62	(0.3)	(6.6)	8	18
Suez Crisis	10/29/56	0.3	(1.5)	3	4
Hungarian Uprising	10/23/56	(0.2)	(0.8)	3	4
N. Korean Invades S. Korea	06/25/50	(5.4)	(12.9)	23	82
Berlin Airlift	06/24/48	(0.2)	(1.9)	5	16
Pearl Harbor Attack	12/07/41	(4.4)	(20.4)	143	308
Averages	**20**	**(1.1)**	**(4.1)**	**21**	**46**

Source: CFRA, S&P DJ Indices. Past performance is no guarantee of future results.

CFRA The Outlook, Jan. 6, 2020

[3] Barron's 2020 Market Outlook, Dec. 13, 2019
[4] BMO focus, Dec. 6, 2019
[5] CFRA The Outlook, Jan. 6, 2020

Conclusion. An event can be terrible, but it is not a reason to change an investment strategy. Markets are ultimately rational over the medium to long term and have successfully passed the litmus test of 2 world wars in the 20th Century plus countless other tragedies. Investing is for the long term and, as difficult as it is to do, it is important to stay fully invested according to your level of risk tolerance at all times.

Part 3 – Rosenberg's 9 ways to make money in 2020

We've always enjoyed reading David Rosenberg from the time he was the head economist for Merrill Lynch and most recently Gluskin Sheff. He has an uncanny ability to take complex financial issues and make them easy to understand. He publishes frequently in the financial press, including The Globe & Mail.

Mr. Rosenburg wrote an excellent article on January 16 in The Globe & Mail on the 9 ways to make money in 2020[6].

"My recommendations for this year are much the same as they were at the end of 2018. Not much has changed except valuations have become more extreme and the economic and market risks are even more acute than they were just over a year ago. So, what to do? After more than thirty years in this business, I can tell you two things that are certain even in this highly uncertain environment, where market pricing, in the vast majority of cases, are misaligned with the underlying fundamentals:

1. *There is no such thing as a sure thing*
2. *Never put all your eggs in one basket*

We favor the following strategies for 2020:

- *Cash (optionality)*
- *Long duration, high-quality bonds*
- *Utilities stocks*
- *Defense/Aerospace stocks*
- *Consumer Staples that have a low degree of price-demand elasticity*
- *Japanese equities, which remain a bona fide secular supply-side story*
- *Precious metals (especially with the Fed already undertaking debt monetization)*
- *Farmland/alternative hard assets/commodities in short supply (lithium, palladium)*
- *Energy stocks that are dirt cheap and priced much in the same way Financials were in early 2009 (for extinction)"*

He goes on to also say:
So, for equities, stick with a theme of quality, low-cyclicality, strong balance sheets and reliable and recurring cash flow streams. For bonds, go for extremely high quality. Get the alpha by going long-duration. Remember that no one thought you could make money in a 3% long bond world, but it delivered 18% in 2019. Expect more of the same in 2020. Maintain a healthy allocation in hard assets as a hedge against our deflation/disinflation thematic."

To paraphrase Mr. Rosenberg, the tenets he is espousing are to look for pockets of value or focus on assets that have good underlying long-term fundamentals. For equities we think financials and energy offer value. We like industrials, utilities, staples and technology for long term fundamentals. We like real estate (REITs) for hard asset exposure. In fixed income, we continue to be conservative in liking bonds that are high quality but have shorter duration. We have avoided long term bonds for clients in balanced mandates as bonds have a purpose of moderating volatility for these accounts, which requires short term fixed income.

Thank you for entrusting us with your investments. As always, we welcome your questions and comments. You can contact GIM by telephone: 1.888.436.9955, fax: 1.866.541.7947 or email: invest@gold-im.com.

Yours truly,
GOLD INVESTMENT MANAGEMENT LTD.

[6] "David Rosenberg: Nine ways to make money in markets this year", The Globe & Mail, January 16, 2020

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