April 6, 2020
Gold Investment Management Ltd.
Q1-20 Investment Letter (No. 51)

OVERVIEW

To all our clients, colleagues, friends and family,
We hope you are all doing well and keeping safe. The one thing that is truly priceless is health and that should be our #1 priority during this difficult time.

We are pleased to provide this quarterly report for the period ended March 31, 2020. The letter will be divided into two parts: (1) What's New and (2) Commentary.

WHAT'S NEW

COVID-19

Gold Investment Management is closely monitoring the current COVID-19 situation through various federal and provincial health agencies, media outlets, our regulators and custodians. Our top priority is to keep employees and clients healthy, safe and vigilant by implementing the appropriate measures as new information emerges.

In addition to the communication we delivered on March 16th, we would like to remind clients that we will only be accepting deposits through online banking or by completing an Electronic Funds Transfer Authorization Form (EFT).

Please understand that we are prepared to manage business disruptions caused by developments, employee absences, or quarantines. We are encouraging clients to continue to **contact** us if they have any questions. Our team will continue to respond to your inquiries even with modified business operations. For further information relating to our COVID-19 response, please access the **following link**.

TAX DOCUMENTS

All tax documents have now been released. If you do not see any tax documents issued in 2020 in Credential's online portal 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.

Once again, we would like to provide you with some important information on how to retrieve tax documents for your account(s).

For clients registered for electronic documents, please log in to **Credential's online client portal here**. Navigate to the eServices page where you may filter for tax documents and download items you require. Please check for any messages in your portal's inbox from Credential that may contain updates on tax information.

For clients registered for paper documents, any tax documents will be sent by mail to the address we have on file.

RRIF CHANGES

On March 25th, 2020, the Canadian government announced that the minimum withdrawals from any type of Retirement Income Fund can be reduced by 25% for 2020. This change only applies to future 2020 income fund account payments and the 25% reduction is not mandatory. This will only be applied to clients who choose this option. If you would like to take advantage of the 25% decrease in payments, please contact our office for assistance and please allow a few business days for the change to be applied. All information in regard to this update can also be found on the **CRA website**.

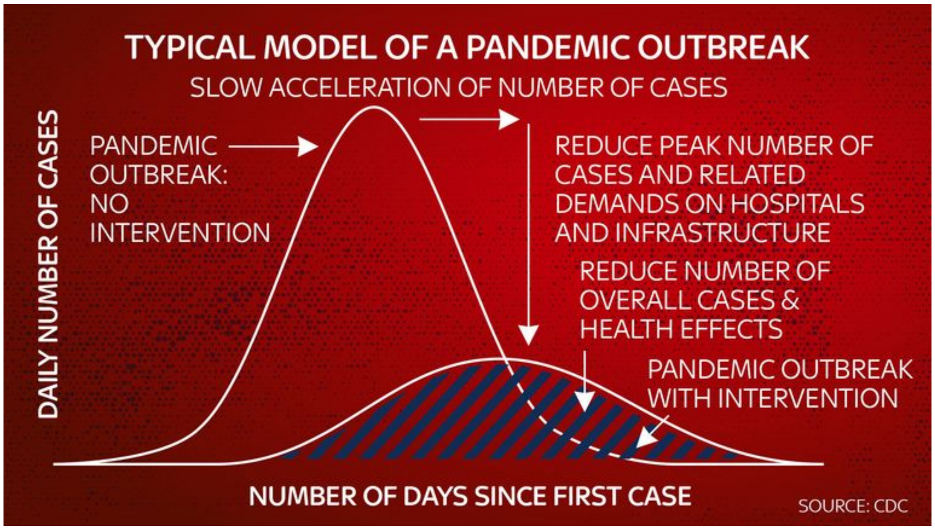
COMMENTARY

March has seen incredible impacts to our country and the way we carry on daily life. We are therefore releasing our quarterly newsletter early. This newsletter will talk about the economic and investment impact of the coronavirus COVID-19 and it will be longer than usual as we will review the investment risks in a systematic way.

Part 1 – Coronavirus Containment & Economic Impact

The bad news for North America is we are in the early stages of the pandemic. There will be more cases[1]. In Canada, as of this writing there are 15,283 confirmed cases[2]. The chart below shows a typical epidemic and how it can accelerate before burning out.

Chart 1 – Model Pandemic

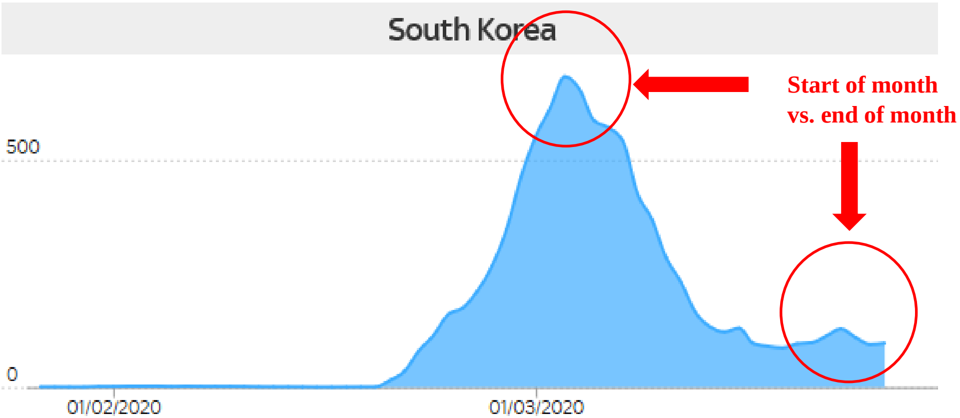


Source: Sky News 27MAR20

The good news is that, after a slow response, the U.S. and Canadian federal governments are now taking this pandemic seriously and have instituted aggressive measures to slow the spread. Canadians have been fortunate in that the provincial premiers had already taken a strong leadership role in the containment. These measures have been referred to as "*flattening the curve*" in the media.

There is further good news. Containment does work quickly. Taiwan, South Korea and Singapore are the 3 countries outside of China who immediately put in strict controls. They are now seeing the flattening of the bell curve. South Korea has reported over 9,000 infections but the rate of new case has dropped dramatically – social distancing and quarantine does work, and the effects were seen within 2 weeks.

Chart 2 – South Korea



Sky News, "Coronavirus: Which countries have successfully flattened the curve?" 27MAR20

[1] Washington Post, Coronavirus Live Updates, 30MAR20
[2] CBC News, Coronavirus, 30MAR20

Economic response. The shut down of essentially the entire service industry means the U.S. will immediately go into recession. In our opinion, by February 2020 Canada was likely accelerating to a recession before COVID-19 due to the protests that shut down our railroads. Railroads are the lifeblood of our country and move everything we need, from propane gas for use by farmers to the goods in our grocery stores. A stoppage of any length of time puts our economy at risk. The coronavirus has however made sure the Canadian economy also came to a hard stop.

With North America facing a sudden and hard recession, there has been an immediate response from government and regulators.

We believe it is essential to see three responses for the investment markets to return to normal. There needs to be (1) Monetary response, namely maintaining of banking/credit markets. This is a regulatory response; (2) Fiscal stimuli, which is how governments are responding to relieve our households' financial stress; and (3) A return of the labour market, which is the current unknown.

1) Monetary policy & credit response. The policy response by our central banks has been immediate. The U.S. Federal Reserve ("Fed") immediately dropped the Fed Funds rate twice in March by 1.50% to a mere 0.25%[3]. Similarly, the Bank of Canada ("BoC") made 3 rate cuts in March, taking our policy rate to 0.25% as well[4]. These aggressive moves are intended to make sure there is no credit crunch. Canadian banks have followed suit and have lowered prime rates lockstep with Prime currently at 2.45%. The banking system continues to work; we can still draw money from our chequing account and our lines of credit continue to operate with even lower interest rates.

All of this is good news as a recession *plus* a credit crunch will be toxic to the investment markets. Now we just have to consider a recession, which is somewhat of a relief to us as portfolio managers as it could have been far worse.

TABLE 1		
U.S.	**Change**	**Level**
March 3	-0.50%	1.25%
March 16	-1.00%	0.25%
Canada	**Change**	**Level**
March 4	-0.50%	1.25%
March 16	-0.50%	0.75%
March 27	-0.50%	0.25%

Source: Federal Reserve, Bank of Canada

In the 10 days prior to March 26, Canadian banks received an estimated 500,000 requests to skip or defer mortgage payments[5]. There is a catch though. Canadian banks are regulated by the government and they are typically not allowed to permit mortgage payments to be skipped without setting aside reserves, which in turn can restrict their ability to lend money – definitely not what the Government of Canada wants.

On March 26 our regulators came through. The Office of the Superintendent of Financial Institutions ("OSFI") announced changes to allow banks more elbow room to operate[6]. One of the changes allow mortgage deferrals without the loans being considered "past due" and this permits banks to act freely.

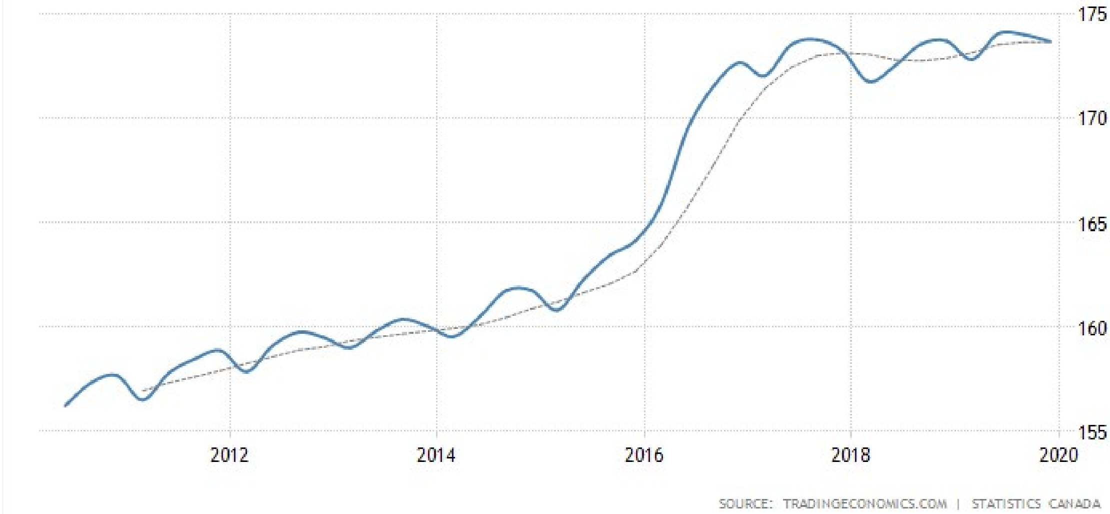
In summary, our central banks and regulators have acted to reduce pressure on the financial system and allow the banking system to continue to operate.

2) Fiscal (government) response. Our non-essential service sector has been shut down and people are asked to stay at home. There have been an enormous number of layoffs and furloughs with over 1 million EI applications in the last 2 weeks of March[2]. In our Q3 2019 newsletter we wrote that in Canada the ratio of household debt to gross

[3] https://www.federalreserve.gov/monetarypolicy/openmarket.htm
[4] https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/
[5] https://www.bnnbloomberg.ca/canada-s-big-banks-field-213-000-requests-for-mortgage-deferrals-1.1412754
[6] Desjardins Securities, OSFI puts in pressure valve, 27MAR20

income was extremely high, currently at 174%[7]. Missing a paycheque will have severe consequences on the average Canadian household.

Chart 3 – Canadian Household Debt: Income Ratio



Source: TradingEconomics.com, 31MAR20

The provincial and federal governments have responded with massive financial stimuli. A short list includes relaxing the conditions for EI, wage subsidies and easing of payroll expenses for employers, aid for sick or quarantined citizens, interest-free loans for small businesses, funding for charities, suspension of student loan payments, increased child tax benefits, deferral of tax payments. Every few days brings announcements of additional financial support[8].

For any reader that wishes to know more about the Government of Canada's COVID-19 financial response please follow this link[9].

In the U.S., a US$2 trillion fiscal stimulation bill was passed by Congress and signed by President Trump on March 27. Like Canada, some of the provisions of this bill provides money directly to individuals, provides for additional health care funding, support for small businesses, and loans for firms in distress[10].

In summary, governments are doing whatever it takes to make sure people receive enough money to pay for the cost of living. In financial terms, governments are directly injecting *liquidity* (cash) into the system. We believe governments will continue to directly give cash to Canadians for as long as the service sector can not return to work.

3) Labour response. The first 2 items are positive for investors as they buy time. As we noted at the start of this newsletter, containment does work. The unknown variable at this time is how long it will take to get back to normal, which is going to be a function of our health care system and the time it takes to reduce the number of active virus cases.

There is good news on this front. China has gradually reopened its factories and businesses in the month of March and people are returning to work. Almost all small to mid size factories have restarted[11]. This means people are starting to go back to work.

[7] https://tradingeconomics.com/canada/households-debt-to-income
[8] https://www.canada.ca/en/department-finance/economic-response-plan.html
https://www.alberta.ca/coronavirus-info-for-albertans.aspx
[9] https://www.canada.ca/en/department-finance/economic-response-plan.html
[10] https://www.cnn.com/2020/03/27/politics/coronavirus-stimulus-house-vote/index.html
[11] Scotiabank, Morning Strategy Update, 31MAR20

In summary, the return to normal will likely be lumpy but it is starting to happen in China, the epicentre. The actual risk to a return to normal is the risk of re-infection if the virus is not fully contained. This can cause a double peak, with another rise of infections within a year. Accordingly, a gradual return is probably the best approach.

Conclusion. 2 of the 3 items for investment stability have been achieved. Investment markets are forward looking and will price in a recovery of the economy and a return of the work force. In our opinion, investors who are sitting with cash on the sidelines can miss out as such a repricing could occur relatively quickly and without warning. GIM does not recommend market timing and encourages investors to consider the long term and maintain a disciplined approach to investing.

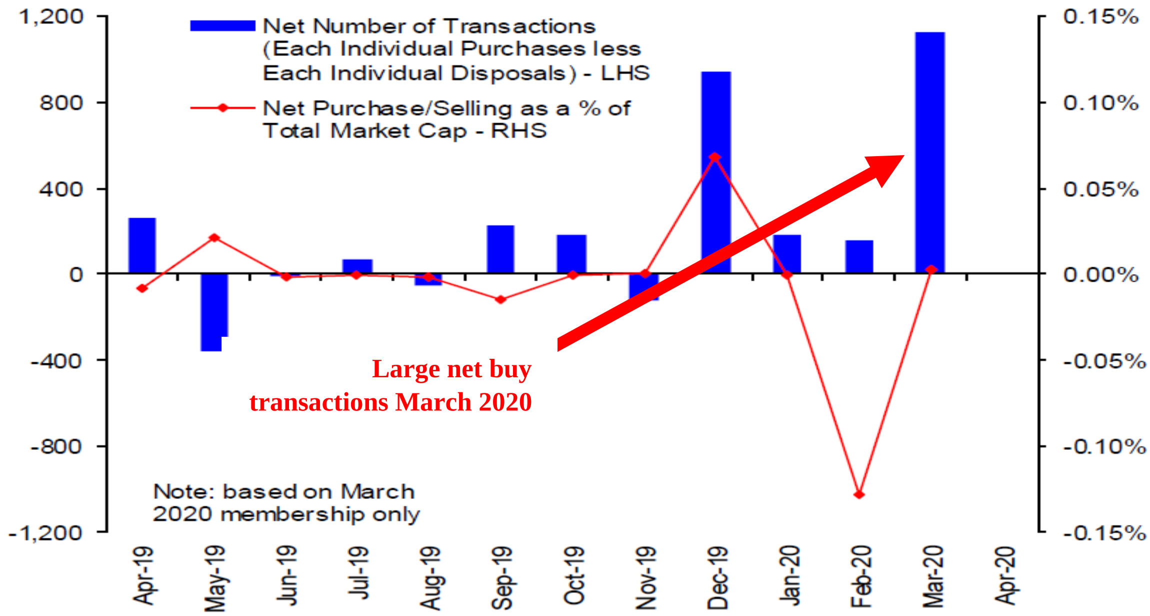
Part 2 – What Were Insiders Doing When Markets Panicked?

Insiders are members of board of directors and senior managers of publicly traded companies. Insiders are restricted as to when they can buy securities of their own firms and must report any transactions.

It is useful to look at Insider trading activity as we believe it signals important information. We believe Insiders have 2 important investing characteristics. Firstly, they will buy their own company when they think the odds of making a profit are tilted overwhelmingly in their favor. Because they must disclose their net purchases, we can get this information. Secondly, Insiders are *patient money*. Meaning when they buy, it is a buy-and-hold for the long term as they are strongly encouraged to be permanent stakeholders.

We therefore found this chart of particular interest.

Chart 4 – TSX Composite Net Insider Transactions March 2020



Source: Scotiabank, Quantitative Strategy, 27MAR20

The solid red line shows that net purchases by dollar amount have swung from negative in February to positive in March. The solid blue line shows the number of Insider transactions across the entire TSX Composite who are net buying are up significantly. *In plain English, directors and senior management are putting their own money where their mouth is.*

Conclusion. Insiders will be large net buyers when they believe the risk of losing is at its lowest. March 2020 saw high purchasing activity as the market was panic selling. This is commonly regarded as a buy signal.

Part 3 – Final Thoughts

We will continue to diligently manage your investments throughout this difficult time. We manage a range of portfolios with varying risk levels and objectives and we are making suitable adjustments to mitigate risk and position your accounts to benefit from the market recovery when it occurs. Our firm focuses on quality investments within all of our models and we aim to provide value. The market downturn has provided price corrections that were much needed after the run-up of 2019, and we see this as an excellent opportunity to buy securities at a discount. With this in mind, we encourage investors to stay focused on their long-term goals.

Assets in our models are liquid, which maintains your ability to access your funds if needed. Our firm uses investment grade bonds, and many of our portfolios benefit from the safety of government debt securities and corporations with high credit ratings. On the equity side, we hold many household names with large market capitalizations. These companies generally have experience weathering past recessions and economic uncertainty. Our team also aims to maintain diversification. This includes balancing allocations to Canadian, U.S. and international assets. If your accounts hold Exchange Traded Funds (ETFs), which contain baskets of securities, this provides excellent diversification regardless of the amount of funds you have invested.

We wish you the best as you focus on staying safe and healthy. 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.

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