GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q3-20 Investment Letter (No. 53)
October 28, 2020

OVERVIEW

Dear Clients and Friends,

We are pleased to provide this quarterly report for the period ended September 30, 2020. The letter will be divided into three sections: (1) Market Recap, (2) What's New and (3) Commentary.

MARKET RECAP

The S&P 500 Index (in USD) rose 7.93% for the three month period ended September 30, 2020. The net increase over the quarter was 247.14 points; the Index hit a high of 3,580.84 on Sept. 2, 2020 and a low of 3,115.86 on July 1, 2020.

The S&P/TSX Composite Index climbed 3.19% in the third quarter of 2020, an increase of 498.98 points. The Index reached a high of 16,789.97 on August 26, 2020 compared to its low of 15,568.64 reached on July 9, 2020.

The Canadian Dollar quoted in USD (CADUSD) gained 1.91% during the quarter ended September 30, 2020. CAD/USD closed at 0.7507 on September 30, 2020 versus a close of 0.7366 on June 30, 2020.

WHAT'S NEW

KYC Reviews

GIM would like to remind you of its ongoing obligation to conduct annual "Know Your Client" ("KYC") reviews. You likely have already received a call to schedule a review with one of our portfolio managers. If not, you will receive a call from us over the remainder of the year. Investment reviews are a great way to keep us informed of your personal and financial circumstances so we can best serve you. In addition to GIM's obligations, Section 3 of your Investment Management Agreement provides, in part, that you are required to notify us of any change in your personal and financial circumstances that could give rise to a change in your investment needs and objectives, your investment risk tolerance or in the way in which we manage your account. You are therefore urged to get in touch with us respecting your marriage or divorce; the birth or adoption of a child; the death of your spouse or any dependant; the onset of any chronic or terminal illness; any loss or change in your income, savings or employment; or any similar development.

Communication

If you desire more frequent interaction with a Portfolio Manager or your individual circumstances have changed please **contact** our office.

COMMENTARY

There is a lot to talk about this quarter, but we will focus our comments on 3 topics that we think are key as they relate to your investment portfolio.

Topic 1: The Presidential Cycle

There is a market theory called the Presidential Cycle that plays into this. One of its themes is that Presidential policies will shift to support the economy to increase the chances of (re)election, which in turn supports the investment markets. It does not matter whether a Republican or Democrat is in power, the results are the same. Since 1950 the third year of the presidency has the strongest stock market as measured by the S&P500.

- Year 1: +6.5%
- Year 2: +7.0%
- Year 3: +16.4%
- Year 4: +6.6%

For context, since 1950, the average annual rate of return for the S&P 500 was 10.8%[1]. So there really does appear to be a third-year bump in return.

The Presidential Cycle is interesting, but we need to pay attention for fundamental reasons. As of this writing we are 6 days from the U.S. Presidential election. The U.S. is Canada's biggest trade partner with 2018 exports to the U.S. valued at

[1] https://www.investopedia.com/terms/p/presidentialelectioncycle.asp

US$355 billion and imports at US$364 billion[2]. This is a good reason to pay attention to the policy announcements of Messrs. Trump and Biden.

Table 1: Trump vs Biden – Policy Differences

Topics	Trump	Biden
Trade	• **Canada:** New tariffs (10%) on CDA aluminum days after the USMCA deal bode ill for partners. Canada will retaliate. Europe could be Trump's next target. • **China:** The Phase 1 trade deal has been achieved, but tough issues remain to be negotiated. A new tech trade war front with China (TikTok, WeChat) also appears to be starting on the ground of national security, but also to pressure companies to relocate supply chains to the US. The move could lead to retaliation and/or a loss of business opportunities for US tech companies. __Impacts:__ With Trump's "America First", expect trade issues to remain front-and-centre with allies and foes alike. Trump wants to boost domestic manufacturing. Deterioration of already weak relationships, along with new tariffs, could trigger global market unrest and increase the cost of doing business in the US. Tech stocks could be at risk.	• **Buy America.** Commits to update rules to require that a larger share of federal purchasing comes from domestic suppliers (tighten domestic content rules; crackdown on waivers to Buy American requirements). ➢ For instance, he intends to purchase American steel, cement, concrete, building materials, and equipment in the process of help rebuild crumbling infrastructure (among others). ➢ Wishes to enforce the Jones Act: vessels carrying goods shipped between US ports will need to be U.S.-flagged, owned, crewed, and built. __Impacts:__ On the surface, Biden appears friendlier from a trade perspective (more diplomatic), but his "Buy America" plan could lead to similar results: trade tensions. Economic nationalism is rising around the world. Tailwind for American materials manufacturers/producers.
Corporate taxes & wages	• Intends to keep current corporate tax cuts done under Tax Cuts and Jobs Act (TCJA - 2017). • Extend current business income deductions for pass-through entities scheduled to expire in 2025 (TCJA). __Impacts:__ Positive for corporate America / small, medium and large size US equities.	• Plans to reverse some 2017 tax cuts and raise the highest corporate income tax to 28% (from 21%). • Proposes to raise tax rate on long-term capital gains. • Proposes a minimum 15% tax on companies' reported income (for corporations with at least $100 million in annual income). • Intends to double the minimum tax on foreign income to 21%. • Plans to raise minimum wage to $15/hour from $7.25/hour. __Impacts:__ No doubt that earnings and profit margins will be squeezed if enacted as is, with multinationals suffering potentially the most. Headwind for tech sector (largest share of foreign sales - around 58%). See Exhibits 8 and 9. Labor-intensive businesses are at risk following a rise in min. wage (hospitality, retail, food services, and agriculture industries, among others).
Individual taxes	• Considers cutting capital gains tax rate (indexing capital gains to inflation). __Impacts:__ Tailwind for financial sector and broadly-speaking positive for equities.	• Plans to remove current preference for capital gains/ qualified dividends by raising taxes (currently at 20%). __Impacts__: Potentially more market volatility as investors could be tempted to accelerate the recognition of LT capital gains before higher rates set-in. Investors could be less inclined to buy dividend paying stocks.

Source: Scotiabank, __Portfolio Strategy__, August 18, 2020

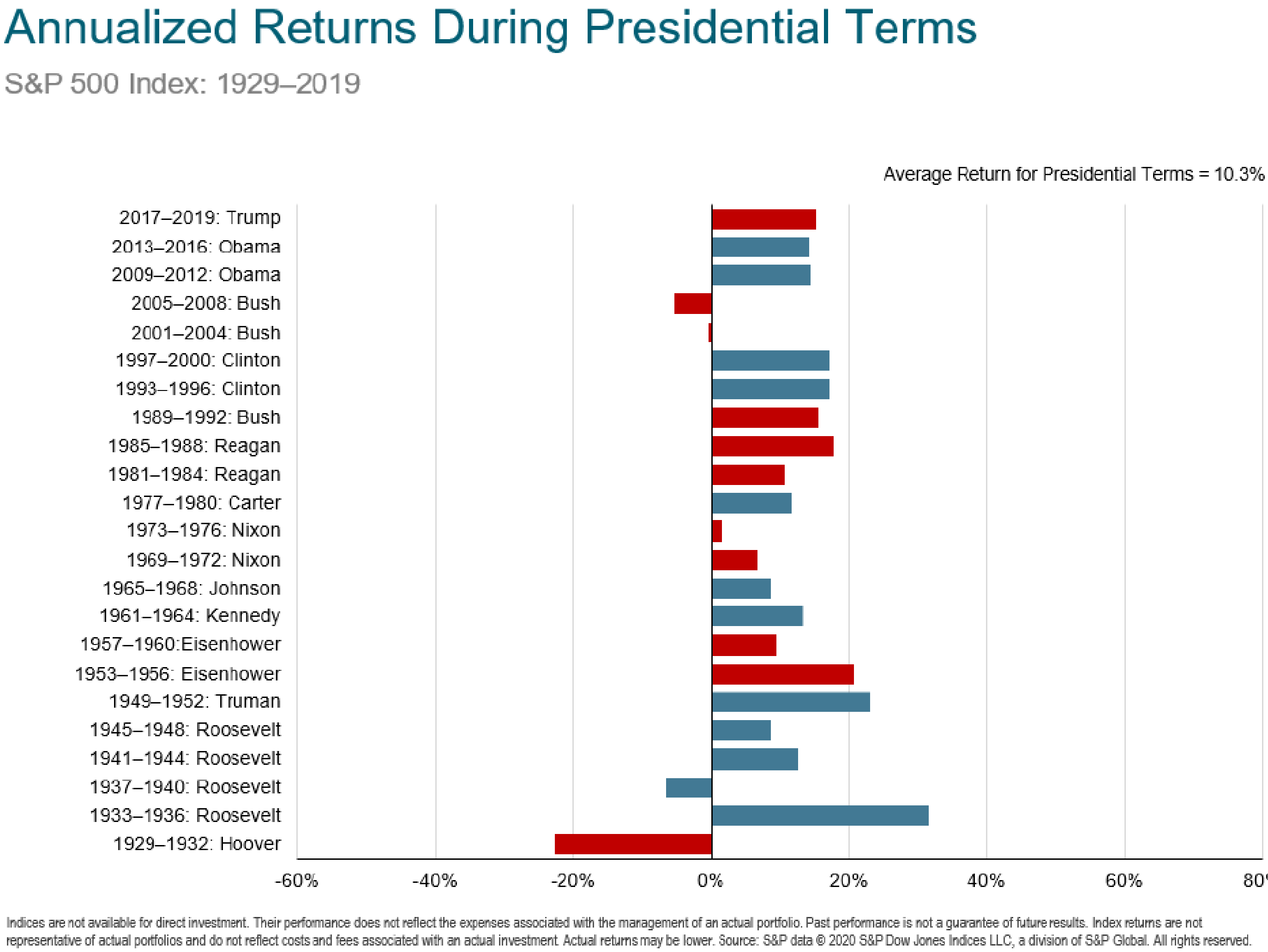
A Republican President will be more favorable for the capital markets while a Democratic President will be favourable to domestic workers under the "Buy American" plan. However, this means protectionism will likely be at least the same under a Biden Presidency, which is not better for Canada. President Trump will favor the energy sector while a Biden Presidency will favor new green energy/infrastructure.

Do the policy differences matter? On balance, it is our assessment that both candidates need to first deal with the economy and the coronavirus pandemic before implementing policy. In other words, getting through the pandemic is job #1 for any candidate and will trounce all other considerations.

__Conclusion__. Although it is important to pay attention to what is going on with our neighbours to the South, our clients' investments will not change. We had conversations with clients prior to November 2016 and most recently in October 2020, who are worried and want to go to cash. This is not a good idea. We did not recommend this in 2016 and we do not recommend it now. The Presidential Cycle shows over the long term that the returns are positive even after an election and markets have carried on no matter who becomes President. The markets will look forward to a successful vaccine and a return to normal for the economy. We cannot express this more clearly than the next chart, which shows the average return under each President since 1929 and whether they are Republican (**red**) or Democrat (**blue**).

[2] https://ustr.gov/countries-regions/americas/canada

Chart 1



Source: Pennock Idea Hub, Cam Hui: How to Trade the Election, October 19, 2020

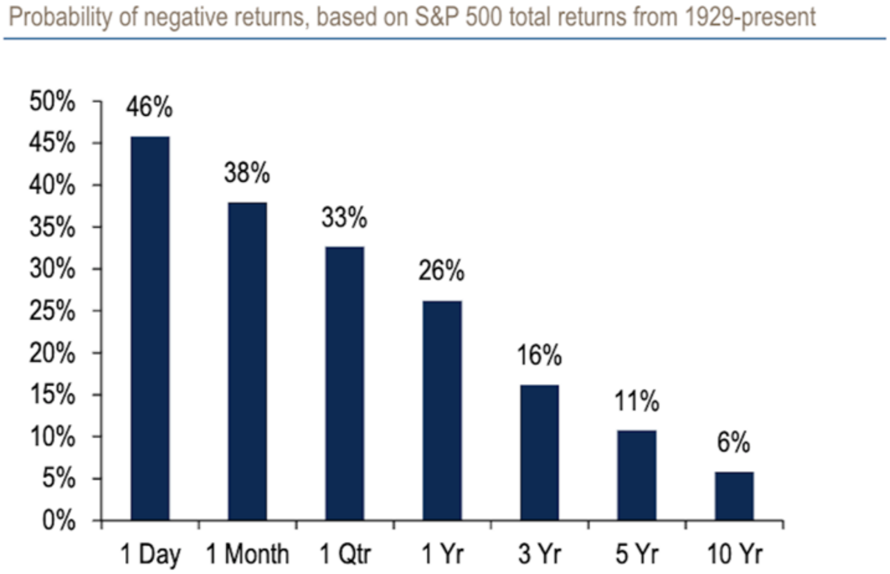
Topic 2: The Perils of Market Timing

As noted in the first section, we receive questions from clients about market timing. In the past month the main catalyst has been the U.S. Presidential election. Earlier this year, it was the pandemic-fuelled bear market in equities (bonds rallied through this time). GIM does not recommend market timing and we will explain why.

Market timing is generally meant as selling a risky investment (example, the stock market) going to cash or safer investment for a period of time, then jumping back into the risky investment later. We do not believe this works and in our Q2 2020 newsletter we explained that institutional investors are usually never allowed to market time. Institutional investors are deemed to be sophisticated but they have rules to follow; one of them is that they are not allowed to be below a strategic asset mix threshold. For example, a pension fund must never be below 50% in the stock market - no matter what.

The reason to stay invested is simple. *It is not market timing; it is time in the markets.* Time is your investment's best friend and the longer you stay the course, the less risk of loss. If an investor buys the S&P 500 today, there is a 46% chance it will be underwater in the next day, and a 26% chance it will be in a loss in 1 year. By year 10 the chance of a loss falls dramatically to only 6%.

Chart 2: As time in the market grows the risk of a loss falls



Source: Yahoo Finance, Morning Brief, September 8, 2020

Being in cash is more dangerous than being invested. That's why institutional investors must stay invested according to their mandate at all times. Market timing means getting 2 big calls right – the decision to exit and the decision to re-enter. To us, that is too close to the realm of speculation, not investing. The next table explains it all. *\$1.00 invested in the S&P500 since 1930 returned 16,166% to August 26, 2020. If you were out of the market for the 10 best days per decade, that \$1.00 in 1930 will be only up 17%.*

Table 2: Market Timing Means Missing the Best Days

Decade	Price Return	Exclude 10 best days of decade
1930	-42%	-79%
1940	35%	-14%
1950	257%	167%
1960	54%	14%
1970	17%	-20%
1980	227%	108%
1990	316%	186%
2000	-24%	-62%
2010	190%	95%
2020	8%	-39%
Since 1930	**16,166%**	**17%**

Source: Yahoo Finance, Morning Brief, September 8, 2020.
As of August 26, 2020

Being out of the market is the greater risk.

Conclusion. When we advise against market timing, we truly have your best interests in mind. In our experience market timing has largely not worked. We invest according to the level of risk you have instructed, and we stay within those boundaries through all market conditions, good or bad. Sophisticated investors do exactly this, and so should you.

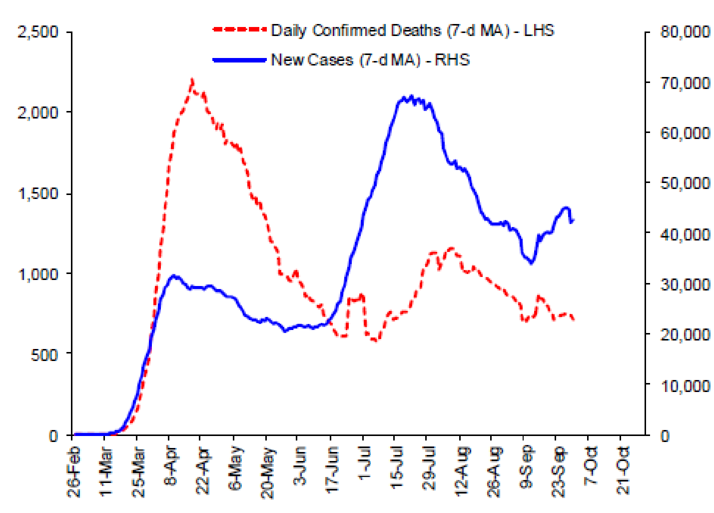
Topic 3: Things are getting better

The coronavirus pandemic was quite virulent when it first began spreading in late 2019 and we are definitely in the second wave. But there is some good news. Over time a virus will change to become less lethal. When combined with worldwide efforts to contain the spread of COVID-19, the lethality has come down dramatically.

The best way to show this is in the following charts. The dotted red lines show the mortality rates have fallen. One can still become quite sick from an infection, but the risk of death has declined dramatically.[3]

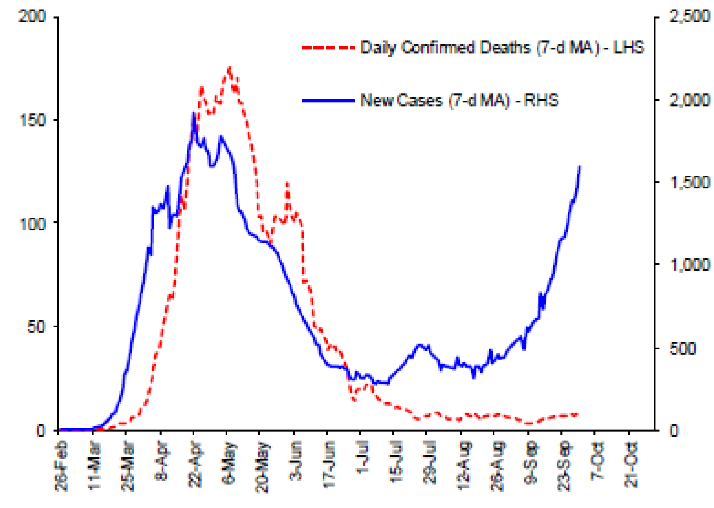
Charts 3

Exhibit 2: U.S. COVID-19 New Cases & Deaths



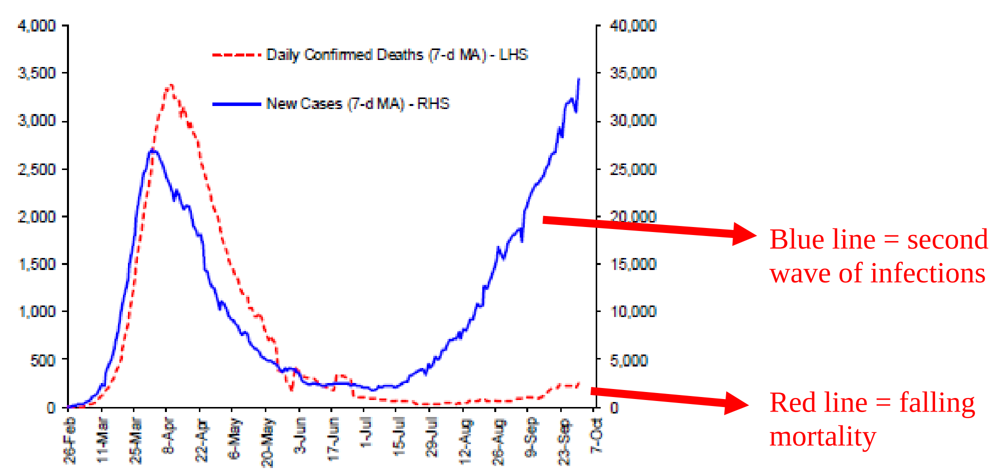
Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

Exhibit 4: Canada COVID-19 New Cases & Deaths



Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

Exhibit 6: Europe* COVID-19 New Cases & Deaths



*Aggregating cases in Germany, UK, France, Spain and Italy.

Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

The media continues to report absolute numbers of infections and deaths, but when adjusted for the size of the populations in Europe, Canada and the U.S. the patterns look similar. Infection rates are up, but the combined efforts of everyone has kept the level of mortality low. We thank all the front-line workers and people who are working hard to keep things under control.

We have every confidence there will be a vaccine developed and eventual "herd immunity" will be achieved. For those who are waiting for a drug, a number of companies are in late stage testing of vaccines and drug makers are actually manufacturing their versions of a vaccine now in anticipation of approval. As an example, drug giant Pfizer Inc. has built a large distribution facility that can ship millions of doses immediately upon approval by the Food & Drug Administration (FDA). *"It's the biggest-ever vaccination campaign," said Tanya Alcorn, Pfizer's supply-chain vice president. "If we get*

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[3] Scotiabank, Portfolio Strategy, October 2, 2020

the FDA approval, we will be able to ship the vaccines very shortly after." According to the article, Pfizer has spent US$2 billion on setting up and on the logistics facility just for distribution of the vaccine.[4] Drug companies realize the enormity of the pandemic and are working to get safe treatments to us.

Conclusion. We will beat the pandemic sooner than later. The second wave is upon us, but it is having a less lethal effect. We remind all our clients that the virus can still make you very sick. Please continue to be careful to social distance and practice good hygiene. We may invest your savings, but the old cliché is still correct… **good health is priceless.**

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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.

[4] https://www.wsj.com/articles/pfizer-sets-up-its-biggest-ever-vaccination-distribution-campaign-11603272614

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