



GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q4-20 Investment Letter (No. 54)

January 25, 2021

OVERVIEW

Dear Clients and Friends,

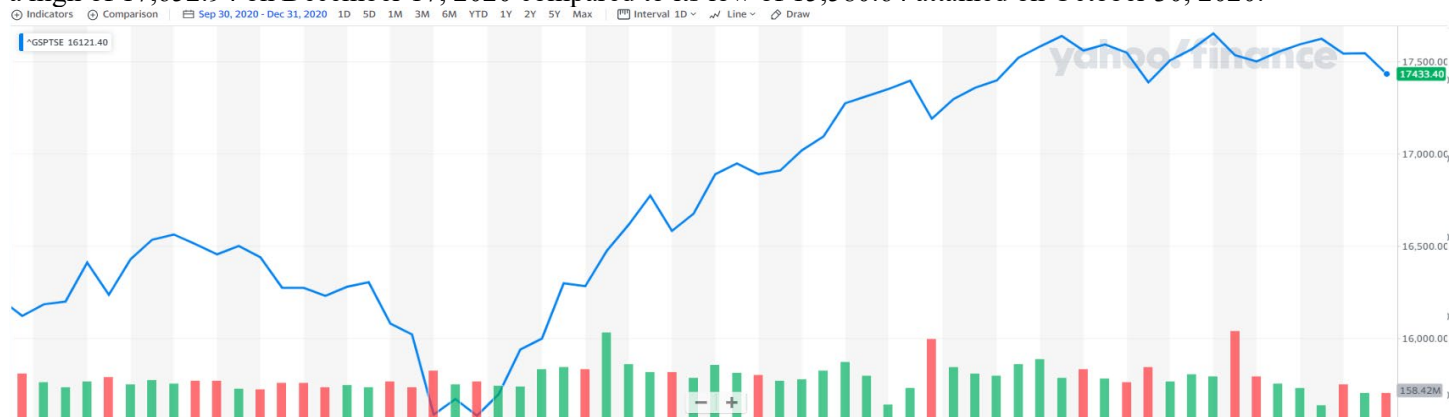
We are pleased to provide this quarterly report for the period ended December 31, 2020. The letter will be divided into three sections: (1) Market Recap, (2) What's New and (3) Commentary.

MARKET RECAP

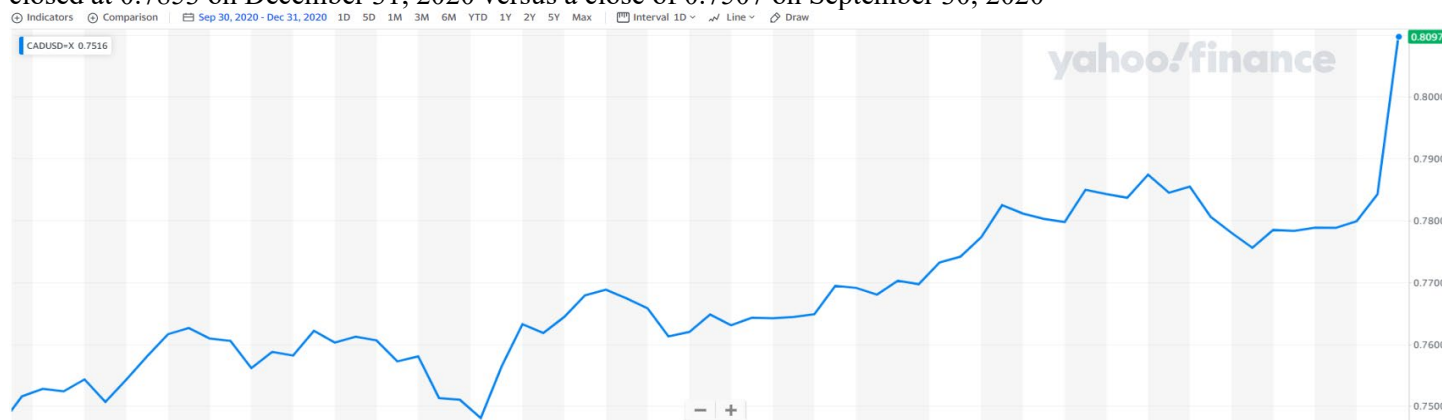
The S&P 500 Index (in USD) advanced 11.69% for the three month period ended December 31, 2020. The net increase over the quarter was 393.07 points; the Index hit a high of 3,756.07 on December 31, 2020 and a low of 3,269.96 on October 30, 2020.



The S&P/TSX Composite Index rose 8.14% in the fourth quarter of 2020, an increase of 1,311.98 points. The Index reached a high of 17,652.94 on December 17, 2020 compared to its low of 15,580.64 attained on October 30, 2020.



The Canadian Dollar quoted in USD (CADUSD) gained 4.61% during the quarter ended December 31, 2020. CAD/USD closed at 0.7853 on December 31, 2020 versus a close of 0.7507 on September 30, 2020



WHAT'S NEW

2021 INVESTMENT SEASON

The TFSA limit for 2021 is \$6,000; you can deposit up to \$75,500 (\$151,000 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

2020 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).

For clients registered for electronic documents, please log in to [Credential's online client portal](#). 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 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.

All tax documents are expected to be available by March 31, 2021. If you do not see any tax documents issued in 2021 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 2020 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.

COMMUNICATION

If you desire more frequent interaction with a Portfolio Manager or your individual circumstances have changed please [contact](#) our office.

COMMENTARY

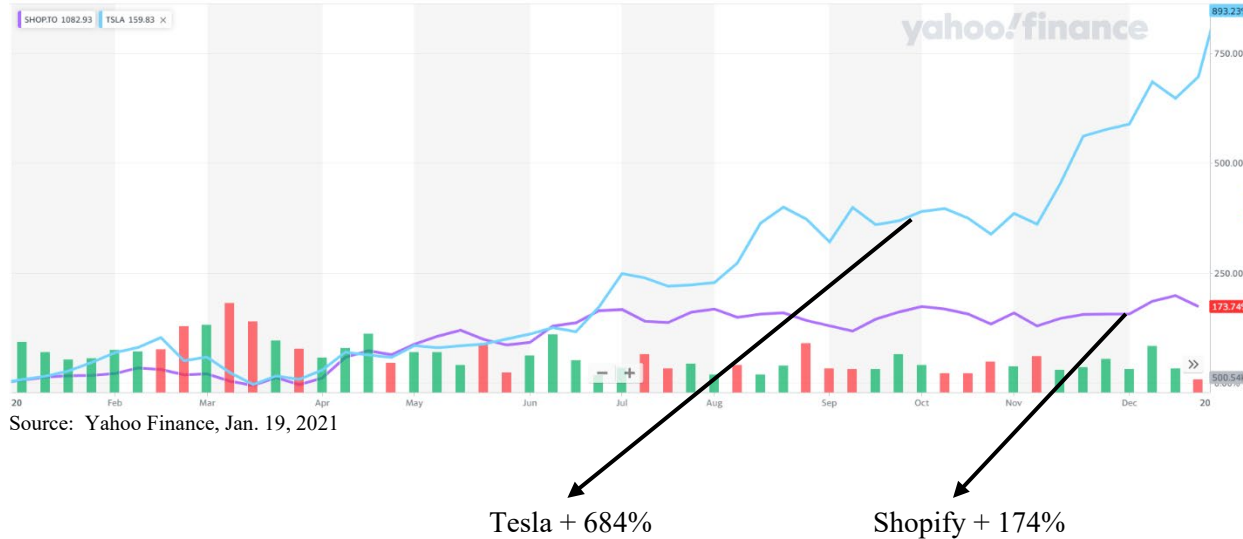
The past 12 months has been quite an unpleasant experience for us all as we are now over a full year into the pandemic. The good news is vaccines have been developed and drug makers are working to increase production as fast as possible. We have fielded many calls from clients who are concerned about the state of the market. To be clear, they are not concerned because the stock or bond market has gone down significantly, they are concerned the markets have gone up and they are worried it will go down. We are going to explain why our clients do not need to fear this.

Part 1. M.O.A.B. and Staying Locked & Loaded

Central banks around the world have responded to the pandemic by keeping or lowering interest rates and unleashing a flood of cash into their economies. After the initial panic selling in March 2020, investment markets recovered rapidly. Markets are the composite of everyone's collective analysis and there was the realization that a vaccine was going to be developed in 2020, which will put the world back on the road to recovery.

So, what does MOAB mean? It's a term used in the investment community to mean "mother-of-all-bull" markets. Bitcoin hit all time highs, gold is at highs, home sale prices are rising, U.S. stock markets hitting record highs. To cite 2 examples, Tesla shares were up a dizzying 7-fold in 2020 and in Canada shares of Shopify were up 175%.¹ In fact, the Toronto Stock Exchange ended 2020 up just over 2% but if we exclude Shopify, the TSX would have been down 1.9%.²

Chart 1 – 2020 share price Shopify & Tesla

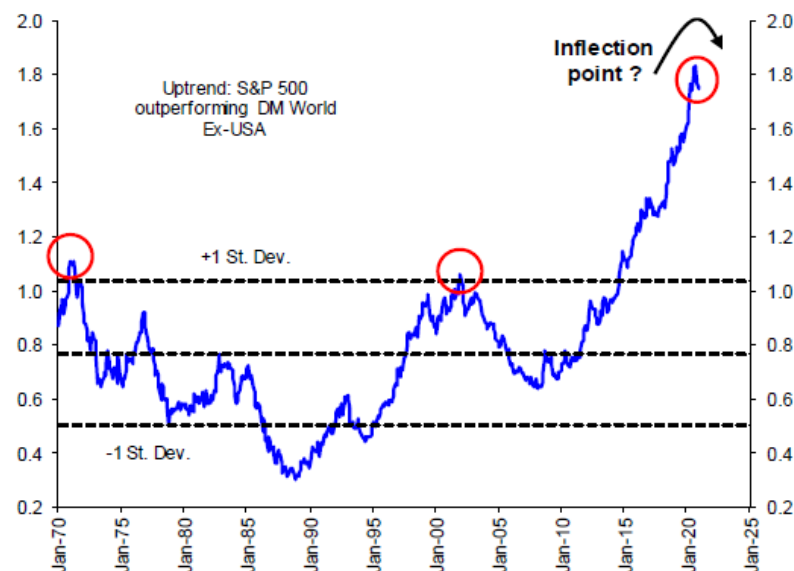


So does the mean you should sell and go to cash? Well, no, not if you are one of our clients. There is a huge element of *price momentum* in this mother-of-all-bulls, but it has applied to a select handful of mega-technology names or speculative investments like cryptocurrencies. **Price momentum means something is being bought because it is simply going up and, on the flip side, it has been pulling in lots of hot money.** We have stayed away from these investments because there is a difference between investing and gambling, and we are not about to gamble.

Geography. When we begin to look at what has been going on, we see MOAB essentially only applies to the U.S. Markets around the world like Europe, Australia, Japan, Canada, *etc.* have underperformed. This underperformance is at the most extreme since 1970 – that's 50 years. It means that there are lots of excellent high-quality names outside the U.S. that are at a bargain. For clients' non-U.S. exposure, we have been adding as this is literally a once in a lifetime opportunity.

Chart 2 – Developed Markets: S&P500 (U.S.) vs Rest of World

S&P 500 vs. MSCI DM World Ex-USA



Source: Scotiabank, *The Chart Book*, Jan. 7, 2021

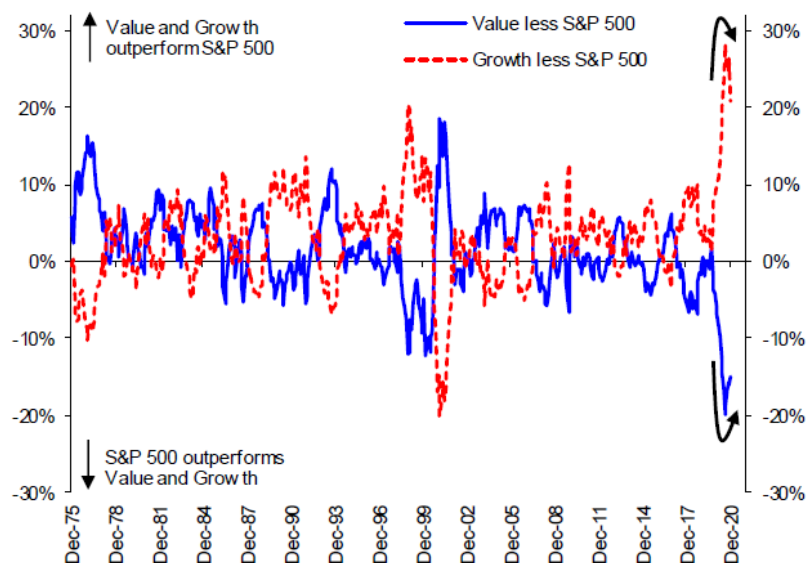
¹ Ca.finance.yahoo.com

² Scotiabank, *The Chart Book*, Jan. 7, 2021

Value versus growth. The previous chart dealt with geographic regions. This next chart deals with value versus growth. We've established the rest-of-world is cheap, so let's just look at the S&P500 U.S. market. Within the S&P500 the growth/momentum names have far outstripped everything else and there is a huge cohort of high-quality companies that have languished. This is the best value since the 1970's, a period of over 45 years. This is an unbelievable opportunity and for clients where this is suitable, we have been quietly adding high quality names for our clients' U.S. exposure.

Chart 3 – Value vs. Growth at best since 1975

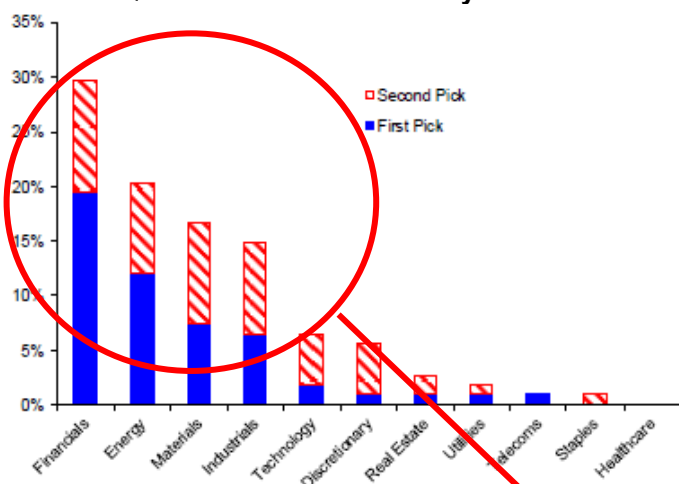
MSCI USA Value & Growth Relative Returns (vs. S&P 500, YoY)



Source: Scotiabank, The Chart Book, Jan. 7, 2021

What smart money is looking at? Let's take a look at where professional money managers are. These are Canadian institutions that manage billions of dollars. In a recent survey by Scotiabank, 80% have #1 or #2 picks of sectors that are definitely not price momentum driven – financials, energy, industrials, materials (resources). In other words, they are letting someone else take all the risk in chasing stocks up.

Chart 3 – Q4 2020 Institutional Survey: Which sectors will outperform 2021?



Source: Scotiabank, Portfolio Strategy, January 19, 2021

80% of Canadian Professional money managers favor sectors that do not have price chasers.

Summary. We recall the line uttered by Clint Eastwood's character in Sergio Leone's classic western movie *The Good, The Bad & The Ugly*.

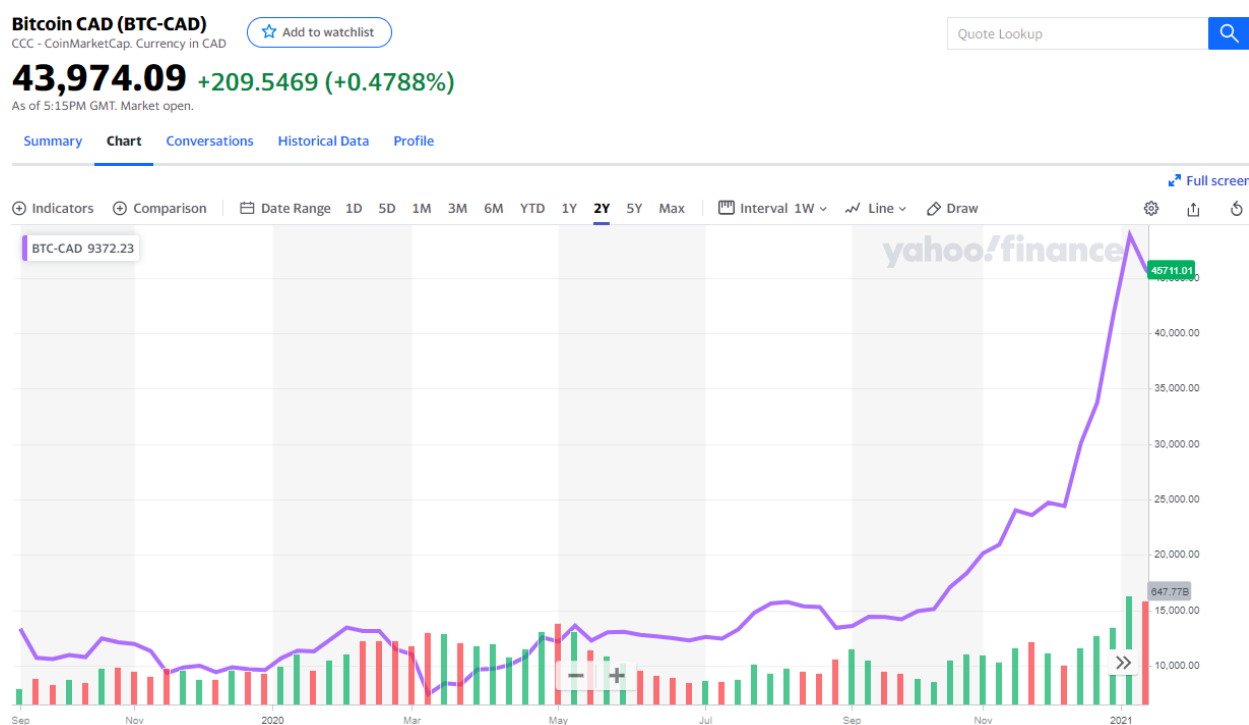
“You see, in this world there's two kinds of people, my friend: Those with loaded guns and those who dig. You dig.”

The people with unloaded guns? Those are the ones going to cash or chasing prices. Going to cash because the market has gone up is called market timing, and we do not believe it works. Chasing prices higher is not going to work either as it relies on another buyer to buy an already overpriced item, and few are smart enough to sell at the top. **Be like the professionals – invest according to your risk threshold, stay locked and loaded.**

Part 2. Cryptocurrencies

Bitcoin (BTC) is the benchmark cryptocurrency, and it has recently exploded in value. Bitcoin is currently at \$44,000 CAD as of this writing and recently peaked at \$49,000. We've been wanting to discuss cryptocurrencies for awhile and this is an opportune time.

Chart 4 – Bitcoin



Bitcoin explained. Quite simply, Bitcoin is a computer network that runs Bitcoin software/code. One of its uses is as a peer-to-peer payment system, which is what it is currently being used for.³ So a monetary payment can be made from a computer in your home to a computer on another continent if both computers are on the same network.

Mining tokens. Bitcoin tokens may be sent through the network, as in “I sent you half a Bitcoin”. Computers may also be used to “mine” Bitcoin tokens, meaning the solving of complex equations before a token appears. The number of tokens is fixed, so the amount of electricity and computing power required is now enormous to get an incremental token. There are a fixed 21 million tokens available and currently just over 18.5 million tokens have been mined.³

Bitcoin tokens are not necessarily environmentally friendly. It takes enough electricity to power a quadrant of a city to generate 1 token, and that energy can come from a hydrocarbon source like natural gas or coal, not to mention the environmental degradation caused by mining actual rare earth minerals for sophisticated computers.

³ CRA, The Outlook, Jan. 4, 2021

Bitcoin as currency. This is where Bitcoin gets used interchangeably with digital tokens instead of referring to the computer network. It is these tokens that take the place of money and whose value can be “traded” on an exchange. Because the number of tokens is fixed (scarce) and it costs a great deal for computers and using electricity (expensive), it is perceived to have value by investors. Mined tokens are stored in digital “wallets” that are part of the Bitcoin computer network.

Warren Buffet’s opinion. In theory, we can trade in 1 Bitcoin token for \$40,000. That’s the bull case for Bitcoin. But it is important to understand that this is just an electronic payment system. One can just as easily send money electronically through a payment network such as Interac, Visa, MasterCard or PayPal. The main difference is there is no regulation, meaning no central bank stands behind a token whereas the U.S. Federal Reserve, and ultimately the U.S. government, stands behind each U.S. dollar that is issued.

If there is no central bank that backstops a digital token and if the network can send money, information and tokens, then what is a Bitcoin token really worth? Perhaps we should let famed investor Warren Buffet give his opinion.⁴ Here are some of his public comments...

“Cryptocurrencies basically have no value, and they don't produce anything. They don't reproduce, they can't mail you a check, they can't do anything, and what you hope is that somebody else comes along and pays you more money for them later on, but then that person's got the problem. In terms of value: zero.

A rising price does create more buyers and people think 'I've gotta get in on this' and it's better if they don't understand it. If you don't understand it you get much more excited than if you understand it.

Probably rat poison squared.”

David Rosenberg says Bitcoin is not gold. Canada’s Mr. Rosenberg, whom we regard as an outstanding economist, said comparisons between Bitcoin and gold as a store of value are “absurd”.⁵ Here is some of what he said (emphasis ours):

“It has to be stressed that in the midst of the market mania in which we find ourselves, the cult-like fervour behind cryptocurrencies such as bitcoin has become untethered.

But in our estimation, these are arguments for holding a diversified portfolio that includes hard assets such as gold, things that will keep their value in the face of these ongoing risks. But bitcoin is not guaranteed to hold value.

*Comparisons [of bitcoin] to gold in this regard are baseless. No one ever talks about the risk that gold could go to zero because it simply can't — there is a floor in its price, because it has physical properties that make it useful even outside of its primary function as a safe-haven asset. **But bitcoin, which has marginal intrinsic value, relies on the faith of its holders that it is worth more than nothing and that the technology is sound.***

20% of the existing 18.5 million bitcoins mined to date have been lost by users who forgot passwords or lost their 'cold storage' devices.”

Summary. We understand the desire to have hard assets, to manage the risks of inflation and currency devaluation. With interest rates on GICs and term deposits so low, there are fewer opportunities to put your hard-earned money to work, and investors are labelling cryptocurrencies as an “alternative asset class”. Whether cryptocurrencies are a long-term investable asset is too early to assess, in our opinion, and we recommend investors not own these types of assets.

Part 3. Conclusion

We welcome any calls from clients for any topics we covered in this newsletter. For clients that are concerned about inflation, we can offer investment solutions that make sense for risk being taken on.

Our clients have benefited in 2020 by having a portion of their investments in the U.S., but we have not chased returns and we have not committed 100% of your funds to only the U.S. market, despite its 2020 outperformance. We treat your

⁴ <https://markets.businessinsider.com/currencies/news/warren-buffett-best-quotes-bitcoin-cryptocurrencies-investing-rat-poison-squared-2021-1-1029974898>

⁵ <https://financialpost.com/investing/david-rosenberg-why-comparisons-between-bitcoin-and-gold-are-absurd>

accounts like we do an institutional investor would and make sure it is properly balanced according to your risk at all times – keep your gun cocked and locked, just like professional investors.

To recap, there is the “good” – good companies trading at reasonable prices; there is the “bad” – good companies that may be significantly overvalued; and then there is the “ugly” – Crypto and other things masquerading as assets.

Sergio Leone’s movie *The Good, The Bad & The Ugly* has an amazing [soundtrack](#). If you can spare 6 minutes, we highly recommend the Danish National Symphony Orchestra’s rendition⁶. It will make your day. We promise!

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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.

⁶ For readers with paper reports, <https://www.youtube.com/watch?v=enuOArEfQGo>



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