Gold Investment
Portfolio Manager

Investment Letter

Q1-21 Investment Letter (No. 55)
April 15, 2021

OVERVIEW

Dear Clients and Friends,

We are pleased to provide this quarterly report for the period ended March 31, 2021. 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 5.77% for the three month period ended March 31, 2021. The net increase over the quarter was 216.82 points; the Index hit a high of 3,974.54 on March 26, 2021 and a low of 3,700.65 on January 4, 2021.

The S&P/TSX Composite Index rose 7.27% in the first quarter of 2021, an increase of 1,267.28 points. The Index reached a high of 18,983.10 on March 17, 2021 compared to its low of 17,337.03 attained on January 29, 2021.

The Canadian Dollar quoted in USD (CADUSD) gained 1.38% during the quarter ended March 31, 2021. CAD/USD closed at 0.7961 on March 31, 2021 versus a close of 0.7853 on December 31, 2020

WHAT'S NEW

REGULATORY UPDATE - ENHANCED CONFLICTS OF INTEREST DISCLOSURE

As you may be aware, the Canadian Securities Administrators are implementing "client- focused" reform amendments to certain of the obligations that firms and their registered representatives owe to clients. As of June 30, 2021 this will include an enhanced conflict of interest standard. Under this standard, we will be required to address and manage existing, as well as reasonably foreseeable, material conflicts in the best interest of our clients.

A conflict of interest can include any circumstance where: (a) the interests of different parties, such as the interests of the firm and those of a client, are inconsistent or divergent, (b) the firm or one of its registered representatives may be influenced to put their interests ahead of a client's interests, or (c) monetary or non-monetary benefits available to the firm or a registered representative, or potential detriments to which they may be subject, may compromise the trust that a reasonable client has in the firm or the individual. Whether a conflict is "material" or not depends on the circumstances. In determining whether a conflict is material, the firm will typically consider whether the conflict may be reasonably expected to affect the decisions of the client in the circumstances, and/or the recommendations or decisions of the firm or its registered representatives in the circumstances.

In addition to other measures that will be taken to address existing and reasonably foreseeable material conflicts of interest, the firm will typically provide clients with disclosure in respect to the potential conflict. It is important that clients read this disclosure to help inform their decision when evaluating our business practices, conflicts management and overall performance on an ongoing basis. The Canadian Securities Administrators note that conflict disclosure is critical to a client's ability to make an informed decision about how to manage and evaluate its relationship with a firm. If you have any questions in regard to our conflicts of interest disclosure or, more generally, in respect to conflicts, please contact us by telephone at 1.888.436.9955 or email: invest@gold-im.com and a portfolio manager will gladly assist.

You will be able to review our enhanced conflicts of interest disclosure on the firm's website prior to June 30, 2021. We will send you an e-mail letting you know the disclosure has been posted to the website. Additionally, a reminder will also be contained in the materials you receive from the firm following the June 30th end of quarter, including how you can instruct us to make this information available to you by paper copy at your request.

TAX DOCUMENTS

All tax documents have now been released. 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.

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. 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.

COMMUNICATION

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

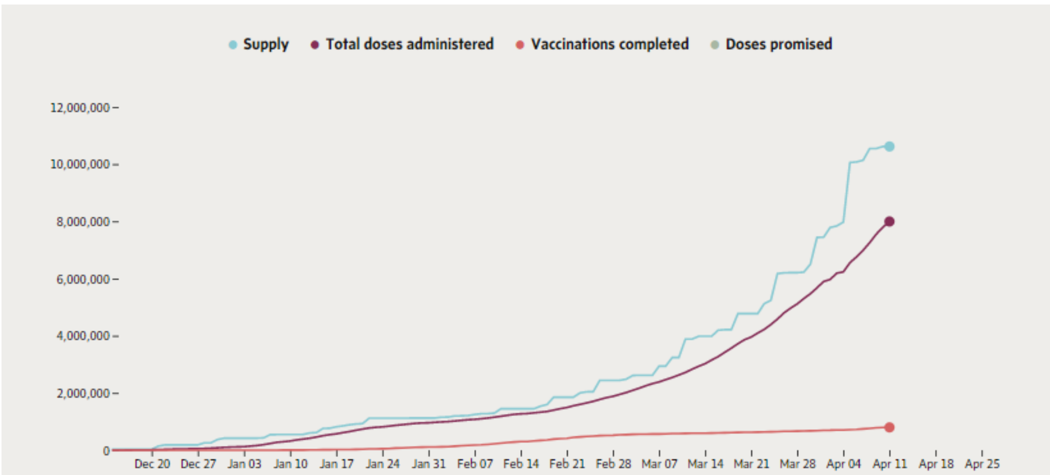
COMMENTARY

PART 1: Economic Recovery? Yes!

As we write this letter Canada is undergoing further lockdown and restrictions due to the arrival of COVID19 “variants”. For example, Alberta and BC have gone back to an earlier phase of lockdown, Ontario is in the midst of a “stay at home” order, and curfews have been reimposed in Quebec.[1]

There is a growing sense of frustration at the slow pace of immunization in Canada, which has lagged behind the U.S. In the week of April 12, 2021, the U.S. was administering 4 million doses per day.[2] According to the Government of Canada there have been 8 million does administered effective April 12, 2021[3] but most of this has been from withholding the 2nd required dose of 2-dose vaccines. Less than 1 million Canadians have been fully vaccinated, or just 2.1% of our population.[4]

Chart 1 – Vaccine deliveries



Source: Globe & Mail, April 12, 2021

The bad news is Canada is not getting its vaccine shipments in a timely manner and there have been repeated delays. As of April 9, 2021 almost 70 million Americans, or 20% of the population have been *fully* immunized, 1 in 3 have had at least 1 dose and 75% of seniors have been vaccinated.[5, 6] At this rate, the U.S. will have largely completed their vaccination program by Summer, and vaccine shipments can ramp up for Canada and other countries that require them.

Chart 2 – Canada lagging badly

VACCINE ROLLOUT WATCH

How nations rank by percentage of the population covered, as of April 12, 4:39 p.m. EDT.*
() indicate previous rank

1.	(1)	**Gibraltar**	**94.6**	**14.**	(16)	**U.S.**	**29.6**
2.	(2)	**Israel**	**56.7**	**15.**	(14)	**St. Helena**	**28.4**
3.	(3)	**Seychelles**	**56.6**	**16.**	(15)	**Monaco**	**27.9**
4.	(4)	**Cayman Islands**	**43.2**	**17.**	(17)	**Malta**	**24.8**
5.	(5)	**UAE**	**42**	**17.**	(18)	**San Marino**	**24.8**
6.	(6)	**Maldives**	**38.1**	**19.**	(19)	**Hungary**	**21.1**
7.	(8)	**Isle of Man**	**37**	**20.**	(21)	**Serbia**	**20.8**
8.	(7)	**Falkland Islands**	**36.5**	**21.**	(22)	**Qatar**	**19.8**
9.	(9)	**Bermuda**	**33.4**	**22.**	(20)	**Anguilla**	**19.5**
10.	(12)	**Bahrain**	**32.2**	**23.**	(23)	**Turks & Caicos**	**18.2**
11.	(10)	**Bhutan**	**31.9**	**24.**	()	**Sint Maarten**	**15.8**
12.	(11)	**Chile**	**31.5**	**25.**	(24)	**Montserrat**	**15.4**
13.	(13)	**U.K.**	**29.8**	**47.**	(49)	**Canada**	**10.9**

Source: National Post, April 12, 2021[7]

[1] www.cbc.ca/news
[2] https://nypost.com/2021/04/05/heres-why-canadians-are-jealous-of-us-amid-covid-19/
[3] https://health-infobase.canada.ca/covid-19/vaccine-administration/
[4] https://www.theglobeandmail.com/canada/article-covid-19-vaccine-tracker-canada-latest-numbers-explainer/
[5] https://www.usnews.com/news/national-news/articles/2021-04-09/cdc-20-of-us-population-fully-vaccinated-against-coronavirus
[6] https://nypost.com/2021/04/04/biden-tells-americans-to-get-vaccinated-in-easter-message/
[7] https://nationalpost.com/news/canada/lockdown-fatigue-is-giving-way-to-protests-and-defiance-across-the-country

Despite Canada's dismal vaccine rollout ranking, we will get more vaccinations in the coming months. This means the economy will re-open and we can take a cue from the U.S. as to how things will look. The next table shows that as the pandemic becomes more controlled there is a strong economic recovery. Canada will lag the U.S. by a brief period, likely +/- 2 quarters, but should finish the second half of 2021 with strong economic growth.

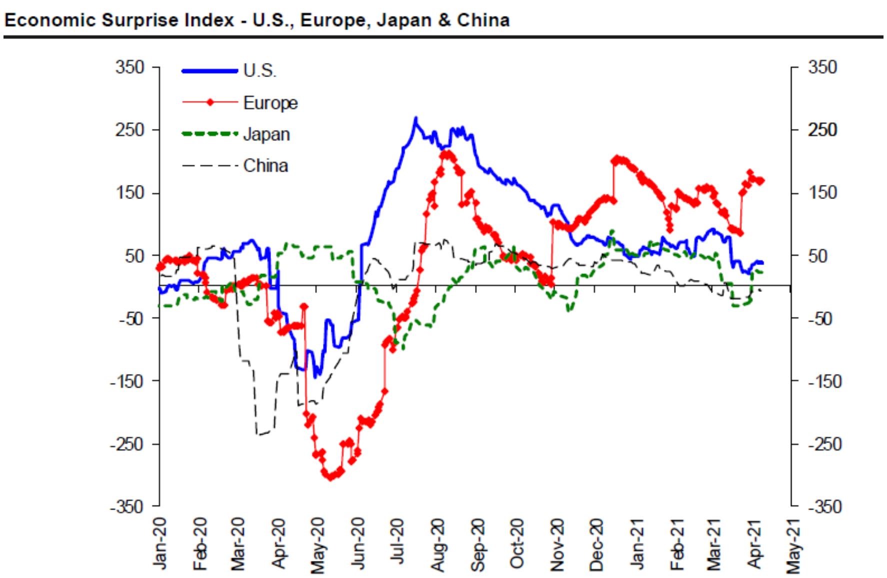
Table 1 – Economic forecasts

CANADA	2020	2021E	2022E	Comment
Real GDP (after inflation)	-5.4%	6.5%	4.0%	Growth accelerates late 2021
CPI (inflation)	0.7%	2.3%	2.2%	Rising inflation
Unemployment	9.6%	7.5%	6.0%	Going back to work as economy recovers
Bank of Canada rate (avg.)	0.50%	0.25%	0.25%	BoC guiding for low rates until 2022
U.S.	**2020**	**2021E**	**2022E**	**Comment**
Real GDP (after inflation)	-3.5%	6.5%	4.5%	Vaccinated states seeing economic pickup
CPI (inflation)	1.2%	2.6%	2.2%	
Unemployment	8.1%	5.3%	4.1%	
Fed Funds rate (average)	0.38%	0.13%	0.13%	Fed guiding for low rates until 2022

Source: BMO Focus, April 9, 2021

The positive economic news is not just in the U.S. Other major regions are also seeing a rebound in their economies. Scotiabank research put together an "economic surprise" index from around the world. This chart reflects the difference between the actual economic reports versus the expected – if the difference is positive, it is an economic surprise.

Chart 3 – Better than expected recovery around the world with vaccinations



Source: Scotiabank, Portfolio Strategy, April, 12, 2021

Summary. The investment markets have performed strongly since the second half of 2020 reflecting the expectation of economic recovery. The central banks - the Bank of Canada and the U.S. Federal Reserve - have further added to the chance of a successful economic recovery by keeping interest rates low. This means that companies can borrow cheaply to finance their growth and investments funds are flowing into riskier assets like the stock markets instead of bonds/fixed income, which pay little.

We have had clients who are worried about a severe stock market pullback at this point. At this point we do not see any catalyst that could cause a bear market unless it is something exogenous, such as a war or other geopolitical event. Pauses and consolidations of the markets are normal, but as long as interest rates stay low and the economy expands, the equity markets will continue upwards over the long term.

PART 2: Inflation

An expanding economy means improving jobs and wages. Ultra low interest rates mean the cost of a mortgage or loan is at generational lows. This sounds ideal. So, what could possibly go wrong?

Well, long time readers of our newsletter will know by now we do not believe in something for nothing. The cost is going to be inflation, the loss of the purchasing power of your money. Raising interest rates is the traditional tool used to fight inflation. When the Bank of Canada is signalling it won't raise interest rates despite a stronger economy, it means inflation will go up.

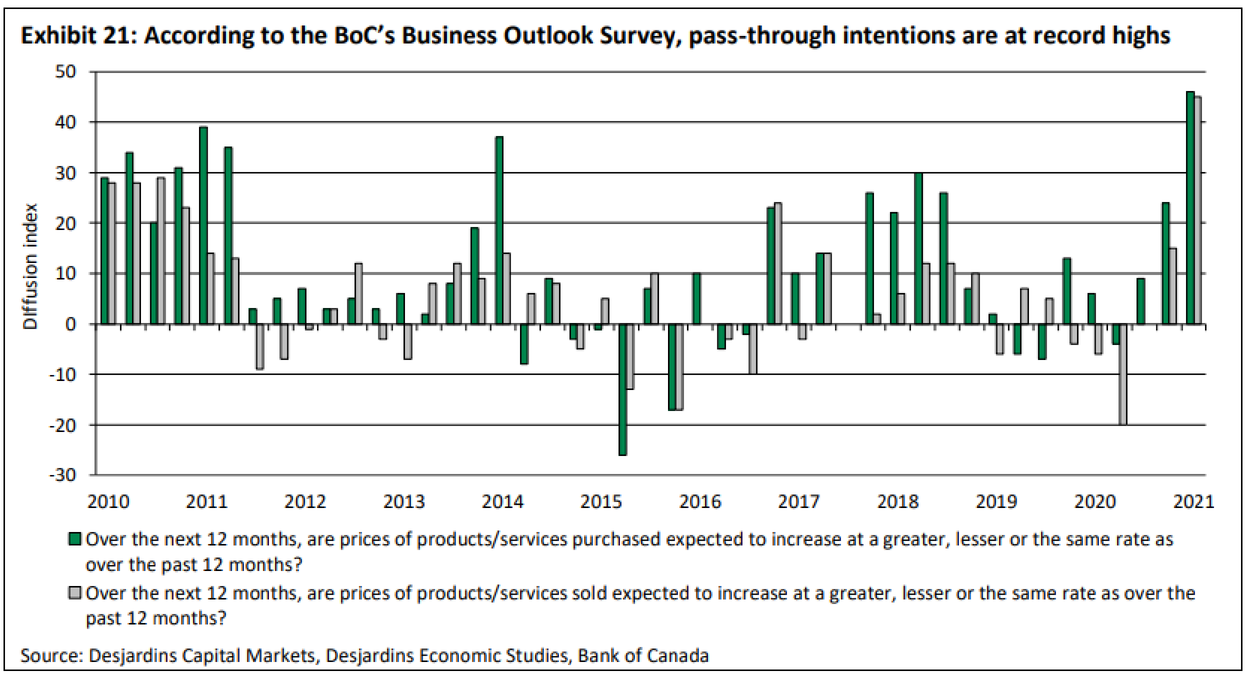
The Consumer Price Index ("CPI") is the inflation measure, and it is made up of costs for goods (*eg.* manufacturing) and services (*eg.* consulting). There is rising inflation in the goods side of CPI and our friends at Desjardins Securities say it best:

> "There is evidence of significant price pressures appearing within the goods-producing sector. Firms are currently dealing with surging commodity prices and rising container shipping costs. While there has been limited pass-through to consumers so far, firms running out of ways to absorb additional costs—and refusing to lower their profit margins—could eventually lead to higher consumer prices."[8]

Goods producers must pass their costs on to consumers or they risk becoming unprofitable, which means bankruptcy. If we look at their intentions for this year, we see businesses are collectively willing to pass on price hikes in goods and services. Chart 4 is a Bank of Canada survey of this intention.[8]

Chart 4 also shows there is less pressure on the services component of inflation. But we think the decision to pass on costs will be "all or none". Namely, a company will look at all its rising expenses, whether goods or services, and decide to hike prices. They won't look at the individual components as much as their entire basket of expenses.

Chart 4 – Costs are going to be passed on to consumers



The coming inflation may actually be worse. The Government of Canada has provided very generous support programs to individuals, such as CERB and CRB[9], and this represents a wave of pent-up spending once the pandemic is under control. We finally saw some media attention regarding inflation last March. The National Post on March 19, 2021 ran an article specifically warning of inflation.

> "…there are billions upon billions of dollars burning a hole in our collective pockets, and 12 months of COVID lockdowns just wiped out all our favourite places to spend it. And whenever you have a whole bunch of money and a scarce number of places to put it, things start getting more expensive." [10]

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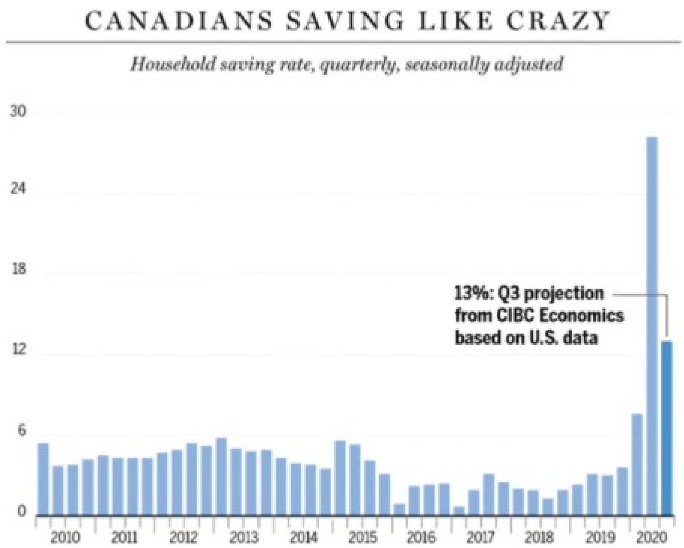
[8] Desjardins Securities, Fixed Income Macro Strategy, April 15, 2021
[9] CRB is Canadian Recovery Benefit, CERB is Canadian Emergency Response Benefit. Source: www.canada.ca
[10] https://nationalpost.com/news/canada/inflation-is-coming-signs-that-everything-is-about-to-get-much-more-expensive

Chart 5 – Savings rates



Source: National Post, March 19, 2021

It does not take a lot of inflation to start hurting, as far as investments are concerned. Consider the fixed income, or bond market. Bonds are usually considered less risky than the stock market. An example of a bond is where you lend out money to a borrower and get regular interest payments. At maturity you get your principal back.

There are 2 problems with bonds right now:

1. Firstly, a risk-free (or at least very low risk) 10-year Government of Canada bond has a yield of 1.50% per year[11]. The Bank of Canada's target rate of inflation is 2.00%[12]. An investor buying a $1 million 10-year Government of Canada bond receives $15,000 a year of interest – much less if the account is taxable. Not only can you not live on this paltry amount, but *you are not even keeping up with inflation.*

2. Secondly, the price of bonds is tied to a formula. If interest rates go down, bond prices go up. Conversely if interest rates go up, bond prices go down. Interest rates are as close to zero as they can possibly be right now – see Table 1. If interest rates can not get meaningfully lower, it means that directionally they stay unchanged or they will go up over the long term.

Therefore, if interest rates stay low then you, the investor, cannot keep up with inflation. *If interest rates eventually go up*, then only the shorter-term bonds will be spared losses. Investors in longer-dated bonds will be stuck with low yields and will suffer sharp losses unless the bond is held to maturity.

Summary. It is quite extraordinary, but the bond market is likely riskier than the stock market is right now when factoring in inflation and interest rate risks. The central banks would prefer to have sustained economic recovery, but this means they are content to let inflation run up.

Our clients in moderate and low risk portfolios own a combination of stocks and bonds. These clients hold bonds to provide stability to their portfolios – the returns of the bonds our clients hold may not be high, but they were happy to have them during times of extreme stock market volatility, such as the severe bear market in first half of 2020 when the pandemic started. We have mitigated the risk of rising interest rates by holding short term maturities. Short term bonds will be less impacted by rising interest rates than long term bonds.

PART 3: Conclusion

Our perspective is that the stock market goes through a major bear market every 10 years or so. Hopefully the 2020 bear market marks this. Despite all the bad news regarding the pandemic, Canadians will be vaccinated at some point and the economy will recover.

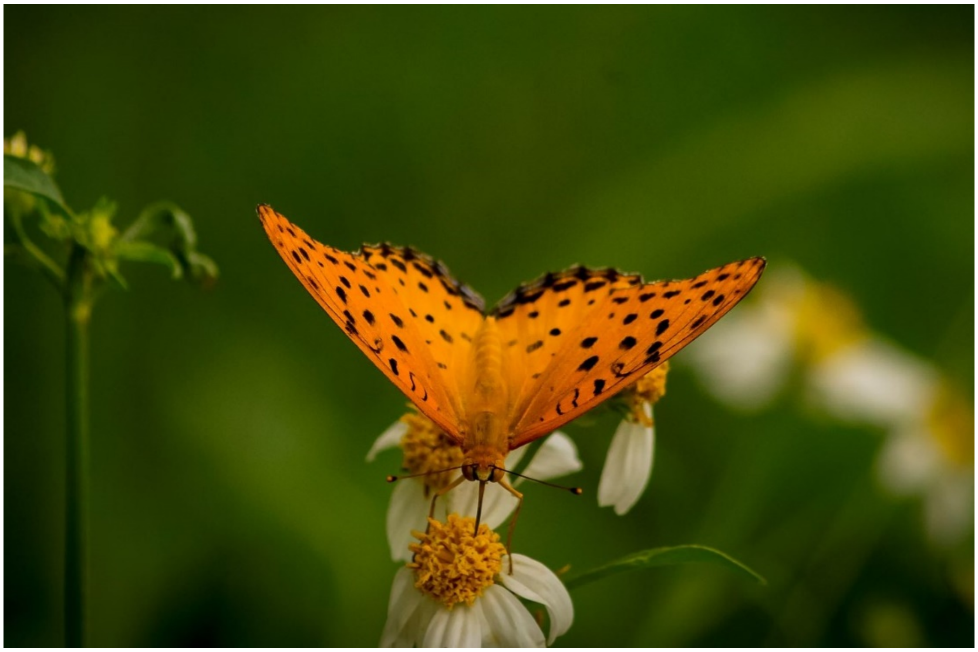
[11] Yahoo Finance, Scotiabank
[12] https://www.bankofcanada.ca/core-functions/monetary-policy/inflation/

Inflation is insidious though. If inflation is 3% and you have $1,000, you will lose $30 of purchasing power each year. It's like a hole in your piggy bank where a little bit of money disappears each day. We have always maintained inflation is in the system, especially relating to everything we need to live on, like food, shelter and energy, but it has been ignored by the general media until recently.

Anyone who is saving money, including our clients, have the unfortunate choice of being in something risk-free and earning a return less than inflation or taking on some type of investment risk. Gold Investment Management has, at a minimum, an annual discussion with each client to discuss their personal details, including their investments and investment risk. During this meeting, please feel free to ask any questions as we want to get a proper understanding of your needs and concerns. If you have not had your annual review, you can expect a call or email from us throughout the year.

Markets will go up and down through good news and bad. The important thing is to be disciplined and stay invested according to your risk tolerance. The good news for our clients is they maintained investment discipline through 2020 and in the second half of the year their accounts rebounded strongly, regardless of the level of risk, and finished 2020 strongly.

We conclude on a positive note. It is Spring and we look forward to going out with the return of warm weather.



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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.

Gold Investment
Portfolio Manager

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