GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q3-21 Investment Letter (No. 57)

October 21, 2021

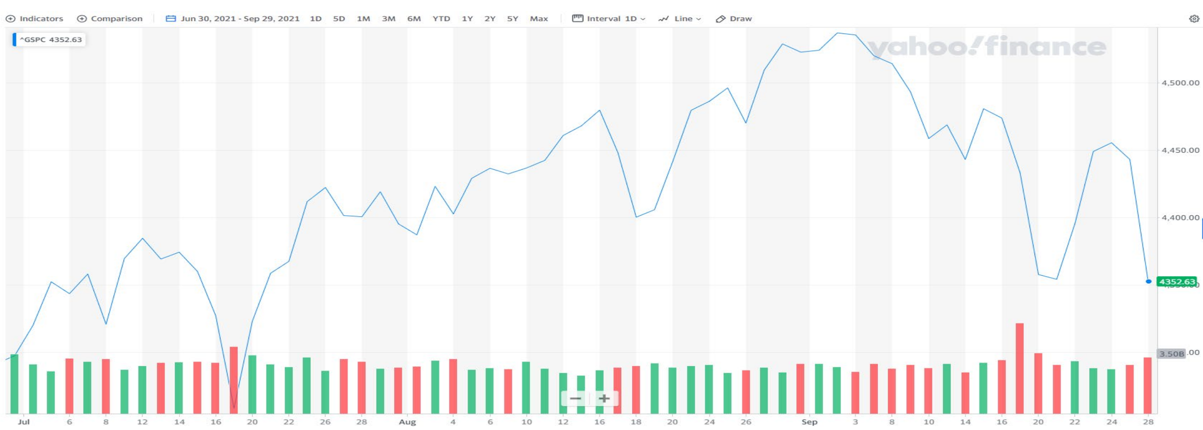
OVERVIEW

Dear Clients and Friends,

We are pleased to provide this quarterly report for the period ended September 30, 2021. The letter will be divided into three sections: (1) Market Recap, (2) What's New and (3) Commentary.

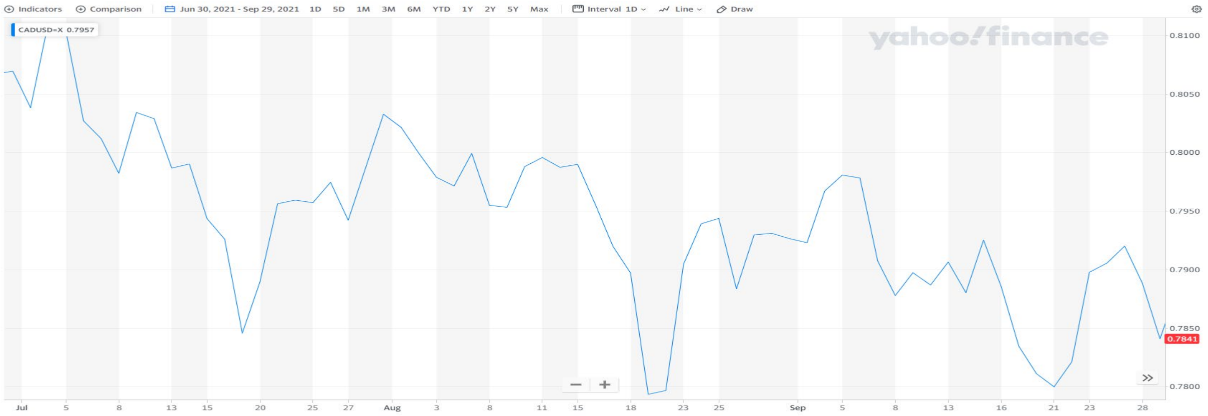
MARKET RECAP

The S&P 500 Index (in USD) advanced 0.24% for the three month period ended September 30, 2021. The net increase over the quarter was 10.34 points; the Index hit a high of 4,536.95 on September 2, 2021 and a low of 4,258.49 on July 19, 2021.



The S&P/TSX Composite Index declined 0.47% in the third quarter of 2021, a decrease of 95.30 points. The Index reached a high of 20,821.43 on September 3, 2021 compared to its low of 19,726.45 attained on July 19, 2021.

The Canadian Dollar quoted in USD (CADUSD) fell 2.24% during the quarter ended September 30, 2021. CAD/USD closed at 0.7885 on September 30, 2021 versus a close of 0.8066 on June 30, 2021



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

COMMENTARY

Greetings all! We've almost made it through another year of pandemic. Stay healthy and strong, we will come out of this. How do we know this? Because the bond market tells us so, that's how. More on this below…

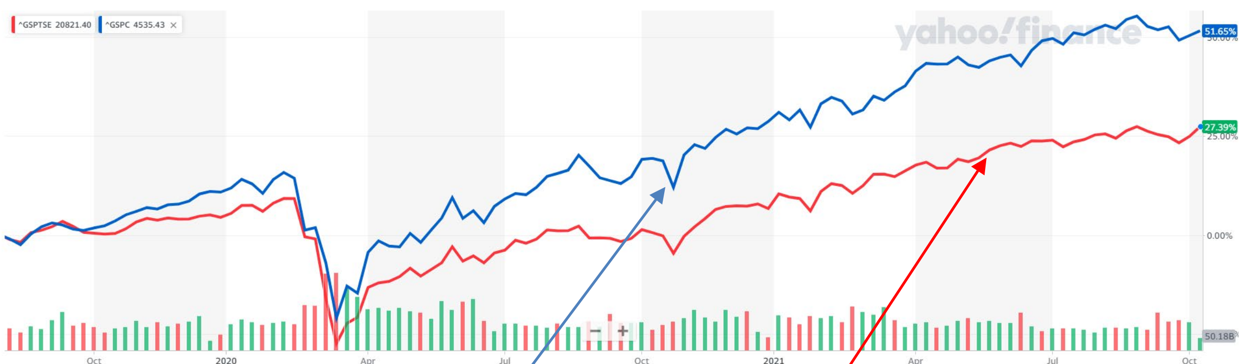
PART 1 – Rumors of my death are greatly exaggerated

"Rumors of my death are greatly exaggerated" is attributed to American writer Samuel Langhorne Clemens, known by his pen name Mark Twain.[1] And this is exactly the first topic for our newsletter. The stock markets made a severe correction in early 2020 and we have received lots of questions about the next drastic drop in the markets. These questions/comments have been going for a year so the bear market should be happening any time now.

So, what has actually been going on? Well, every time the stock market has pulled back 3-5% it immediately snaps back and continues to power up. This is what market technicians call a *contrary indicator*. An expectation of a collapse of the markets is actually a bullish signal.

Take a look at the chart below. Over the past two years, The S&P 500 Index and TSX Composite Index are up 51% and 27% respectively. This is despite the dramatic drop in early 2020.

Chart 1 – Canadian & U.S. stock markets – Value of $1.00 from Oct. 13, 2019 to Oct. 14, 2021



Source: Yahoo Finance, Oct. 14, 2021

S&P500 over 2 years TSX Composite Index 2 years

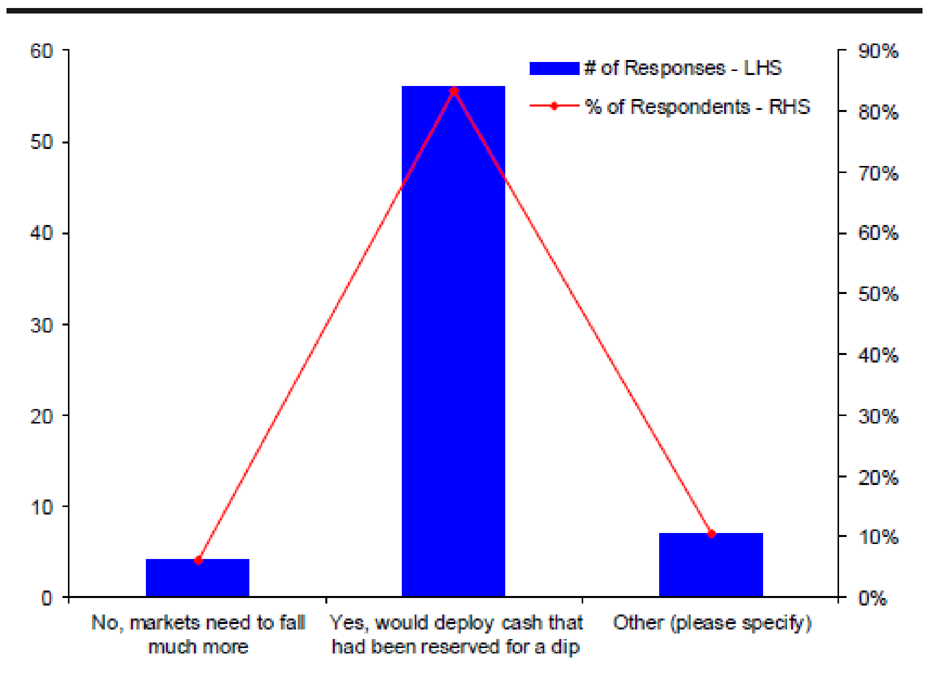
The pullbacks have been shallow and have set the stage for an ongoing rally in stocks. This has happened time and again over the past 18 months. This is good news for our clients, who have remained fully invested according to their model portfolio and it is bad news for anyone who is waiting for a dramatic decline to get cash into equities. This is why we do not believe in market timing. We do not think it works over the long term and one mistake can be very costly as seen from the above. September saw a decline of about 4-5% for the S&P500, Nasdaq and TSX and they are back to their highs again.

PART 2 – What about…

A natural question to our view is what about the prognosticators of market doom? There is certainly no shortage of them. So, let's take a look at what institutional investors, our peer group of money managers, have to say.

[1] https://www.dictionary.com/browse/the-reports-of-my-death-are-greatly-exaggerated

Chart 2 – Would you be a buyer on a 10% equity dip?



Source: Daily Edge, Scotia GBM Strategy, October 7, 2021

We saw this survey recently conducted by Scotiabank of over 60 institutional investors. The overwhelming majority would be putting money in the stock markets if there is a mere 10% dip. The strategist team who did the survey succinctly said *"Nobody believes in this market, but everyone stands ready to buy the dip" seems to be the main takeaway from our quarterly investment survey. Over 80% of institutional investors indicated they would be buyer of a 10% market correction, redeploying higher cash levels built over the past three months. Hence, market weakness may remain shallow.*

We are surprised at the number of positive responses to this question and when this happens it is worth paying attention to. The survey result clearly points to the fact that professional investors have come to the same conclusion as we have. To paraphrase Mark Twain, rumors of the market's death remain greatly exaggerated. We do not foresee a big decline in the North American stock markets over the next year.

PART 3 – Listen to the bond market

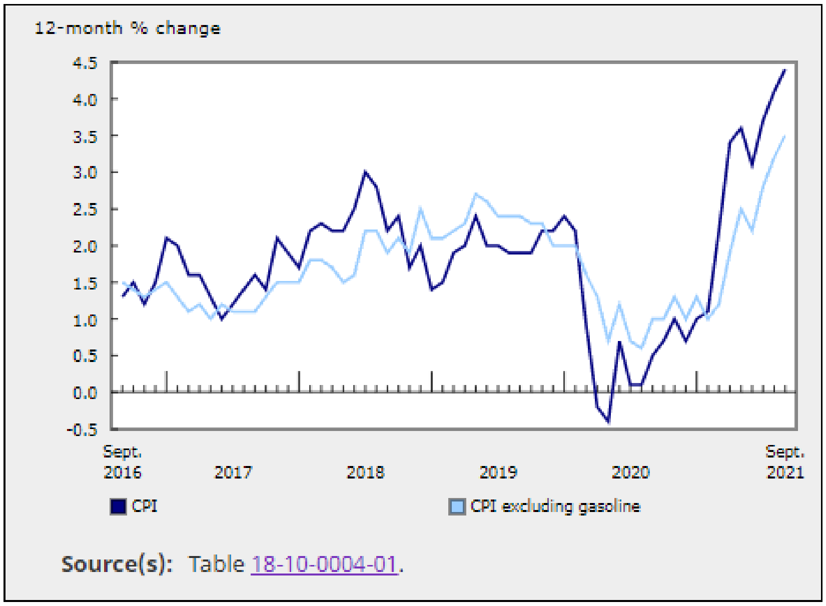
We started in the investment business as bond analysts, and we learned early on to pay attention to what the bond market is saying about the markets. The world is still in the next wave of the COVID-19 but the bond market is telling us the economy will be returning back to normal as we manage through the pandemic. As a reminder "the market" reflects the collective analysis and conclusions of every participant. Sometimes in the short term the markets can be distorted or wrong but over the long term the market is always rational.

In this case the bond market is expecting an increase in interest rates from extremely low levels. The Bank of Canada (BoC) discount rate is at 0.25% right now. As the economy grows, interest rates will rise to make sure the economy does not overheat and generate excess inflation. This is one of the primary jobs of the central banks around the world. In fact, September 2021 inflation came in at a huge 4.4% and this is running well above the target 2.0% inflation rate for the Bank of Canada.[2]

[2] www150.statcan.gc.ca/n1/daily-quotidien/211020/dq211020a-eng.htm

The Financial Post states the problem eloquently, the emphasis ours because we want to highlight that shelter, transportation and food are *necessities* and we simply cannot do without them. *"Statistics Canada's consumer price index (CPI) increased 4.4 per cent from September 2020, the biggest year-over-year increase since the CPI surged to 4.7 per cent in February 2003. The index rose 0.2 per cent from August, matching the previous monthly increase, as prices rose in every major component that the agency watches,* ***led by outsized gains in the cost of transportation and shelter. Food prices also exerted considerable upward pressure on the headline number.****"*[3]

Chart 3 – Inflation (CPI) well above target 2.0% rate[4]



Source: StatsCan, Oct. 20, 2021

Despite the fourth wave of COVID-19 in North America, the markets are expecting 1) economic growth and the pandemic to ease over the next 12-18 months, 2) inflation is currently greater than normal[5] and 3) central banks are expected to raise interest rates in 2022.

We have put this information in the next table. *The bond market is anticipating a strong economic recovery and taking the above factors into account, the yield on 10-year bonds is expected to rise* <u>*faster*</u> *than the yield on shorter term bonds*. The difference between 10-year and 3-month T-bill yields is increasing in Canada from 0.31% in 2020 to 1.60% for 2022. In the U.S. this "spread" increases from 0.52% in 2020 to 1.75% for 2022. In bond-speak we would say the yield curve is *steepening* from 2020 to 2022. A steepening yield curve in this case is signaling a return to normal as the market expects the pandemic to subside and interest rates will eventually rise to deal with inflation.

3 financialpost.com/news/economy/canadas-annual-inflation-rate-hits-4-4-in-september-highest-since-2003
4 www150.statcan.gc.ca/n1/daily-quotidien/211020/cg-a001-eng.htm
5 financialpost.com/news/economy/traders-increasingly-doubt-bank-of-canadas-rate-hike-timeline

Table 1 – Economic and interest rate expectations

Canada	2020 Average	2021 Projected	2022 Projected	Notes
GDP nominal	-4.6%	8.2%	7.5%	Economic rebound in 2021
CPI (inflation)	0.7%	3.2%	3.0%	Rising inflation
GDP less inflation	-5.3%	5.0%	4.5%	
Bank of Canada rate	0.5%	0.25%	0.31%	Rising in 2022
3-month T-bill yield	0.44%	0.1%	0.15%	
10 yr Gov Canada bond yield	**0.75%**	**1.35%**	**1.75%**	**Rising long term yields**
10 yr GoC less T-bill yield	**0.31%**	**1.25%**	**1.60%**	**Difference is widening**
USA	**2020 Average**	**2021 Projected**	**2022 Projected**	**Notes**
GDP nominal	2.2%	10.3%	7.6%	Economic rebound in 2021
CPI	1.2%	4.5%	4.1%	Rising inflation
GDP less inflation	-3.4%	5.8%	3.5%	
Federal Reserve rate	0.38%	0.13%	0.13%	Rising in 2022
3-month T-bill yield	0.37%	0.05%	0.05%	
10-yr Treasury Note yield	**0.89%**	**1.45%**	**1.80%**	**Rising long term yields**
10-yr Treas less T-bill yield	**0.52%**	**1.40%**	**1.75%**	**Difference is widening**

Source: BMO focus, Oct. 15, 2021

PART 4 - Conclusion

The investment markets look forward 12-18 months and they are anticipating a return to normal for the economy. In the meantime, pullbacks in the North American stock markets have been shallow at no more than about 5% at worst before there is a rally to take the indexes to fresh highs. We have clients who have balanced mandates, meaning they hold stocks and bonds. Bonds still perform a useful function in that if the stock market falls the bond market will usually stay stable or even rally somewhat, which provides stability and rebalancing opportunities for those clients' portfolios.

We understand the hardships put upon all of us by the pandemic. But we believe things are going to improve and we will get back to normal. In the meantime, please stay 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.

DISCLAIMER

Gold Investment Management Ltd. ("GIM") is registered as a portfolio manager in the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario and Quebec and as an investment adviser with the U.S. Securities and Exchange Commission. This material is provided to you for informational purposes only. For greater certainty, the information contained herein should not be construed as a recommendation of any specific model portfolios or investment actions. Any third-party information contained herein has been compiled from sources believed to be reliable, however, GIM makes no representation or warranty, express or implied, as to its accuracy or completeness. Any market prices and estimates in this report are for informational purposes only. The opinions contained herein are effective as at the date of the report and GIM does not assume any responsibility for advising the reader of any subsequent change of opinion. Any indications of past performance contained herein is not indicative of future results and any information with regard to the performance of GIM's investment portfolios is presented gross of fees which will vary from mandate to mandate. For additional information please visit our website: https://gold-im.com/legal/.