May 19, 2022

Dear Clients and Friends,

We usually send out messages to clients every quarter and our last newsletter went out at the end of April, less than 3 weeks ago.

We have fielded a number of questions from clients about what is going on in the markets and we think this is a good time to share our thoughts.

Since then, the media has been showing the daily gyrations of the stock markets and they seem to always find someone who says they have never seen things this bad. We beg to differ. "The Great Recession" of 2008 was much worse. The selloff in early 2020 at the start of the pandemic was worse.

This is what we've been talking about internally in our shop. There are 5 considerations:

1. **Volatility is normal**. What is not normal is the past 2 years, where Canadian and U.S. stock markets have been stable and going up. Stock market corrections of 5% and even more than 10% are quite common. A 10% correction lasts an average of 4 months and typically happens once per year.[1]

Chart 1: Nothing goes up in a straight line

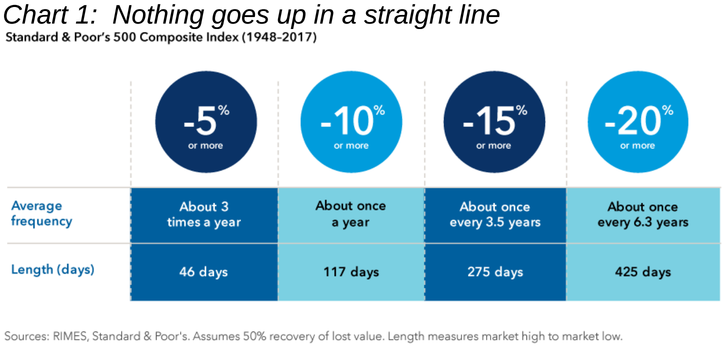
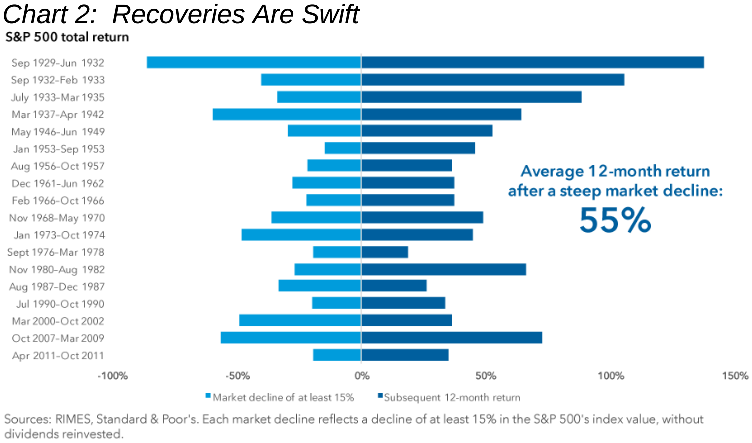


Chart 2: Recoveries Are Swift



[1] https://www.capitalgroup.com/advisor/ca/en/insights/content/articles/6-charts-that-explain-market-declines.html

We remind you that early 2020 saw a decline of the stock markets by more than 25% but clients ended 2020 with more money than they started with. Markets have usually recovered quickly, and the average 1-year return after a steep decline is 55%.[1]

2. **<u>Market timing is a bad idea</u>**. Many investors want to go to cash in a bear market and get back in later. This is usually a very bad idea. As Chart 2 shows, you have to time things perfectly twice. You have to avoid the falling knife on the downside, and you have to catch a swiftly rising knife on the upside.

   Institutional investors do not market time. They stay invested according to the level of risk (called an Investment Policy) and do not stray from it in good times or bad. If institutions that manage billions of dollars do not market time, neither should you.

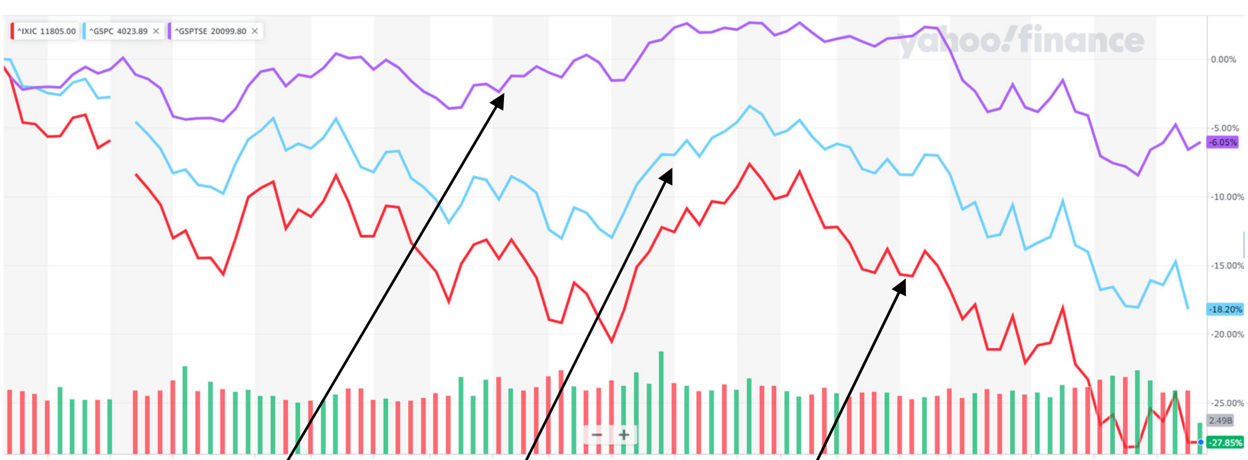
   Arbitrage is a French word for buy low; sell high. That's what we try to do. Getting *whipsawed* means sell low; buy high. That's what happens to most people when they go to cash.

3. **<u>It is not enough be successful. Your friends must fail</u>**.[2]

   This saying has been attributed to Gore Vidal, the author, Larry Ellison, the Silicon Valley billionaire, and Genghis Khan, the 13th Century Mongol warlord who terrorized Europe and Asia.

   Your account may be down in the first 5 months of 2022, but the general North American markets have on average done worse. The Canadian TSX is down 6.6%, the S&P500 is down 18% and the technology heavy Nasdaq is down 28%.

Chart 3 – YTD to May 19, 2022



Source: Yahoo Finance

Canada TSX -6% S&P500 -18% Nasdaq -28%

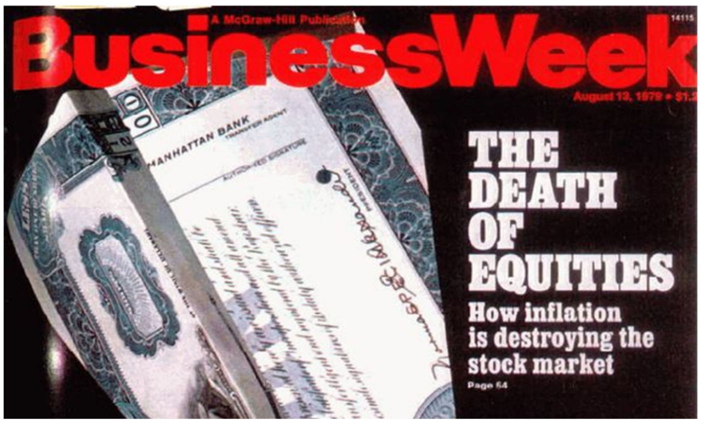
---

[2] https://quoteinvestigator.com/2012/08/06/succeed-fail/

You can be in much worse shape and be down 20% or 28% like the S&P500 and Nasdaq. But our clients aren't. *The key here is to understand there will be down periods, but you want to be down less than the main indexes.* In institutional speak "you want to be down less than your benchmark." This is critical to surviving bear market cycles.

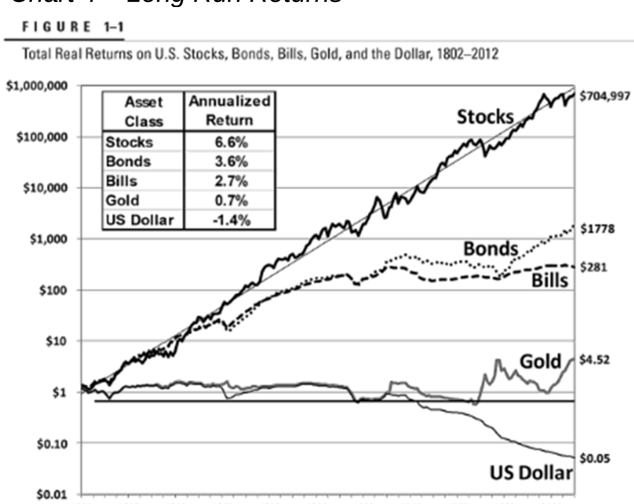
4. **Stop watching the news and stop looking at social media as far as investments go**. You hired us to do your worrying for you. With all due respect to mainstream media, do not forget their job is to create hype, sell advertising and generate revenue.

   This is an infamous leading headline from BusinessWeek in August 1979: "The Death of Equities".



Let's see how un-prescient the BusinessWeek article was. This next chart from our last newsletter and looks at asset class returns over the very long run – 210 years. Note that gold has kept slightly ahead of inflation while the U.S. Dollar has lost 95% of its value. If we extrapolate the returns from 1802 to 2022, we get a value of $2,394 for a $1 investment in bonds and $1,340,286 for a $1 investment in stocks.

Chart 4 – Long Run Returns

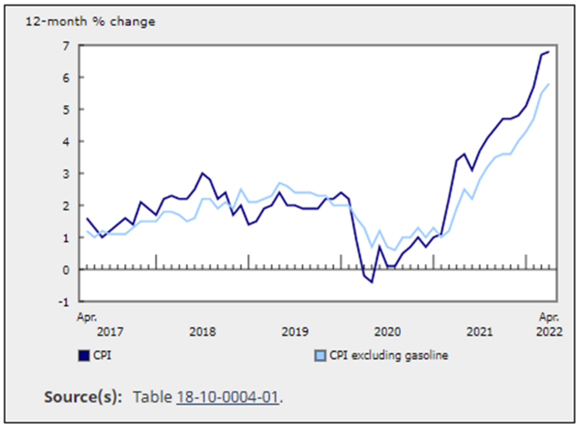


Source: Stocks for the Long Run, 5th Edition by Jeremy Siegel, McGraw-Hill, 1994

There's a saying in the news, *if it bleeds it leads*. Don't get caught up in any sensationalism.

5. **Inflation is 6.8% for April 2022 in Canada**. Food inflation is even worse at 9.7% and basics like pasta at the grocery store is up a mind-numbing 19.6%. The cost of shelter is up dramatically, natural gas is up 22% and heating oil up 64%.[3]

Chart 5 – Inflation Everywhere, April CPI 6.8%[4]



Source: StatsCan

Conclusion:

Every investor, regardless of the level of risk, benefits from some component of the stock market. Equities are the only asset class that can keep up with the cost of living and inflation, in our opinion, is going to be a multi-year problem.

The pandemic has shown that staying healthy is more valuable than all the wealth in the world. If we remember this, then all other concerns are secondary.

Keeping your money in the bank will burn a hole in your purchasing power. In order to mitigate inflation risk investors must take on some type of investment risk.

While Gold Investment Management can't solve Canada's inflation problems, we have taken steps to deal with inflation risk by giving all clients some exposure to the stock markets; the volatility of the markets is a normal part of investing and for the most part, should be tuned out.

Sincerely,

Gold Investment Management Ltd.

[3] https://www150.statcan.gc.ca/n1/daily-quotidien/220518/dq220518a-eng.htm?indid=3665-1&indgeo=0
[4] https://www150.statcan.gc.ca/n1/daily-quotidien/220518/cg-a001-eng.htm

DISCLAIMER

Gold Investment Management Ltd. ("GIM") is registered as a portfolio manager in the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia 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/.