GOLD INVESTMENT
PORTFOLIO MANAGER

Investment Letter

Q3-22 Investment Letter (No. 61)

October 24, 2022

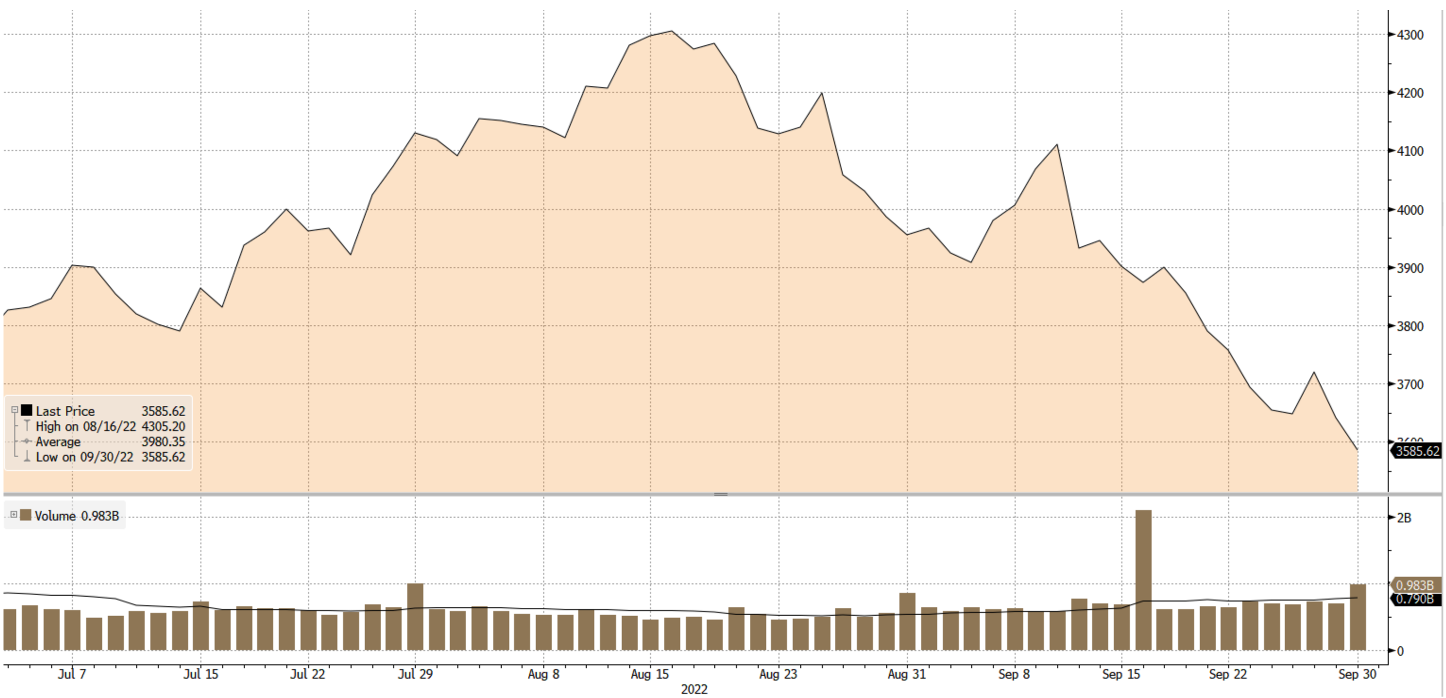
OVERVIEW

Dear Clients and Friends,

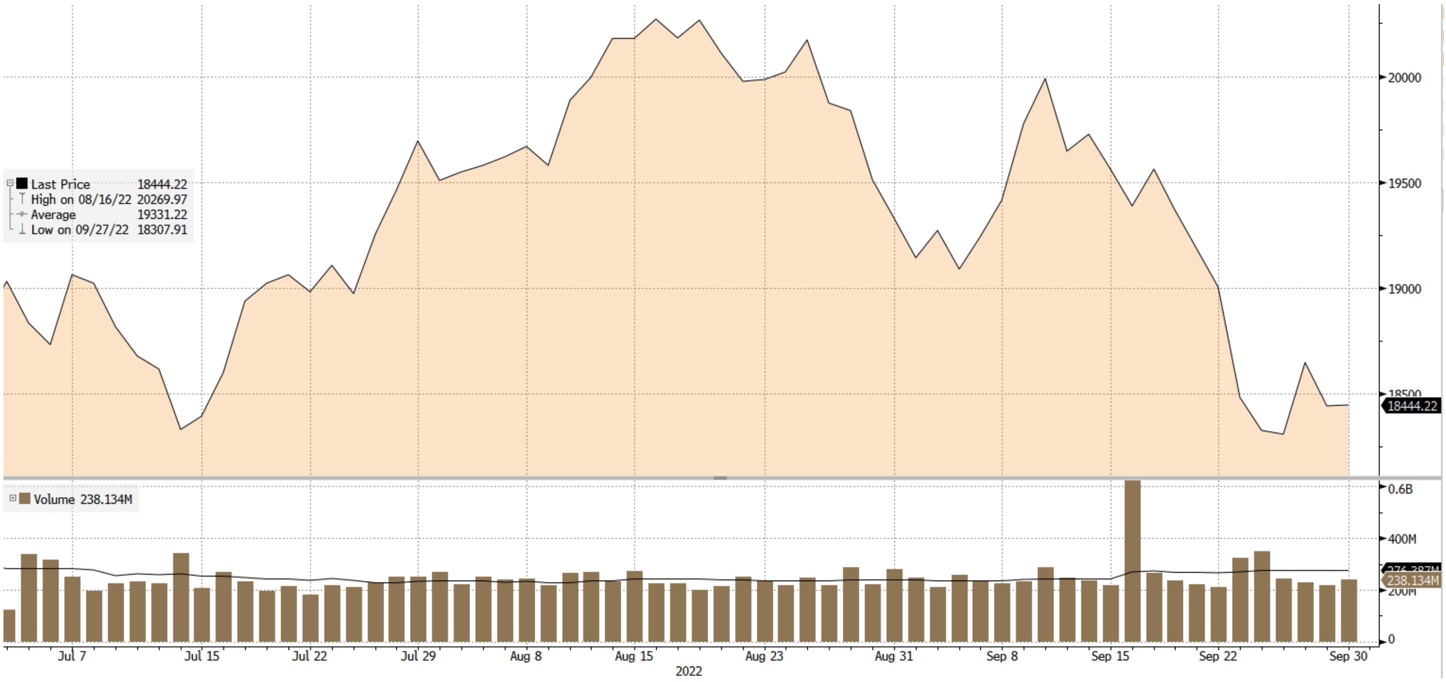
We are pleased to provide this quarterly report for the period ended September 30, 2022. This report will be divided into three sections: (1) Market Recap, (2) What's New and (3) Commentary.

MARKET RECAP

The S&P 500 Index (in USD) declined 5.17% for the three-month period ending September 30, 2022. The Index hit a high of 4,305.20 on August 16, 2022 and a low of 3,585.62 on September 30, 2022.



The S&P/TSX Composite Index declined 2.68% in 2022’s third quarter. The Index reached a high of 20,269.97 on August 16, 2022 compared to its low of 18,307.91 on September 27, 2022.



The Canadian Dollar quoted in USD (CADUSD) declined 5.86% during the third quarter of 2022. CAD/USD closed at a low of 0.7231 on September 30, 2022, after it reached a high of 0.7835 on August 11.

WHAT'S NEW

KYC

GIM would like to remind you of its ongoing obligations 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, 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 objectives 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; the onset of any chronic or terminal illness; any loss or change in your income, savings or employment; or any similar development.

ACCOUNT CONTRIBUTIONS

There are numerous benefits to contributing to your investment accounts, especially during a market downturn. These include:

- Increasing your savings for retirement, emergencies, child's education, home purchase, or other purposes. We target securities that are deeply discounted and provide the greatest value. Cash deployed in this manner has the potential to generate significant returns when markets recover and return to a growth phase.
- Take advantage of *dollar cost averaging,* where securities are purchased at regular intervals to lower your average cost over time and thereby increase your overall returns.
- Some contributions may generate additional grant or bond payments from the government when deposited to education or disability savings plans (subject to contribution room and government grant/bond conditions).

There are many convenient ways you can deposit to your investment accounts. You can make a bill payment (not e-transfer) through your online banking, electronically sign a form for a one-time pull from your chequing account or write a cheque. You may make a one-time deposit or set up automatic recurring deposits with a frequency that works well for you. We remind all clients to check their contribution room for any registered account before contributing. For instructions or assistance with any of these methods or help checking your room with Canada Revenue Agency, please contact our office and speak with our Client Experience team.

COMMENTARY

Part 1. U.S. Presidential Elections

This quarter we are going to be discussing a topic that comes up every 4 years. It's called the Presidential Cycle and describes how the U.S. stock market behaves during the 4-year term of every President. The theory states that stock markets do best in the third year of a President's term, and we are at the start of the third year of President Biden's term. It does not matter whether the party in power is Democrat or Republican.[1]

But first, we need to look at the U.S. stock market in context. So far, 2022 has seen a bear market. The S&P500 is down 23% for the first 9 months of this year. To add insult to injury, there was lots of volatility with big up/down swings in the market. We can see this from just looking at the S&P500 chart below.

Chart 1 – S&P500 Jan. 1-Sept. 30: Downtrend + Volatility

Source: ca.finance.yahoo.com

[1] Investopedia.com. "Presidential Election Cycle Theory"

Volatility is not something investors are used to. Mid-2020 until December 31, 2021 saw only an upward bull market. But prolonged rallies without pullbacks are not healthy. Markets need to reset periodically to let out any speculative excesses. Think of a car tire that gradually becomes overinflated. We need to hit the release valve occasionally to let the excess air out.

Now for the good news. We are entering the third year of a 4-year Presidential Cycle, in which we also have mid-term elections (November 2022). There are 2 chambers of Congress in the U.S. government, the Senate and House of Representatives ("House"). The entire House with 435 seats is seeking re-election every 2 years. Senators are elected on a staggered 6-year term so 1/3 of the Senate, 100 seats, is seeking re-election.

Recall the Presidential election is in November, so the Presidential Cycle is 16 quarters starting November 2020. Q4, end of the second year and Q1, third year of the Presidential Cycle have historically been the two strongest quarters of the 16-quarter presidential cycle. The S&P500 gained 6.4% and 6.9%, respectively. This occurred 84% and 89% of the time, respectively, so the frequency of a large positive return is also quite high. In addition, 74% of the time, Q2 of the third year advanced an average of 4.5%. This is based on data from December 1944 to September 2022.

Table 1 – S&P500 Price Returns in 16 quarter Presidential Cycle, Dates 12/31/44-9/30/22

Pres.	Average Price % Changes					Frequency of Advance					Std. Deviation of Qtr. vs. 16Q Avg.				
Cycle	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Year 1	0.2	2.8	1.2	4.2	**9.2**	55%	60%	65%	80%	**65%**	(7%)	(9%)	7%	(18%)	**13%**
Year 2	0.8	(2.6)	(0.5)	6.4	**5.0**	45%	50%	63%	84%	**58%**	(16%)	28%	69%	6%	**26%**
Year 3	6.9	4.5	0.6	3.4	**15.9**	89%	74%	58%	74%	**84%**	(5%)	(26%)	(11%)	9%	**(28%)**
Year 4	0.1	3.2	1.0	2.3	**6.8**	58%	68%	58%	79%	**79%**	9%	(14%)	(28%)	5%	**(11%)**
All Years	**2.1**	**2.2**	**0.6**	**4.1**	**9.2**	**62%**	**64%**	**61%**	**79%**	**71%**	**(2%)**	**(5%)**	**9%**	**(3%)**	**NM**

Source: CFRA Sector Watch, Oct. 3, 2022

What is also interesting (and positive) is volatility dropped dramatically through Q2 of the third year, where the volatility was 26% below the average for all quarters.

While the market is up over 84-89% of the time, 11-16% of the time it is still down, so it is not a perfect indicator, as the results for the past 3 months ending September 2022 can attest to. But in the periods when it does work, a rising tide lifts all sectors of the market. Although data is only available since 1990, it shows technology, mid-caps, small-caps, and the S&P500 all generating solid returns in the quarter with almost 90% of the S&P500 sub-industries showing positive returns.

Table 2 – average Q4 Price Returns During Q1 of Third Year of Presidential Cycle since 1990

Regions/Sizes/Sectors	% Chg.	Best S&P 500 Sub-Industries	% Chg.
Information Technology	10.0%	Semiconductor Equipment	18.8%
Nasdaq Composite	**6.9%**	Advertising	14.5%
Communication Services	6.9%	Apparel Retail	14.0%
Consumer Discretionary	6.3%	Home Improvement Retail	12.9%
Consumer Staples	6.3%	Communications Equipment	12.2%
S&P 500 Growth	**6.2%**	Air Freight & Logistics	12.0%
Financials	6.0%	Paper Packaging	11.6%
S&P 500	**5.3%**	IT Consulting & Other Services	11.1%
Real Estate**	5.2%	**Worst S&P 500 Sub-Industries**	**% Chg.**
S&P SmallCap 600	**5.2%**	Construction & Engineering	-1.7%
S&P MidCap 400	**4.7%**	Oil & Gas Equipment & Services	-2.9%
Utilities	4.5%	Agricultural Products	-3.8%
Health Care	4.5%	Gold	-4.6%
S&P 500 Value	**4.5%**	Construction Materials	-7.3%
Industrials	4.3%	Computer & Electronics Retail	-7.7%
Materials	3.8%	Oil & Gas Exploration & Production	-9.3%
Energy	0.1%	Casinos & Gaming	-9.7%
Positive Sectors	**100%**	**Positive Sub-Industries:**	**89%**

Source: CFRA Sector Watch, Oct. 3, 2022 (**since 2007 for Real Estate)

Why does the Presidential Cycle work? Well, we're not sure. Yale Hirsch developed this theory in 1967 when he was publisher of the *Inventory Dealer's Almanac*. According to him, the President spends the first 2 years in office attending to special interests and pet projects. The last 2 years in office are focused on getting re-elected or getting their party re-elected. This requires paying attention to the economy, which in turn has a positive effect on the markets. It does not matter whether the President is Democrat or Republican, the same phenomenon occurs regardless of political leaning.[1, 2]

Summary

1. The Presidential Cycle theory states markets will be weakest in the first year of a presidency, recover in the second year, peak in the third year, and weaken again in the final year of the presidency. This theory is what we call "weak form market efficiency", meaning it is interesting but is seldom recommended as an investment strategy. But oddly enough, it works. In over 80% of the time since December 1944, there is a rally with lower volatility through the end of the year when we are starting the third year of the Presidential cycle, which is now. The rallies have been broad-based, which is an excellent sign of good market breadth, which bodes well as this is a bullish signal.

2. We are most certainly not saying investors should be out of the market in the other 3 years. The stock market is usually positive, just not as positive as in the third year. So, it still pays enormously to stay invested. From 1933 to 2016, here are the S&P500 returns each year.[1]

Table 3 – Average U.S. Returns, 1933-2016

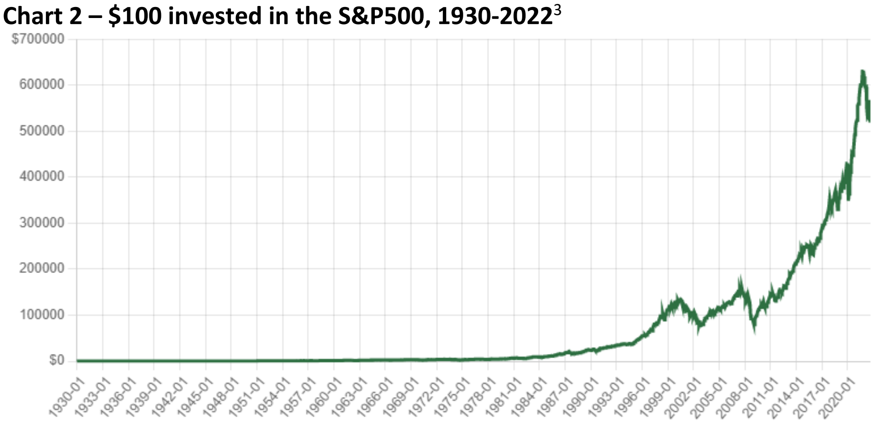
President Elected	**S&P500 Average Return**	**Comments**
First year	+6.7%	21 cycles, 1933-2016
Second year	+5.8%	
Third year	+16.3%	We are currently here
Fourth year	+6.7%	

Source: Investopedia.com. "Presidential Election Cycle Theory"

3. The stock market index, such as the S&P500, are open systems. They are composed of companies that grow their revenues and earnings, thereby becoming more valuable. Companies that do not meet size and growth criteria are replaced.

   And it is the stock market that will give investors an excellent chance of inflation protection. One hundred dollars invested in the S&P500 in 1930 was almost $519,000 in October 2022, a 9.66% annual compound growth rate, assuming dividends are reinvested.[3] That's a period through the Great Depression, World War II, the Korean War, the Vietnam War, the National Energy Program, the Great Recession of 2009, the COVID-19 pandemic and even the year-to-date 2022 market downturn. Something to think about.

Chart 2 – $100 invested in the S&P500, 1930-2022[3]



But don't take our word for it. We invite you to use this free online calculator to input your own numbers here.

[2] https://globalonlinemony.com/presidential-election-cycle-theory-definition/
[3] https://www.officialdata.org/us/stocks/s-p-500/1930

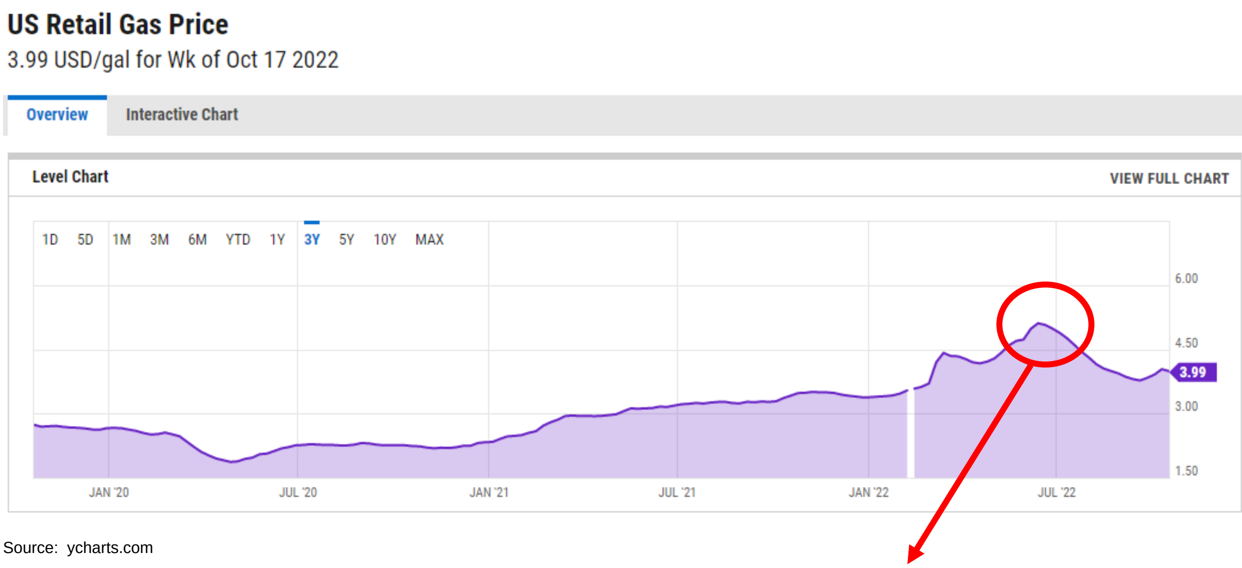
Part 2. OPEC Quotas & Oil Prices

We are now going to shift focus and talk about the impact oil producing countries can have on the price of oil. We are going to show the latest attempt by OPEC to limit oil supply may not have the dramatic impact the headlines suggest.

OPEC is the Organization of Petroleum Exporting Countries. It is a cartel of major oil producing countries that was formed to control the supply of crude oil. OPEC+ is a looser association of the 13 OPEC members plus 10 other major oil producing countries, including Russia.[4] Canada is not a part of OPEC or OPEC+.

OPEC's aim is to regulate the supply of oil in the world and thereby influence its price. The retail price of gasoline in the U.S.A. shot up to over $5.00 a gallon in June 2022, a record high. It is still stubbornly high at $3.99/ga on October 17, 2022. To deal with inflation caused by rising energy, President Biden has been asking Saudi Arabia, a major OPEC member, to produce more and ship it to the U.S. In July of this year President Biden even made a special trip to Saudi Arabia in a bid to get more oil.

Chart 3 – U.S. Nationwide Gasoline Price at Pump



Source: ycharts.com

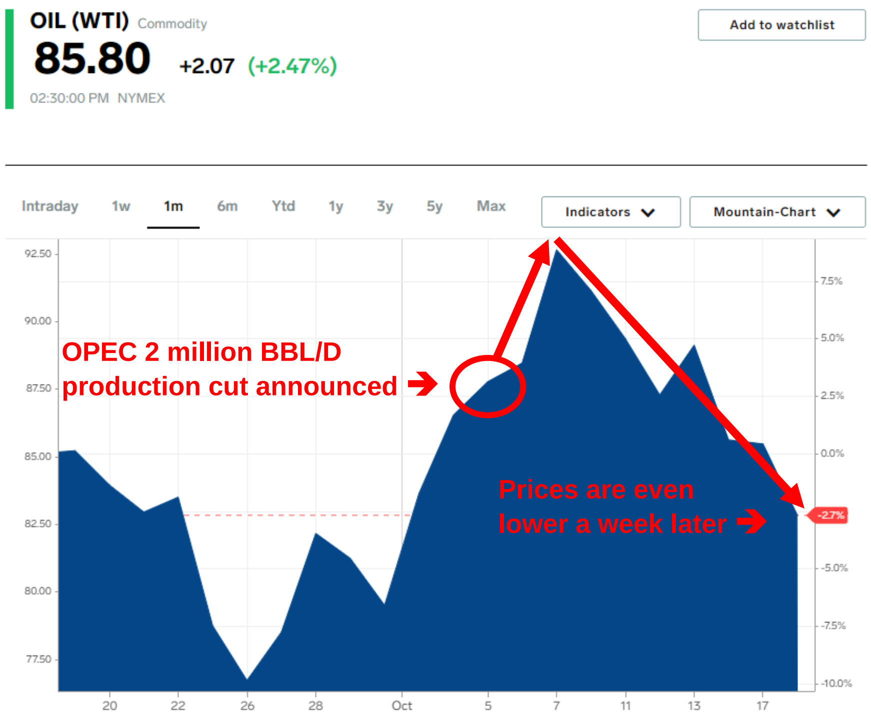
USD$5.10 per gallon June 2022

President Biden's efforts were unsuccessful. On October 5, 2022, OPEC announced a 2 million barrel/day ("BBL/D") cut in its production quota. World markets took this to mean that crude oil prices will stay high. The President publicly vowed "consequences". [5]

[4] www.investopedia.com/ask/answers/060415/how-much-influence-does-opec-have-global-price-oil.asp

[5] www.aljazeera.com/news/2022/10/12/biden-vows-consequences-for-saudi-arabia-after-oil-output-cuts

Chart 4 – Oil Prices After OPEC Announced Production Cut

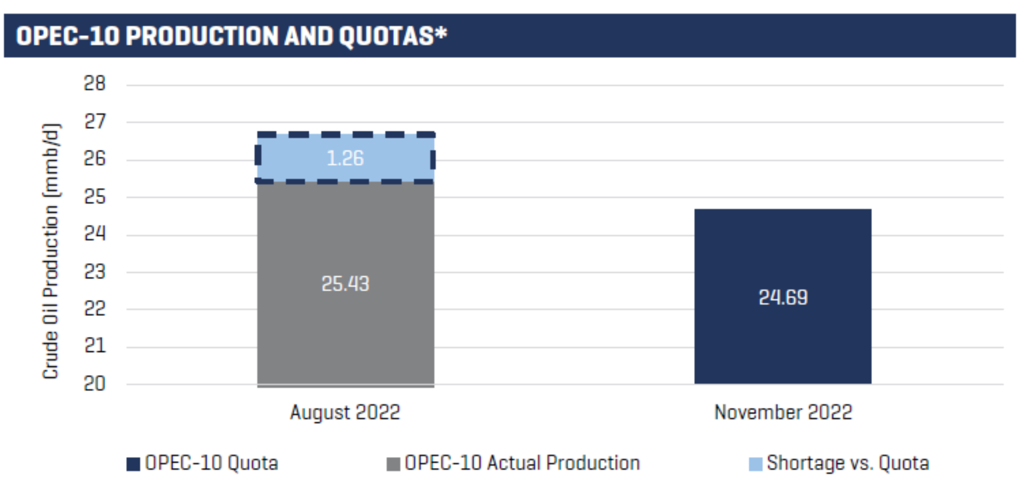


Source: markets.businessinsider.com/commodities/

Crude oil (WTI) spiked up to $92.50/BBL following the announcement but by October 19, 2022, the price had fallen to below the October 5 price to $86.00/BBL. So, the impact of the OPEC announcement was only about a weeklong. In other words, the announced production cut does not appear to be influencing the price of crude oil.

So, what is going on? If we investigate the details what happened is that OPEC was already producing **below** its quota. In fact, it was 1.26 million BBL/D short in August.

Chart 5 – Actual Production by OPEC Nations Fall Short



Source: CFRA, The Outlook, October 17, 2022 *August 2022 and November 2022

Summary. In the face of rising interest rates and expected recessions in the developed world, demand for oil will be falling anyway. Couple this with an output shortage of over 1.25 million barrels, a 2 million BBL/D cut may not materially shore up the price of crude oil. It is the decline in demand from recession that is pushing the price of oil down and we can perhaps even argue that all OPEC did was adjust their quota downwards to meet the reduced demand.

We do admit the headline announcement and the White House's reaction was noteworthy and it has only been less than 2 weeks since the OPEC announcement, so a longer timeline for greater certainty is desirable. But to paraphrase the Bard, William Shakespeare said ***"in the end 'twas much ado about nothing."***

Part 3 - Conclusion

In our view, the stock and bond markets are going through a normal economic and interest rate cycle. There is much talk about rising interest rates triggering a recession in the U.S. and Canada in 2023. We may already be in a recession; time will tell. But the good news is that this cycle is not accompanied by high levels of unemployment. Lots of jobs suggest to us that a recession will probably be short and/or shallow.

Table 4 – Unemployment Rates Low Despite Recession Risk

Canada	**2022E**	**2023E**	**Comments**
Unemployment rate	5.4%	6.5%	Estimated annual average
United States	**2022E**	**2023E**	**Comments**
Unemployment rate	3.7%	4.8%	Plentiful jobs to be had

Source: BMO focus, October 21, 2022

In fact, we think that early 2020, the start of the COVID-19 pandemic, was an order of magnitude of greater risk than year-to-date 2022. At that time, no one knew exactly how bad the pandemic could get and whether worldwide governments could deal with the problem. If the investment markets successfully survived early 2020, then 2022 should be easier on the nerves.

To our clients, the key remains to think long term and stay invested according to your level of risk. We leave with a saying from the Sage of Omaha, Warren Buffet. "***Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."***

==

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, 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/.