Whatever Happened to the Human Race?

A. Roe v. Wade

With the overturning of "Roe v. Wade" in the United States, the discourse concerning abortion has reached a feverish pace with some of the comments bordering on total insanity. For example, I never expected that the former head of the Federal Reserve and current U.S. Treasury Secretary, Janet Yellen, would in testimony to the U.S. Senate, say that restricting abortion would negatively affect the US economy. What? How can the killing of unborn children and the reduction in the birth rate, which is one of the leading causes behind our demographic collapse, lead to greater economic prosperity? Aren't children our most valued resource? Yellen's cost of abortion is based solely on the total value of wages a woman foregoes in order to raise a child. By restricting the cost of abortion to lost wages and completely overlooking the far greater economic cost of abortion which is the destruction of a human life and the future value that each life brings to the world, Yellen reveals to us the shoddiness of her analysis. Yellen's comments, which are shared by most of the ruling class, are illustrative of how cheaply human lives are valued in 2022.

In response to Yellen's outrageous comments the Joint Economic Committee Republicans (JECR) chaired by Senator Mike Lee (Utah) pushed back with their own economic analysis.[1] They estimated the economic cost of abortion in 2019 alone—due to the loss of nearly 630,000 unborn lives—was at least $6.9 trillion, or 32 percent of U.S. GDP. Interestingly, their economic cost estimate relied on the standard methodologies used by federal government agencies to quantify the benefits of policies that affect mortality risks. By applying the same methodology to abortion and valuing each person based on the economics of a complete lifespan, the economic impact of abortion is staggering.

JECR estimated that the economic cost of abortion due the loss of unborn lives is 425 times larger than the earnings loss mothers would be expected to incur when having a child. Earnings of the average mother fall by approximately $26,000 over the first six years of her first child's life. If each abortion prevents maternal earnings from falling, all abortions in 2019 could save mothers $16.2 billion in earnings over the next six years. However, the JECR's $6.9 trillion cost of abortion estimate far outweighs these projected earnings benefits.

Abortion also imposes external costs on society not reflected in JECR's $6.9 trillion cost estimate. In the long run, abortion shrinks the labor force, stunts innovation, and limits economic growth. It also weakens the solvency of social insurance programs like Social Security and Medicare that rely on workers to support a growing elderly population. At a time when debt levels have reached unsustainable levels and unfunded government liabilities are too large to pay, it is sheer economic folly to murder the next generation. Who is going to pay for the financial irresponsibility of the last 3-4 decades?

Most importantly, at its core, abortion is a primarily a moral issue and not just an economic issue. The murder of the unborn leads directly to the dehumanization of all human beings, not just the unborn. The result will increasingly be a barbarous culture, a culture that no longer has the moral truth and fortitude to value and protect any human life, from conception to grave. If this doesn't concern you, nothing will.

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[1] Joint Economic Committee Republicans. The Economic Cost of Abortion. www.jec.senate.gov June 15, 2022

In listening to the anger and rancor being spewed concerning the U.S. Supreme Court's decision to overturn Roe v. Wade and force the issue back to State legislatures, my thoughts went back to a powerful and prophetic book I read in 1986.

Whatever Happened To The Human Race?[2] was an important book written in 1979 by Dr. Francis Schaeffer and Dr. C. Everett Koop. Schaeffer was a leading theologian and apologist who was regarded by many as one of the greatest Christian thinkers of the twentieth century. Koop, was a pediatrician of international renown, who later became the Surgeon General of the United States under President Ronald Reagan.

What was so important about *Whatever Happened To The Human Race?* And why is it still regarded as a landmark, in the area of Christian ethics and morality? The answer is threefold. First, it identified alarming concerns. The concerns were widespread abortion, the growing acceptance of infanticide and the impending threat of euthanasia. Second, it explained the origin of these issues, the advance of secular humanism coupled with the decline of biblical Christianity in the West. Third, it outlined the only solution, a return to biblical Christianity which establishes a basis for both truth and the value of each person as made in the image of the infinite-personal God as revealed in the Bible.

The opening three chapters of *Whatever Happened To The Human Race?* deal with abortion, infanticide and euthanasia. Forty-three years ago, this exposé came as a bombshell to many people. Most people at the time had no idea what was going on in the local hospitals and clinics across the land. The sheer logic of Schaeffer and Koop's argument – that once a society has accepted abortion of the unborn, then it would soon be infanticide for the newborn, and finally euthanasia for the elderly - was both powerful and shocking. Yet, living forty-three years later no one can refute their prophetic analysis, we are living in the midst of the dehumanized culture they so clearly predicted.

In chapters four and five entitled, 'The Basis for Human Dignity' and 'Truth and History', the authors speak directly to our modern world's philosophy, and the rampant secular humanism that shrouds our culture. Schaeffer and Koop demonstrate just how irrational and bankrupt these philosophies are, and how they inevitably produce the gruesome dehumanization that surrounds us today. Forty-three years on, we have to admit that their thesis was spot on – we do think that man is nothing more than a machine (whose brain can be downloaded into a MacBook, according to the technology gurus), and we do view ourselves as mere accidents of the universe. One of their grand sweeping and accurate assertions is, 'Suddenly we find ourselves in a more consistent but uglier world – more consistent because people are taking their low view of man to its natural conclusion, and uglier because humanity is drastically dehumanized'.

After their devastating critique of secular humanism comes the answer. The ultimate and only solution is a return to historic Christianity. What a feeble and unstable thing secular humanism is alongside the robustness of true Truth. 'Where all humanistic systems of thought are unable to give an adequate explanation of things, the Bible as God's statement is adequate', 'God gives the pages, and thus God gives the answers'. Schaeffer and Koop engage with modern men and women to show them the dearth of their worldview, and then the genius and vitality of Biblical Christianity which birthed the Western world with its unprecedented rights and freedoms rooted in the immutable God and Creator and not the State.

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[2] Schaeffer, Francis A. & Koop, C. Everett. Whatever Happened to the Human Race. Old Tappan N.J.: F.H. Revell Co., 1979

The chapter entitled 'Truth and History' asserts the historicity of the Bible, that is, how Christianity is rooted in history. It starts with Abraham, building on the historicity of Adam and Eve and ends with the historic and bodily resurrection of Jesus Christ. It is Jesus who defeats man's greatest enemy, death itself, and gives eternal life to all those who put their faith in Him. For truth to exist, all truth must rest upon the fact that the infinite-personal God exists, without Him there is no possibility of truth or moral absolutes. Truth, meaning, value and moral absolutes have no basis in a chance universe. Our modern culture which merely reduces human beings into nothing more than matter in motion can give us no ultimate meaning, value or purpose. Is there any wonder why our culture is spiritually, culturally and economically bankrupt and the U.S. Treasury Secretary believes that widespread and unfettered abortions act as an economic stimulus?

No other book, published before or after, has so succinctly and powerfully succeeded, in developing a fundamental biblical approach to bioethical issues. The same framework of thought can be applied today to those advancing artificial intelligence, augmented reality, transhumanism and posthumanism; all issues of concern as we enter the brave new world.

I will let Schaeffer and Koop have the last words. 'We challenge you to be a person in this impersonal age … put the people in your life first … come to your senses … you and those around you are people, made in the image of the personal God who created all people in His image.' 'The only thing that can stem this tide of abortion, infanticide and euthanasia is the certainty of the absolute uniqueness and value of people. And the only thing which gives us this is the knowledge that people are made in the image of God.' 'In the end we must realize that the tide of humanism, with its loss of humanness, is not merely a cultural ill, but a spiritual ill that Christ alone through the gospel can cure'.

When you look at our country along with the Western world you must ask the question; What happened to the human race? Why are we celebrating and cheering abortions, infanticide, euthanasia and so many other evils such as the legalization of mind-altering drugs, pedophilia and the sexual grooming of our children in our classrooms? Where are our tears, where is our mourning over the barbarism that envelopes all areas of our society and culture? The answer is simple, we have made man god and we have rejected the true and living God. When our economic and political leaders believe that murdering the next generation is an economic benefit and not a moral and economic travesty, we are living in real darkness. May we remember the words of Jesus recorded for us in the gospel of John 8:12; "I am the light of the world. Whoever follows me will not walk in darkness, but will have the light of life."

B. Rocklinc Kokomo Fund

The unjustified invoking of the Emergencies Act on February 14th demonstrated to all Canadians that our governments on all levels, coupled with our financial institutions, cannot be trusted. It was a very sad day in Canadian history when our once prestigious financial institutions were literally weaponized against "political opponents" of the government with no due process. The government's abusive use of the EA was a real opening of the kimono and the ease at which bank accounts were frozen was terrifying. It is now patently obvious to all that Canada's governments have no issue with targeting those with whom they disagree politically. It also appears that our Charter of Rights and Freedoms is not worth the paper it is written on. If our rights and freedoms come from the government, and not God, they are not absolute rights and freedoms but simply government privileges that can be granted and revoked arbitrarily based on the whims of the leaders. The only word for this is tyranny.

In light of these dramatic changes, we have communicated to our clients that they should take some steps to mitigate the risks of further government overreach. **First,** keep some extra cash around your home in a safe place. We quickly found out back in February that our Canadian financial institutions are not in the business of giving you back your deposits in the form of cash. **Second,** consider owning some physical gold and silver as monetary substitutes and as a means of exchange in the event you need to do some bartering. **Third,** open a bank account in a foreign jurisdiction not under the regulatory control of a Canadian government. **Fourth,** own hard assets outside of Canada. This could include a private business, real estate or investment accounts. **Lastly**, maintain or obtain a second passport or permanent residency status in another country that is safe and respectful of personal freedoms and liberties.

As some of our clients know, we are in the process of launching an investment fund based in the Cayman Islands. We expect this fund to be available mid-July. The Cayman Islands are the world's premier location to hold financial assets. They are a British Overseas Territory and the world's number one offshore market for investment funds. The Rocklinc Kokomo Fund will have a non-Canadian custodian, Cayman legal counsel, Cayman fund administrator and a Cayman auditor. The minimum investment will be $100,000 USD and the fund will be open to both Canadian and non-Canadian investors. We will manage the portfolio in a similar manner to how we manage all our discretionary accounts. This will include 20-30 stocks, low turnover, a competitive management fee, no performance fees and monthly pricing and liquidity. Offering documents will be ready in the next few weeks. We have a large list of interested clients and encourage you to call or email if you want more details. The new Rocklinc Kokomo Fund will be an easy way you can invest outside of Canada, into a high-quality investment fund, with a proven investment team and outside of the immediate reach of our government. Look for more information in the next few weeks.

C. Second Quarter Review

US Market

US equities fell sharply during the second quarter. The focus for investors was on the rapid rise in inflation and the increasing level of interest rates. The Federal Reserve hiked interest rates during the quarter and signalled that there would be more to come. The central bank also admitted that the task of bringing inflation down without triggering a recession would be challenging, not a positive for global stock markets.

The US economy continues to show signs of a slowdown and the very real possibility of a recession emerging during the remainder of the year. The US composite purchasing managers' index (PMI) eased from 53.6 to 51.2 in June and the services component went from from 53.4 to 51.6. The critically important manufacturing output weakened from 55.2 to a two-year low of 49.6. (A number below 50 designates a contraction in growth.) Only twice has this fallen by more than 5.6 points; during the pandemic in 2020 and the financial crisis in 2008. PCE inflation, the Fed's preferred price gauge, was unchanged at 6.3% year over year in May.

Declines in stocks affected all sectors. Two sectors, consumer staples and utilities, were the most resilient while there were dramatic declines for stocks in the auto, home-builder and technology sectors. While we expect the weakness in stocks to remain for at least another quarter, valuations are becoming more attractive.

Eurozone

The second quarter saw further steep declines for eurozone shares as the war in Ukraine continued and concerns mounted over potential gas shortages. Higher inflation is also dragging down consumer confidence at the same time the European Central Bank (ECB) is poised to raise interest rates in July. Top performing sectors included energy and communication services while information technology and real estate experienced sharp falls.

Continued disruption to gas supplies due to the war in Ukraine saw Germany move to phase two of its emergency energy plans. The next phase would involve rationing gas to industrial users, and potentially households as well. A flash estimate from Eurostat signalled inflation at 8.6% in June, up from 8.1% in May, with energy the biggest contributor to the rise.

Ongoing elevated inflation means the ECB is poised to lift interest rates at its meeting on July 21st with a further rise likely in September. Concerns over the higher cost of living and possibility of recession saw the European Commission's consumer confidence reading fall to -23.6 in June, the lowest level since April 2020, during the early stages of the pandemic.

United Kingdom

UK equities fell sharply during the quarter. Given the rising concern of a recession, economically sensitive areas performed poorly as the quarter progressed. Larger companies within the more defensive areas of the market outperformed. These included businesses in the telecoms, healthcare and consumer staples sectors.

In contrast, UK small and mid-caps (SMIDs) decreased the most with fears of high inflation and the negative impact on consumer spending weighing heavily on stock valuations.

Consumer discretionary sectors, such as retailers and housebuilders, performed poorly, in line with the trend seen across many other developed markets grappling with high levels of consumer price inflation (CPI). UK chancellor Rishi Sunak unveiled additional measures to help households facing higher energy bills this fall. While this might help offset some of the impact of higher energy prices it will also stoke more inflation and do very little to help the hardest hit UK households. If inflation is the result of poor policy decisions, adding more poor policy decisions to the mix will do little to solve the systemic problems of government overreach and bungling in the economy.

During the quarter, the Bank of England increased its official rate by a combined 50 basis points (bps). This takes the UK "Bank Rate" to 1.25%. The Bank continued to warn of higher inflation, and in June raised its estimate for the peak CPI from 10% to 11% for October.

Japan

The Japanese stock market ended the quarter lower. Most importantly, the yen weakened sharply against the US dollar, breaching the 130 level for the first time in 20 years. At the time of writing, the yen is trading at the 137 level and continues to weaken. Given the dismal prospects for the most indebted nation in the world we would expect the yen to continue to weaken in the months and years ahead.

Japan's equity market in the quarter was driven by the news on monetary policy, the volatile currency markets, and concerns over the possibility of a US recession.

Corporate earnings results began in late April for the fiscal year ended in March. Most of the companies reported in May, after the Golden Week holiday period. Given the current macro background and global uncertainty, there were far fewer positive surprises than in recent quarters. Most companies made very conservative forecasts for the coming year given the large amount of global uncertainty.

Asia (ex-Japan)

Asia (ex-Japan) equities also turned in a negative return during the second quarter. Investor sentiment was negative amid concerns that rising global inflation and ongoing supply chain problems could tip the world into recession.

South Korea was the worst-performing market in the MSCI Asia (ex-Japan) index in the quarter, with financials, technology and energy stocks smacked down amid fears of a global recession.

Stocks in Taiwan were also significantly lower on fears that rising inflation and global supply chain problems would weaken demand for its technology products. Indian stocks also declined over the quarter as global volatility, rising inflation and soaring energy prices weakened investor's outlook towards the market.

Share prices in the Philippines, Singapore and Malaysia all recorded sharp declines in the quarter, mirroring the share price falls seen in global markets, while declines in Indonesia and Thailand were less severe. China was the only market to end the quarter in positive territory, as draconian Covid-19 lockdown measures slowly started to be relaxed.

Commodities

The S&P GSCI Index achieved a positive return during the second quarter as higher energy prices offset sharp price falls in the other components of the index. Energy was the best performing component amid rising demand and supply constraints. This is due to the ongoing conflict in Ukraine and the poor policy decisions on the part of Western governments as they have restricted the production and development of new fossil fuel reserves in the name of ESG (environment, social and governance).

Industrial metals were the worst performing component, with sharp falls in the price of aluminium, nickel and zinc. Copper and lead prices were also significantly lower in the quarter. Within the agriculture component, prices for wheat, corn and cotton were all lower. In precious metals, the price of silver was significantly lower in the quarter, while the decline in the price of gold was less pronounced. As we enter July the U.S. dollar continues to rise. This is placing downward pressure on almost all commodities.

D. North American Equity Market Statistics

During the second quarter, the Canadian equity market as measured by the S&P/TSX decreased by 13.3%. Year-over-year, the index decreased by 4.53%, including dividends. Although the S&P/TSX index has lagged many of the world's major stock markets over the past 15 years, it came back to life over the past year and was ahead of US stock indexes over the past 12 months. The recent performance of the index has been largely driven by commodity stocks and the inflation trade, coupled with the upswing in the value of the banks after a sharp selloff due to the lockdowns in 2020/2021. Some of these relative gains are under pressure as we enter the third quarter with the global economy staring down a recession. At Rocklinc, we continue to focus on an evolving basket of great businesses that can successfully navigate the inevitable challenges facing the global economy. We do not try to market time or attempt to profit from short term moves in any particular sectors. This strategy has proven to not only protect our clients' money in the downturns but provide strong long-term performance.

During the last three and five years, our basket of Canadian companies outperformed the index by approximately 5.6% and 3.7%, respectively. Our weighting in the precious metals royalty companies, along with our infrastructure holdings and technology stocks, added significant value over the last three to five years. Year-to-date, our Canadian equities fell by 5.45% compared to the index which dropped by 10.2%. Regardless of the short-term noise, our focus is on the long-term economic fundamentals of the companies we own and we are pleased with our core positions and their favourable long-term fundamentals.

In terms of the S&P/TSX, all eleven sectors generated negative returns! Here are their returns from best to worst: Energy (-3.0%), Utilites (-4.4%), Consumer Staples (-6.4%), Telecommunication Services (-9.8%), Consumer Discretionary (-10.7%), Industrials (-13.0), Financials (-13.9%), Real Estate (-18.5%), Materials (-24.0%), Information Technology (-30.8%) and Healthcare (-49.8%).

Pertinent market action during the second quarter of 2022 and during the last 12 months is captured in the following table.

	June 30, 2021	Mar. 31, 2022	June 30, 2022	3 Month Return	1 Year Return
CAD/USD	$.8070	$0.7996	$.7768	-2.9%	-3.7 %
Oil WTI (US $)	$73.52	$100.28	$105.93	+5.6 %	+44%
Gold (US $)	$1,763.20	$1,936.78	$1,806.60	-6.9%	+2.5%
Silver (US $)	$27.00	$24.80	$20.26	-18.3%	-25%
S&P/TSX	20,165	21,890	18,845	-13.9%	-6.5%
S&P 500	4,297	4,602	3,785	-17.7%	-11.9 %
Cdn 10 yr.	1.39%	2.40%	3.22%	82 bps	183 bps
US 10 yr.	1.45%	2.33%	3.02%	69 bps	157 bps

Source: Bloomberg

During the second quarter, the Canadian dollar decreased by 2.9% against the USD and was down 3.7% over the last twelve months. Over time, the best way to minimize currency risk is to buy strong and growing businesses that generate revenue in numerous currencies. As a result, these businesses create a natural currency hedge in your portfolio and mitigate the impact of fluctuating currencies and inflation. Our view is that all fiat currencies will continue to lose value against tangible or real assets because governments around the world, through their central banks, continue to print record amounts of money to support their weak and indebted economies. Increasing the supply of paper

money can only depreciate its value over time. Over the past 30 months, we have witnessed the largest expansion of fiat money in the history of the world. During the quarter, gold decreased by 6.9% and was up 2.5% over the past twelve months, reaching a peak at $2,070.44 on March 8, very close to its all-time intraday high of $2,075 (August 7, 2020). Silver on the other hand was much more volatile and decreased by 18.3% over the last three months and was down by a whopping 25% over the past year. Despite the small negative returns in gold and the larger swings in silver, we believe the long-term trends for both precious metals is to the upside and continue to build positions in this sector.

During the quarter, oil jumped by 5.6%, and year-over-year, it is up an enormous 44%. Some of the gain in the second quarter is a carryover from the first quarter when Russia invaded the Ukraine and restrictions/sanctions were placed on Russian oil and gas. But most of the gains over the past 18 months are due to poor policy decisions on the part of world leaders. As world leaders increasingly bow to the god of climate change and increase the cost of exploration and development of oil and gas reserves, the cost of energy will remain very high. The attempt to phase out fossil fuels on an unrealistic time line will continue to fuel inflation and decrease the average standard of living throughout the world. Our direct investments in the oil and gas sector remains relatively small but we continue to look at ways to profit from the missteps of our political class. During the quarter, we did add to some of our direct positions. It is our indirect exposure through a number of infrastructure firms that remains quite large. We are very comfortable gaining our exposure to the energy sector through businesses that service the sector or provide long-term infrastructure assets (pipelines, storage, cleaning, recycling) to the broader energy sector.

During the second quarter, interest rates jumped sharply as inflation rose to levels not seen in over 40 years! The 10-year Canadian bond increased by 82 bps and the US 10-year treasury increased by 69 bps. Despite the extreme volatility in interest rates, we believe that interest rates will remain historically low and well below the true levels of inflation. **While interest rates are expected to increase in the year ahead, we believe a sharp rise will lead to a recession by the fourth quarter of this year. In fact, as the data continues to come in we may already be in a recession. This is why the 10 year bond yields during the last two weeks of June and into the first week in July have started to decrease. The markets are already sniffing out the reality of a recession right around the corner. With global debt reaching levels never seen before in world history, the global economy cannot absorb an increase of 250-300 bps without the risk of sinking into a serious and prolonged recession. We might be entering that period now.**

E. ROCKLINC Investment Update

1. Private Client Assets

In terms of our ROCKLINC portfolios, with 70% invested in equities and 30% in a short-term bond mix, they decreased by 10.2% during the second quarter and decreased by 4.3% during the last 12 months (period ending June 30, 2022). More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 6.8%, 7.2% and 7.4% respectively. Returns are after all fees, and are based on an asset mix of approximately 70% invested in equities, with the remainder invested in short-term deposit accounts, bonds and preferred shares. This asset mix has varied over the past ten years but in general we have averaged approximately 65%-70% invested in equities. Please note that the performance we are disclosing is our **aggregate performance** across all our accounts. Each client's portfolio is unique, and performance will vary, based on your risk tolerance and your specific asset allocation.

When we dig further into our numbers, we find that our basket of equities decreased by 13.8% during the second quarter and decreased by approximately 6.0% during the past 12 months, substantially outperforming their benchmarks, the S&P/TSX and the S&P 500. Our equities have been compounding by approximately 10.1% per year over the past 3 years and by 10.4% over the past 5 years. Over the past five years, our Canadian equities have been compounding at 10.5% per year (compared to the index at 6.8%), while our US equities have been growing at 10.1% per year (compared to S & P 500 index at 11.3%). We continue to allocate capital into global businesses in order to glean the benefit of global growth and diversification in our portfolios.

We continue to fix our attention on the economic fundamentals! This means that we **first,** selectively add companies as our research team ferrets out new opportunities. **Second**, prune underperforming businesses. **Third**, take advantage of market swings and add to our outstanding companies at better prices! Whether the markets are weak or exuberant, there are always opportunities to seize upon. Given the recent downturn in markets the number of buying opportunities continues to increase. Expect to see new additions along with some deletions from your portfolios over the remainder of 2022.

2. Rocklinc Partners Fund

We launched our Rocklinc Partners Fund in September 2017. Our goal was to offer our clients a low cost and efficient way to purchase our top 20-30 companies in one portfolio. It is an effective way to gain access to a diversified portfolio with more modest amounts of investment capital.

Our plan is to develop a long-term track record that can be marketed not only to our own private clients but also directly to other Canadian investors. As Rocklinc continues to grow, our number one objective is to create portfolios of excellent companies that produce strong long-term performance.

Quarterly we will provide our clients updated performance numbers on our Rocklinc Partners Fund. All performance numbers are after all fees and rates of return beyond one year are annual compound rates of return. Currently, the Fund is approximately 10% in cash and short term money market instruments and 90% equities.

As at June 30, 2022

	1 mo.	3 mos.	6 mos.	1 yr.	3 yr.	Incep.**
RL Partners	-5.2%	-13.5%	-12.7%	-9.3%	+7.1%	6.0%

** Inception September 29, 2017 (NBN1212)

F. Company Update - Apple Inc.

In our December 2018 Newsletter, we wrote our first company highlight on Apple. Since then, there have been many major events that have rocked the stock market, from escalating U.S. trade tensions and governmental lockdowns to the Ukraine-Russia war and historical inflation levels. Yet despite these geopolitical events, Apple has remained resilient. At the tail end of 2018, market

sentiment towards Apple turned dour as investors focused on near-term growth concerns (this is not the first time that investors have written Apple off). A slowing China economy and escalating trade tensions between the U.S. and China had placed temporary downward pressure on demand for Apple's products. In addition, the market was concerned that the insatiable demand for iPhones was beginning to decelerate after Apple's management indicated that the company would no longer report unit sales of iPhones. The market sentiment became so negative that sell-side investment research analysts began to downgrade their rating of Apple, while some analysts even recommended selling shares of Apple. How quickly market sentiment can shift shortly after Apple became the world's most valuable company! If investors had sold shares of Apple based on geopolitical or short-term growth concerns back then, investors would have missed out on an investment return of over 3.5 times! Apple has been a great example of how the market has a tendency to place greater weight on the short-term at the expense of the long-term. As Ben Graham, the "father of value investing", once famously said, "In the short-run, the market is a voting machine, but in the long-run, it is a weighing machine".

This year marks the 15th year anniversary when Steve Jobs first unveiled the iPhone to the world in 2007. Apple has now become the world's largest phone maker beating out Samsung for the top spot. It is estimated that Apple has sold over 2 billion iPhones around the world. The longevity of Apple's success can be attributed to the robust ecosystem of products and services that underpins its business. Rather than developing a collection of products that function individually, Apple has meticulously crafted an array of products built with beautiful industrial design that seamlessly integrate and interact with one another. It is the Apple ecosystem that has distinguished the company from its peers and help create a resilient and loyal customer following. Once Apple launched new iPhone models (iPhone 11, iPhone SE (2nd and 3rd generation), iPhone 12 and iPhone 13) with various price points, concerns over iPhone demand started to dissipate and the new phones experienced exceptional demand across all geographies. In fact, iPhone generated record revenue in the second quarter of 2022. Demand from China also turned around as consumers gravitated towards Apple's trade-in and financing program and more affordable line of iPhones, while consumers also flocked to Apple's much-anticipated 5G-compatible iPhones.

Apple's ecosystem makes it easy for customers to venture into new category of products. For instance, in Apple's last quarter, over half of customers that purchased an iPad were new users to iPad, while two thirds of customers that purchased an Apple Watch were new Apple Watch customers. Also, almost half of Mac computer customers were new to Mac. This indicates that there is still a large swath of new customers that are purchasing Apple products for the first time. Driving the demand for iPad and Mac has been Apple's own in-house designed "M-line" semiconductor chips, which offers superior performance compared to its predecessor chips designed by Intel. Apple has shown that it can create better performing semiconductor chips to power its own products.

With a deeply entrenched active install base of 1.8 billion devices worldwide, Apple's ecosystem is further strengthened by its wide offering of services, such as cloud services, digital payments, App Store, advertising, digital content (movies, music, TV, news, video game subscription) and Apple Care program. The Services business is one of its most profitable and fastest growing business. In 2021, Apple's Services revenue increased 27% to $68.4 billion, while its gross margin was 69.7% compared to its products gross margin of 35.3%. There are over 825 million paid subscriptions across Apple platform, which is an increase of over 165 million paid subscriptions in just the last 12 months. To put that into perspective, Netflix's total number of paid subscriptions is 222 million. With such a large base of paid subscribers, Apple generates a steady recurring stream of subscription revenue. Apple also generates a stream of fees from its Apple Pay business, which is a mobile payment and digital wallet service that allows customers to pay with their iPhone, iPad, Mac or Apple Watch. In the first quarter of 2020, Apple Pay had an annual run-rate of over 15 billion transactions. Apple

collects a percentage of each dollar spent when consumers use its Apple Pay service. With such success in the consumer space, Apple is also looking to expand into the small business market by launching an enterprise subscription service called Apple Business Essentials. Through this service, Apple will provide small and medium sizes businesses with 24/7 support and device management. This is a new business development that we will continue to keep an eye on.

Over the years, Apple has proven to be an astute allocator of capital. Unlike some of its peers, the company has not made a number of large acquisitions, which has helped them avoid severely over-paying for a company. Instead, it has focused on purchasing smaller companies with innovative technology that complements or expands its existing portfolio. Many of these smaller companies offer technical expertise or product innovation that helps fill in gaps or accelerate its path towards developing a technology. For instance, Siri, which is a virtual personal assistant tool purchased in 2010, has become a core artificial intelligence tool in the iPhone. In 2012, Apple acquired AuthenTec, which provided the technology behind the fingerprint sensor function on Apple's products. Over the past 7 years, Apple has acquired over 100 companies according to Apple CEO, Tim Cook. Capital has also been allocated towards expanding its manufacturing and production across different geographies in order to become less dependent on China.

Apple has been active in returning capital to shareholders. Over the past 5 years, Apple has returned to shareholders $69.2 billion in dividends and $330.9 billion in share repurchases. As a cash-flow generating machine, Apple has been able to consistently make strategic acquisitions while returning capital to shareholders. In 2021, Apple generated $93 billion in free cash flow. To put that into perspective, the free cash flow generated in 2021 would be able to purchase Volkswagen or Starbucks. With a net cash position of $73B, we believe that Apple has a secure capital position that will enable the company to further return capital to shareholders while making prudent acquisitions and investments. With the recent sell-off in the markets, Apple's valuation has become even more attractive. Although Apple faces no shortage of temporary challenges, such as supply chain constraints, we believe that Apple will yet again prove that its resilient business model, sticky customer base and powerful brand will continue to weather future storms and create wealth for our investors!

F. Moving Forward

We continue to keep our eyes focused on the fundamentals of the businesses we invest in, within the context of a global economy immersed in debt and run by power hungry governments. **We will do our best to take advantage of sharp moves in the market!** After a very negative start to the year more buying opportunities are emerging. As investors, volatility and turbulence are our friends and we will use them to your advantage. It is important that we remain vigilant given the economic and social challenges facing the global economy.

As a result, the investment team at Rocklinc is working hard to make sure our existing companies are performing as expected or better and searching for new companies that we can add to your portfolios. Over the past year, we have added several new companies to our mix. During the same period, we eliminated/reduced several positions. We continue to add to our weightings in a number of sectors including, precious metals, financial, consumer staples and technology. We maintain a large weighting in the infrastructure sector.

Given the current environment our basic strategy has not changed. We are positioned strongly to deal with the extraordinary times we are living in. Here is a summary of our thoughts.

1. Patience – we need to wait for well-priced opportunities. Our patience and cash positions give us the flexibility to buy low.

2. Watch the world's leading Central Banks. The level of money printing has been historic and we do not believe it will be easy to turn off the spigot as 2022 unfolds. As rates continue to rise it will be virtually impossible to avoid a recession.

3. Pay attention to the irresponsible decisions of governments around the world. Governments are running massive deficits. Sadly, there does not seem to be any end in sight for this madness. When is the last time you heard a government talk about balancing it's budget?

4. Diversify across asset classes, sectors and geographic regions.

5. Invest in businesses with strong balance sheets, backed by hard and tangible assets with limited counterparty risk.

6. Invest in firms that produce essential products and services, in growing industries, with well-established long-term secular growth trends. Our highlighted company this quarter **Apple Inc.**, is an excellent example.

7. Avoid/minimize highly leveraged financialized firms that have incomprehensible balance sheets, loaded with risky derivatives. We continue to minimize our exposure to banks and life insurance companies!

8. Maintain adequate liquidity in our portfolios, in order to take advantage of significant moves in the stock market. **Cash is not trash** when the markets become irrational!

9. Remain optimistic and opportunistic seasoned with a dose of reality. Do not succumb to fear mongering nor believe that you cannot survive without the "help" of an intrusive State that has proven to be completely inept.

10. Place your faith and hope in God and not the State. Remember the words of the psalmist King David in Psalm 20:7; "Some trust in chariots and some in horses, but we trust in the name of the LORD our God."

If you have any questions pertaining to your account please call or email for an appointment.

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