ROCKLINC
Worth.Investing.

Newsletter – June 2024

Second Quarter Update

A. North American Equity Market Statistics

During the second quarter, the Canadian equity market as measured by the S&P/TSX decreased by 0.73%. Year-over-year, the index increased 11.2%, including dividends. The markets continued to be preoccupied with the action of the Central Banks as they focus on inflation and how to get it down to more “acceptable levels”. The large rise in interest rates throughout most of 2023 weighed heavily on capital intensive businesses that typically utilize higher levels of debt on their balance sheets. This included banks, real estate businesses, along with utilities/infrastructure companies. As we discussed in our last three quarterly reports, some of the businesses we own including infrastructure and precious metals businesses that struggled throughout much of 2023, finally rebounded in November and December. For the first half of this year, interest rate sensitive businesses continued to struggle as interest rates rebounded late in the first quarter and into the second quarter. As the second quarter progressed, interest rates started to weaken again as economic indicators continued to weaken. During the quarter, the Bank of Canada actually cut rates by 25 basis points, while the US Federal Reserve maintained their interest rates with an expectation of a cut in September.

As we mentioned in our first quarter report, several of our favourite businesses continue to trade at substantial discounts to what we believe is their intrinsic value. This is providing us with unique opportunities to increase our weightings in these companies. Here are twelve businesses we own in client accounts that we believe are trading at greater than 15% discounts, with several trading at greater than 30% discounts to intrinsic value: Altius Minerals, APi Group, Brookfield Corporation, Brookfield Infrastructure, Brookfield Renewable, Franco-Nevada Corporation, Glencore PLC, MEG Energy, Osisko Royalties, Sandstorm Gold Ltd, Trisura Group and Wheaton Precious Metals. Expect to see us judiciously add to some of these businesses along with others during the remainder of the year.

Canadian Equities

During the second quarter, our basket of Canadian companies (after all expenses) increased by .6% and, over the past 5 and 10 years, compounded annually at 8.5% and 7.6%, respectively. During the quarter, we outperformed the index by 1.3%. Over the past 5 and 10 years, we outperformed the index by .01% and 1.5%, respectively. Our weighting in the precious metals royalty companies, along with our weighting in infrastructure businesses, energy companies and Trisura Group have added significant value over the past year and beyond. Regardless of the short-term noise, our focus is on the long-term economic fundamentals of the companies we own. We are pleased with our core positions and their favourable long-term fundamentals and continue to finetune our positions month-by-month.

In terms of the S&P/TSX index, only two of the eleven sectors generated positive returns during the first quarter. Their returns from best to worst: Materials (+6.9%), Consumer Staples (+3.8%), Energy (-.3%), Utilities (-1.0%), Consumer Discretionary (-2.0%), Financial (-2.2%), Industrial (-3.6%), Communication Services (-5.1%), Information Technology (-5.6%), Real Estate (-6.7%) and Healthcare (-19.1%).

US Equities

During the second quarter of 2024, our portfolio of U.S.-based companies (after all expenses) increased by 4.0% and, over the past 5 and 10 years, compounded annually at 10.6% and 12.9%, respectively. During the quarter, we underperformed the S&P 500 index by approximately .32% but outperformed the Dow Jones Industrial Average (DJIA) by 5.7%. The challenge with the S&P 500 index is that it continues to be dominated by a handful (5 -7 companies) that have driven the index. We refuse to chase stocks and we will not buy stocks based on momentum. The basket of companies we own represent reasonable value and possess the characteristics to outperform other businesses in the coming years.

Over the past 5 years, we have trailed the S&P 500 index by 4.4% and over the past 10 years outperformed the index by .1% annually. When compared to the DJIA, we outperformed the index by 2.6% and 4.1% over the past 5 and 10 years, respectively.

Most recently, the returns in the U.S. markets have been dominated by a handful of businesses. Most of them are trading at extremely high valuations, propelled by the excitement surrounding artificial intelligence (AI). There is no question that AI will have a massive influence on our society and many businesses but that does not give us license to chase overvalued securities and speculate on future returns. It is our long-term discipline that will produce the consistent returns demanded by our investors.

Major contributors to our long-term performance include businesses operating in the following sectors: consumer staples, healthcare, industrial, manufacturing, precious metals, and technology. Given the size of the U.S. market, most of the new holdings we have added to our portfolios over the past 2-3 years have been global businesses domiciled in the U.S. We continue to scour the world for opportunities. We expect to add 1-2 new holdings before the end of the year. In mid-July, we started building a position in a new business that we will discuss in our third quarter report.

Market Statistics

Pertinent market action during the second quarter of 2024 and during the last 12 months is captured in the following table.

	June 30, 2023	Mar.31, 2024	June 30, 2024	3 Month Return	1 Year Return
CAD/USD	$.7548	$0.7381	$.7307	-1.00%	-3.19%
Oil WTI (US $)	$70.48	$83.02	$81.52	-1.81%	+15.66%
Gold (US $)	$ 1,918.83	$2,220.37	$2,323.39	+4.65%	+21.08%
Silver (US $)	$22.76	$24.87	$29.10	+17.01%	+27.86%
S&P/TSX	20,155	22,178	21,893	-1.3%	+8.62%
S&P 500	4,450	5,254	5,460	+3.9%	+22.70%
Cdn 10 yr.	3.27%	3.47%	3.50%	+3 bps	+23 bps
US 10 yr.	3.84%	4.20%	4.38%	+18 bps	+54 bps

Source: Bloomberg

During the second quarter, the Canadian dollar decreased by 1.0% against the USD and was down 3.2% over the last twelve months. The USD continues to be quite strong and has advanced against every major currency in the world over the past few years. Don't confuse this with a strong dollar! The US fiscal situation is appalling with the US adding to its massive $35 trillion debt at a rate of over $2 trillion per year! The interest on their debt is now their largest line item at over $1 trillion per year. Let that sink in for a moment. So, if the US dollar is strong, it is only an indication of how weak the other currencies around the world are performing! No wonder gold and some of the cryptocurrencies are trading at record highs.

The best way to minimize currency risk is to buy strong and growing businesses that generate revenue in numerous currencies and are backed by hard tangible assets. As a result, these businesses create a natural currency hedge in your portfolio and mitigate the impact of fluctuating currencies and inflation. Our view, which we have held for the past 14 years, is that all fiat currencies will continue to lose value against tangible, or real, assets. This is because governments around the world are fiscally irresponsible (run large budget deficits and accumulate large debts), and through their central banks, continue to print record amounts (through the whole business cycle) of money to support their indebted economies.

During the quarter, gold jumped by 4.65% and is up 21.1% over the past twelve months. It finished the quarter at $2,323. At the time of writing this report, gold is trading over $2,400. Silver was also stronger during the quarter and increased by 17% and was up by 27.9% over the past year. We believe the long-term trends for both of these precious metals are to the upside and we continue to build positions in this sector. Our major positions continue to be royalty companies Franco-Nevada, Gold Royalty Corp., Osisko Royalties, Royal Gold, Sandstorm Gold, Wheaton Precious Metals and leading miner Agnico Eagle Mines. We believe that these businesses are beautifully positioned to benefit from global turmoil, overindulgent governments and rising precious metals prices. Currently, they are trading at discounts to intrinsic value, with several trading at significant discounts.

Here are a few facts and figures that support our basic thesis that gold will continue to be an asset investors will want own over the next few years. Nations are trying to move away from the US dollar, while at the same time, the stability in the global financial system continues to weaken.

- Since the Global Financial Crisis in 2008, President Putin has been buying large amounts of gold.
- Since 2014, global central banks have been net-sellers of US Treasury Bonds and net buyers of physical gold.
- In 2023, 20% of global oil sales were no longer in USD.
- Saudi Arabia, the UAE, and other Gulf States are taking their physical gold out of Switzerland and back to their own countries.
- More than 44 nations are currently executing trade settlements in non-US dollars. This is slowly eroding the reserve status of the US dollar.
- Both Japan and China, historically the most reliable buyers of US debt, have been consistently reducing their holdings.
- Russia is the world's largest commodity exporter, and China is the world's largest commodity importer. Neither of these countries are on good terms with the US and would prefer to transact in anything but the US dollar.
- Russia is now selling oil to China in yuan, which the Russians then use to buy Chinese goods (once made in America). The residual, or net amount, is increasingly being settled in gold (not dollars) on the Shanghai Exchange.
- Given the growing decline of physical gold and silver levels in the New York and London exchanges, their influence on the price of gold is declining. Increasingly the price of gold is being determined in the East and not the West.

- The BRICS, along with other nations joining their group, share economies that are now larger than the G-7.
- In 2023, the Bank of International Settlements declared physical gold a tier-one asset alongside the US 10 year Treasury Bond.
- The "green revolution" is decades away. Like it or not, energy matters and fossil fuels literally fuel the world. This is not going to change in the next two-plus decades.
- China and India each have populations of over 1.4 billion. If oil demand increases even slightly in either of these countries, oil prices in rupees and yuan will increase and two of the biggest consumers of oil don't want to use US dollars to pay for it. Instead, they'd prefer to net settle their oil and gas in gold.
- Given that the annual production capacity for oil is 12-15X that of global gold, and with gold increasingly becoming a part of the payment system, gold's price relative to oil will be under pressure to increase.

During the quarter, oil decreased by 1.8%. Year-over-year, oil was up by 15.7%. Currently, oil prices are averaging $80-$85 per barrel which is very profitable for the industry and the companies we own in your portfolios. Continued geopolitical shocks will only increase the price of each barrel of oil and drive up the value of our oil investments. Our direct investments in the oil and gas sector remain relatively small (less than 6%) and we continue to look at ways to profit from the fool hearty "green agenda".

During the second quarter, interest rates continued to edge higher. The 10-year Canadian bond increased by 3 bps and the US 10-year treasury increased by 18 bps during the quarter. Year-over-year, the yields were up 23 bps and up 54 bps on the 10-year Canadian bond and the 10-year US bond, respectively. With the reckless spending on the part of many governments, including the Canadian and US governments, inflation is remaining stubbornly high. We expect inflation to settle down, provided governments stop deficit spending at the levels we have seen over the past few years. We are not holding our breath while we wait for financial prudence and continue to keep our fixed income exposure short-term and very liquid.

B. ROCKLINC Investment Update

1. Private Client Assets – Separately Managed Accounts

In terms of our ROCKLINC separately managed accounts, they increased by 1.91% during the second quarter, 6.4% year-to-date and increased by 8.03% during the last 12 months (period ending June 30, 2024). More importantly, our average annual compound rate of return over the past 3, 5 and 10 years is clocking in at approximately 3.0%, 6.8% and 7.0%, respectively. Returns are after all fees, and are based on an asset mix of approximately 65% invested in equities, with the remainder invested in short-term deposit accounts and short-term bonds. 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 (Canadian and U.S.) were up by approximately 2.1% during the first quarter and up by approximately 9.8% during the past 12 months. Our equities have been compounding by approximately 9.6% over the past 5 years and by 10.0% over the past 10 years keeping pace with the major indexes.

We continue to focus on the economic fundamentals of the businesses we own. 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 existing positions at better prices!

During the first half of the year, we started to build new positions in APi Group (see write-up in first quarter report) Brookfield Corporation and Cameco. We also added significantly to Amazon, Trisura, MEG Energy, Schneider Electric and several of our precious metal's companies. We trimmed positions in Church & Dwight, Suncor Energy and eliminated our position in American Tower. We have also lightened our exposure to two REITS. Over the past 6 months, we have been very active in working to ensure we are in the best businesses we can find. That means we are looking for businesses that are growing quickly, have strong balance sheets and are trading at attractive prices. Expect to see another one or two companies added to your portfolios over the remainder of the year.

2. Rocklinc Partners Fund

Over the past two years, we have been utilizing the Partners Fund in more of the portfolios we manage. The Fund offers 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 global diversified portfolio with modest amounts of investment capital. Our number one objective is to create a Fund comprised of excellent companies that produce strong long-term performance.

Quarterly, we provide a performance update to our clients. Performance numbers are after all fees and rates of return beyond one year are annual compound rates of return. Currently, the Fund is 23% in cash and short-term money market instruments (yielding 4.5-5%), 75% in publicly traded equities and 2.0% in one private equity investment. We expect our cash weighting to slowly trend lower during 2024, but only if we can find compelling opportunities. At the time of writing this report in early July, the total assets in the fund exceeded $21 million.

During the second quarter of 2024, we did not add any new businesses and we did not eliminate any holdings. As new money flowed into the fund we added to existing positions based on the valuations of the companies in the portfolio. As a reminder, we were very active in the first quarter and added five new companies to the portfolio and sold three companies from the portfolio. Please refer to our first quarter newsletter.

In the first quarter, we invested $300,000 USD in a private company called Gastronomous Technologies (www.gastronomous.ca). Although our Offering Memorandum allows us to invest up to 10% of the portfolio in private businesses, it is not our intention to invest more than 5% in private equity. Currently, Gastronomous represents 2.0% of the total portfolio. As the Fund continues to grow we expect the weighting in this company to be closer to 1.5% of the Fund by the end of this year. For more information please see our first quarter report or give us a call to discuss in more detail.

After all expenses and fees, the Rocklinc Partners Fund has been compounding at approximately 7.5% per year since inception (six years and three months) and 7.9% over the past five years.

When you look through to the equities in the portfolio, the Canadian stocks have been compounding at 10.8% and the U.S. equities have been compounding at 11.60% over the past five years. During the same five-year period, the S&P/TSX total return index compounded at 8.4%, the S&P 500 compounded at 15% and the Dow Jones Industrial Average at 8%.

Our top 12 holdings represent approximately 54% of the total portfolio and 70% of the equity weighting in the portfolio. The top 12 holdings are Trisura Group (11.4%), Amazon (6.2%), Apple Inc. (5.4%), MEG Energy (4.3%), Roper Technologies (4.0%), Franco-Nevada (3.8%), Wheaton Precious Metals (3.7%), Brookfield Infrastructure (3.5%), Brookfield Renewable (3.2%), Autodesk (3.0%), Danaher (2.75) and APi Group (2.5%).

As at June 30, 2024

	1 mo.	3 mos.	YTD	1 yr.	3 yr.	5 yr.
RL Partners**	.3%	1.6%	8.1%	11.1%	%3.1	7.9%

** Inception September 29, 2017 (NBN1212)

3. Rocklinc Kokomo Fund

In order to assist some of our clients and provide them with an investment product that is regulated and registered outside of Canada, we launched our Rocklinc Kokomo Fund in November 2022. Our Kokomo Fund is registered in the Cayman Islands and all funds are held in custody in Grand Cayman. It is important to point out that the Cayman Islands are a British Overseas Territory and the world's number one offshore market for investment funds.

The Fund Custodian for the Rocklinc Kokomo Fund is FundBank, the Fund Administrator is SGGG Fund Services (Cayman) Inc., the Fund's legal counsel is Carey Olsen, and Fund's Auditor is Grant Thornton (Cayman). The minimum investment is $100,000 USD. The Net Asset Value (NAV) of the Fund is priced monthly and started at $100.00 per unit. We are managing the portfolio in a similar manner to how we manage all our discretionary accounts. This will include 20-25 stocks, low turnover, a competitive management fee, no performance fees and monthly pricing and liquidity. Offering documents are available on our website or by calling us at Rocklinc.

We started making investments in the portfolio in February 2023 and continue to add slowly to our core positions. As at June, 2024, the Fund had a total value of approximately $4.20 million USD. The units closed at $105.54 at the end of the second quarter. There has been a consistent flow of money into the Fund providing us with tremendous opportunities to add to our existing positions, trim underperforming businesses, and add new positions to the portfolio. Client interest is strong and we are continuing to add new clients into the portfolio each month.

As of June 30th, we have 20 equity positions in the portfolio representing approximately 80% of the total value of the assets. The remaining 20% is invested in a money market fund currently earning approximately 5% per year. Our objective is to keep the number of equities in the portfolio around 20 and not more than 25, and increase the equity weighting up to 85-90% based on buying opportunities and valuations. We are patiently adding to our equity weights, while keeping cash on the sidelines.

During the second quarter, we eliminated our position in American Tower and rolled the proceeds into API Group. We discussed API Group in our first quarter newsletter and believe it offers a higher rate of return over the next 3-5 years without some of the long-term risks of the tower business. We also sold our position in Intercontinental Exchange, which was fully valued, and built a new position in Schneider Electric. Schneider is well positioned to take advantage of the transition to electric vehicles, as they help utilities build more capacity, and are a critical part of building new data centres to facilitate the growth in AI (artificial intelligence).

Our top 10 companies in the portfolio by portfolio weighting are Trisura Group Ltd, Brookfield Infrastructure, Brookfield Renewable, Amazon, MEG Energy, Danaher Corp., AutoDesk, Wheaton Precious Metals, Roper Technologies and Osisko Royalties. These businesses represent approximately 53% of the total portfolio and 66% of the active equity weighting in the portfolio.

C. Company Update

MEG ENERGY

MEG Energy is a pure-play oil sands producer situated in Alberta's Athabasca region. The company's primary producing asset is located at Christina Lake, approximately 150 kilometers south of Fort McMurray. As a leading upstream operator, MEG employs steam-assisted gravity drainage (SAGD) technology at their Christina Lake project. This process injects steam into an oil reservoir to heat the bitumen found deep underground, reducing its viscosity and enabling the extraction of heavy crude by pumping it to the surface. The company monitors the efficiency of its SAGD operations using the steam-oil ratio (SOR), an industry-wide proxy used to assess the efficiency of thermal oil recovery. In 2023, MEG achieved an impressive SOR of 2.2, with a ratio below 3 considered very efficient. Only two companies hold the status of having the lowest SORs in the industry and MEG is one of them. The other company also operates projects at Christina Lake. As one of Canada's most prestigious oil-producing regions, MEG's Christina Lake project boasts approximately 2 billion barrels of proved and probable reserves, ensuring over 50 years of production life for the company.

MEG began its journey in 1999 by acquiring nine sections in the then-obscure Christina Lake region of Northern Alberta by founder Bill McCaffrey. McCaffrey, an engineer who worked for Amoco Canada (bought by BP Oil in 1998) for over 17 years before MEG, founded the company with his brother-in-law, Steve Turner and friend, Dave Wizinsky. The three financed the purchase with savings, each contributing around $100,000. This investment allowed them to acquire the nine sections for $150,000, and thus, McCaffrey Energy Group (later renamed MEG) was born. At the time, oil prices were just $11 per barrel and the prevailing sentiment concerning the oil sands was skeptical. At the time, the market was dominated by well-capitalized players such as Syncrude, Suncor and Imperial Oil. However, McCaffrey recognized the potential of the region and took a long-term view on the region which contained roughly a billion barrels of oil in place at the time, costing them roughly 1.5 cents per barrel.

For the first four years of operations, McCaffrey focused on acquiring high-quality oil sand leases, without prioritizing the development of an oil sands operation. With valuable assets and solid expertise, the next step was to secure funding. Between 2004 and 2009, the company attracted several blue-chip investors, including pension, endowment, sovereign wealth funds, and private equity, raising approximately $3.2 billion—one of the largest capital raises for a North American company in the pre-initial offering stage. McCaffrey delivered on his promises, and MEG's production steadily increased. In 2013, the company produced an average of 35,000 barrels per day, a 23% increase from the previous year. Within a decade, MEG’s market capitalization soared to over $9 billion, and today is producing over 110,000 barrels of oil per day at Christina Lake, with regulatory approvals in place to produce approximately 210,000 barrels per day.

In 2018, MEG received an unsolicited offer from Husky Energy (which was acquired by Cenovus in 2021) to buy the company for $11 per share, representing a 37% premium over MEG’s then-share price of $8. At the time, MEG was undergoing a transition following the resignation of CEO Bill McCaffrey. The company focused on repaying its sizeable debt, expanding its marketing efforts, and boosting production. The newly appointed CEO, Derek Evans, who led MEG from 2018-2024, rejected Husky’s offer, arguing that it significantly undervalued MEG’s assets, technology, expertise, and business prospects. Husky eventually abandoned their 105-day pursuit in early 2019, causing MEG’s share price to fall by over 35%. In the years following the attempted takeover, MEG significantly improved its balance sheet, reducing debt from over $3 billion in 2018 to $730 million by the end of 2023. In the second quarter of 2022, MEG initiated its first share buyback program and has committed to dedicate 100% of its free cash flow to shareholders exclusively through share repurchases once the company achieves its target debt of $600 million, which is expected to be very soon. Today, MEG is a markedly different company, benefiting from a sharp rise in oil prices due to supply constraints and geopolitical concerns. The world has turned its attention to Canadian oil sands, appreciating their long-life reserves and access to international markets, contributing to MEG’s strengthened position.

MEG has distinguished itself from the large integrated oil sand producers through a disciplined strategy to be a low-cost producer and exceptional operator. This is evidenced by the company’s breakeven price per barrel of US$46, with production and transportation costs at approximately CAD$25 per barrel. These costs are also further offset by cogeneration as MEG uses a gas turbine as part of its production process that generates electrical power where the excess power generated is sold to Alberta’s power grid. MEG’s operational excellence is emphasized by its low average annual production decline rate of 10-15%, translating into very low sustaining capital requirements for the company. To help put this into perspective, the top six Permian supermajors in the US have a base decline rate of 32%, requiring them to replace the equivalent of one Canadian Natural Resources (approximately 1.4 million barrels of oil equivalent per day) every single year just to maintain flat production[1]. This significant difference explains the recent consolidation in the US, where US producers are forced to acquire assets to maintain reserves as they historically prioritized unfettered growth over sensible capital allocation. In contrast, MEG focuses on sustaining its production over the long-term to generate free cash flow for shareholders without the need to acquire additional assets, due to its long-life reserves. MEG plans to grow production per share 10% in 2024, with 6% coming from share buybacks and a steady 4% from organic production growth. Instead of putting all their capital directly into the ground, management will take their time and prioritize sustainable growth over rapid expansion, which would quickly diminish their long-life reserves at Christina Lake, a wonderful example of prudent and efficient capital allocation.

[1] https://x.com/ericnuttall/status/1757473147702399372?lang=en

Looking ahead, we believe MEG will benefit significantly from the long-awaited Trans Mountain pipeline expansion, which took effect in early May. The new infrastructure will triple capacity, allowing producers in Canada like MEG to ship an additional 590,000 barrels per day to customers. MEG is poised to benefit by providing 20,000 barrels per day of contracted transportation capacity to Canada's West Coast through the pipeline. Additionally, MEG will also benefit via better pricing, as for years Canadian heavy oil has traded at a steep discount to lighter US crude, but has recently narrowed from 19% in 2022 and 2023 to 12% in May. At the time of writing, oil prices stand at over $80 WTI per barrel, making MEG a very profitable business that generates substantial free cash flow for shareholders without requiring vast amounts of capital to continue operations, due to their superb operational efficiencies and preservation of its long-life reserves. As mentioned in our first-quarter newsletter, we decided to double our position in MEG by selling our previous position in Suncor. We believe MEG is growing more quickly, trades at a lower valuation, and provides better exposure to oil prices, which we expect to continue rising as the world comprehends the essential requirement for oil and gas and looks to Canada as the appropriate resolution.

D. Moving Forward

We continue to keep our eyes focused on the fundamentals of the businesses we invest in, within the context of a struggling global economy absorbed in debt. **We will do our best to take advantage of sharp moves in the market!**

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. These include, Progressive Corporation (initiated March 2023), Trisura Group (initiated June 2023), Danaher Corp (initiated August 2023) Schneider Electric (initiated in November 2023), APi Group and Cameco (both initiated in February 2024) and in our Rocklinc Partners Fund we added Gastronomous Technologies in late March.

During the same period, we eliminated/reduced several positions including American Tower, Honeywell International, Intercontinental Exchange, Northland Power Inc., Suncor Energy and TransAlta Renewable (bought out by parent company). We continue to add to businesses trading at the largest discounts to fair market value.

Within the current environment our basic strategy is as follows:

1. Patience – we need to wait for well-priced opportunities. Our patience and cash positions give us the flexibility to buy low. Markets are trading at historical high valuations.

2. Watch the world's leading Central Banks. Interest rates are staying higher for longer and inflation is remaining elevated. As a result, Central Banks are not rushing to reduce rates and only a couple have cut rates by .25%. Any volatility in stocks will be used to add to our favourite positions.

3. Pay attention to the irresponsible decisions of governments around the world. Governments continue to run massive deficits that are not sustainable. This means our purchasing power will remain under pressure and standards of living will continue to drop. At some point, deficits will matter and we want to be protected as much as possible from this risk.

4. Diversify across asset classes, sectors and geographic regions. While we run focused portfolios (20-30 securities), we are also careful to maintain an appropriate level of diversification.

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 **MEG Energy** 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! We have been sounding the alarm on banks for the past decade and the situation only continues to get worse. We are very concerned with the solvency of the banking sector.

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! With the recent rise in rates, the cash (investment savings accounts) we hold in clients' accounts is earning approximately 4.6% per year.

9. Remain positive and opportunistic, seasoned with a dose of reality and rooted in truth.

10. Place your faith and hope in God and not in man or the failing State. Reflect on the words of King David in **Psalm 28:7; "The Lord is my strength and my shield; in him my heart trusts, and I am helped; my heart exults, and with my song I give thanks to him."**

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

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