A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 APRIL 2022

Our Current Stance

EQUITIES: Your portfolios have done extremely well, to date, because the companies that you hold in the portfolios have the ability (in some cases it happens automatically because of the products they sell) to actually increase their profit margins and revenues. So, not only do their earnings increase but most have been increasing their dividend payouts. We believe this strategy will work for some time to come.

In contrast, the large U.S. and European stock market indices have been weak this year, due mainly to rising interest rates, higher costs for raw materials, goods and services, supply chain constraints and previous record high price to earnings multiples (reversion to the mean).

INFLATION: The Covid lockdowns that occurred across the world in combination with the war over Ukraine, have resulted in major consequences to the supply chain of all goods. The result will be a continuation of a stagflationary environment, whereby production will be curtailed and the cost of all goods will continue to increase.

For the Western world, that means higher prices, but for others, like Sri Lanka, it could result in severe shortages of energy and food.

For our purposes, investing, that could mean social unrest. If interest rates are raised by the central banks to counter inflation, that could exacerbate the situation. Our world today is driven by supply shortages, and if the middle class businesses and entrepreneurs can't get funding from the banks, then supplies will not be increased and prices will go even higher.

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Month in Review

TO OUR CLIENTS: The continued upward performance of your portfolios, which was maintained during March, was above our expectations.

This occurred during a war in the Ukraine, falling large American and European indexes and jumping raw material prices.

It is an economic trend that we've been expecting for some time and are well prepared for. We believe this tense and unstable geopolitical and economic environment will continue for some time and, as such, we do not plan on making any changes to the Asset Allocation Model at this time.

We see geopolitical unrest continuing along with more pronounced stagflation. That is, high inflation with stagnating growth, and rising prices combined with uneven supplies of raw materials.

LOOKING FORWARD: CORNERING A RUSSIAN BEAR HAS CONSEQUENCES: Any clear thinking Western leader could have predicted Russia's recent actions, especially since the coup of the semi-Russia-pro government in Ukraine in 2014. This was when a suspected U.S. and Western Europe-led operation ousted the then Ukrainian leader and government and installed a Western friendly leadership.

Tax Free Savings Account (TFSA)

2022 TFSA Contribution: $6,000

Cumulative Contribution 2009 - 2022: **$81,500**

This coup d'état, combined with new NATO members increasingly surrounding Russia, was such a clear threat to Russia (from their perspective) that their reaction should have been expected. Cornering a Russian bear was a dangerous tactic at the time, and still is. In 2014 Putin capitalized on it by taking control of Crimea. Russia was never going to give up their access to the Black Sea and into the Mediterranean Sea. Now the Russians, and the Chinese, must be thinking of killing two birds with one stone. Russia takes full control of the Eastern Ukraine bread basket (materials for steel production and fertilizers etc…) and the coast of the Black Sea, giving it a buffer to NATO and

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	31/03/2022	31/01/2021	Change(2 Months)	Change (Dec 31/21)
Dow Jones Industrial Average (DJ)	34,687	35,132	(1.29%)	(4.57%)
Standard & Poor's 500	4,530	4,516	0.33%	(4.75%)
NASDAQ	14,221	14,240	(0.14%)	(9.23%)
Toronto Stock Exchange	21,890	21,098	3.75%	3.14%
London (FT100)	7,524	7,220	4.21%	12.96%
CDN $/U.S. $	0.800¢	0.7862¢	1.79%	1.20%
CDN$/Euro	0.7230¢	0.6963¢	3.60%	3.60%
Gas	5.64	4.87	15.81%	51.21%
Oil (West Texas Inter)	$100.28	$88.15	13.76%	33.33%
Gold	$1,954	$1,797.92	8.68%	6.86%

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Western governments are between a rock and a hard place. The result is not if inflation continues, but for how long and how high.

FIAT CURRENCIES: The truth about so-called U.S. dollar strength is a misnomer. As we've said, if all you're doing is looking at DXY (the U.S. Dollar Index) for your gauge on the U.S. dollar's value, with 70% of it the euro and the yen, you are missing the big picture. The commodity currencies, of which Australia is one, have been moving higher. The Brazilian Real is at the best level vs the U.S. dollar since March 2020. The Canadian dollar is at a 5 month high and even the Mexican peso is at the highest cross rate vs the dollar since last summer. The South African Rand is just off its highest level since last October vs the dollar.

All you have to do is look at the rising cost of most raw materials, priced in U.S. dollars, to see that at least some of the increased pricing is due to dollar weakness.

With the move by a number of countries away from the U.S. dollar, in order to trade, the need for U.S. dollars, (and Euro's), has to decline. When the supply of anything increases in the face of reduced demand, the result is always a drop in value. We see that scenario developing further for the U.S. dollar, the Euro and the Yen, in the months and years ahead.

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Month in Review

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control over strategically important raw material exports. More importantly, though, it possibly facilitates breaking the world-reserve status of the U.S. dollar.

This latter point is critically important to future world trade and power. Since WWII, and subsequently after Nixon took the U.S. off of the gold standard, the U.S. dollar has been the only vehicle to buy and sell oil and gas and other commodities. Having control over the world's reserve currency gave them power to print wealth and carry a large army. Make no mistake. That power was not lost on other growing powers like India and China. Because of the Ukrainian war, Russia has been denied access to any kind of trade in U.S. dollars (kicked out of the SWIFT system). However, India and China and even Europe, and

many other countries, cannot live without Russian oil so they are now using other trading systems to buy their oil - and in Rubles, Renminbi, Rupees and other currencies. The U.S. dollar (massive daily transactions of all kinds) is a very large boat and will take a long time to turn. However, once it does, the momentum in a new direction will also be almost impossible to reverse.
What does this mean?

FREEZING ASSETS HAS CONSEQUENCES**:** By demonstrating to world central banks that the U.S. can freeze any country's foreign exchange reserves held outside their country, the world financial system and central bankers have learned a lesson that will likely permanently change the way they do business.

The U.S. should be asking themselves, will any sane country ever hold a large portion (or any) of their reserves in U.S. dollars or other currencies at a bank that the U.S. government can arbitrarily directly or indirectly manipulate? Or will those same countries trust the Swift system which the U.S. can unilaterally manipulate when it suits their interests?

The change in world-wide transactions away from the U.S. dollar, will not happen overnight but it could be more rapid than anyone can imagine.

Russia, and China, saw this coming some years ago and thus began liquidating their U.S. treasuries. Instead they wisely bought gold. Who, you might ask, picked up the slack to buy all those bonds the U.S. treasury was selling? Our understanding is that the U.S. Federal Reserve now holds over 25% of all U.S. government debt. Imagine if you could borrow money from yourself!

Before the 1970s, the U.S. had a respected currency. But since Nixon closed the gold window in 1971, the U.S. has been on a slippery slope with rising record levels of debt. In fact, the dollar has lost 98%, in real terms, since 1971 and at a much faster clip of 88% (gold) since 1999.

On China, re-unification with Taiwan is only a matter of time. China's been around for thousands of years, and from my readings they know patience. In the meantime, the ongoing and growing sanctioning of Russia and China, and others, has compelled Russia and China to form stronger ties. Whether this leads to war in Asia we don't know. One must ask. If China ever wanted to have a war over Taiwan, this would be more or less the best time to do it because the rest of the Western world is distracted.

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Our Current Stance

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INTEREST RATES: It has been fascinating to watch the U.S. Federal Reserve, and other central banks, engage in the collective delusion that they can run the "Volcker 1979 playbook" of raising interest rates high enough to squash inflation. That with U.S. debt, deficits, and Balance of Payments akin to 1920 Europe. When this collective delusion is exposed, the loss in faith in fiat currencies could be spectacular.

OIL AND GAS: Investment in oil projects peaked in 2014 and is now at only half that investment. Risk aversion, combined with the rise of environmental, social and corporate governance (ESG) investing, numerous divestment initiatives, restrictive access to bank lending, and combative energy policy decisions, such as the passage of Bill C-69 in Canada and the ending of the Keystone XL pipeline in the U.S., have all served to perpetuate chronic underinvestment in new projects. This has resulted in structural barriers to new supplies. What makes the backdrop today substantially more bullish than in 2010-2014, is that demand today is higher by roughly 10 million barrels per day. In addition, the Organization of the Petroleum Exporting Countries (OPEC) is nearing the exhaustion of its spare capacity, and few are willing to risk capital, to find new reserves, under such a strong push by western governments to reduce reliance on fossil fuels.

For example, the UK's natural gas industry is struggling to boost production, and this will likely make the country more reliant on imports. Total oil and gas production in the UK looks to be declining by as much as 15 percent every year without "rapid" new investment in new energy infrastructure. Without fresh investment in new gas production, the country would have to rely on imports for between 70 and 80 percent of its gas consumption by 2030.

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Maybe the war in Ukraine is part of a bigger picture, a proxy war. We are sure that Russia is getting weapons from China, just like Ukraine is getting weapons from the U.S. and Europe.

We don't think that U.S. equities have priced in the possibility of a major war in the Asia-Pacific region. However, if it does happen, during times of war, commodities perform extremely well.

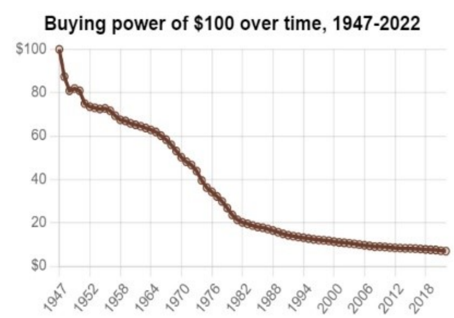
In that regard, some of the investments that will continue to drive our performance are in the agriculture sector, precious metals and oil and gas, recession resistant companies, top drug companies and utilities with growth.

Where are we now, some good thoughts, the future of mRNA therapies. The major ongoing advantage of mRNA vaccines is ease of design, lower cost and speed of production relative to other vaccines. It only takes about 3 months to create a new vaccine targeted to a specific new variant if needed. It would have taken years before.

What is truly exciting is the amount of time and money being invested into broader applications of mRNA induced protection. While a lot of money has been made by these companies, there is great benefit to mankind. There are many other new and exciting opportunities that are being considered.

ECONOMICS: The Dow Jones Transportation Average, has slipped into bear market territory. That could mean bad news for the U.S. economy and the U.S. stock market. The Dow Transportation Average (ticker: DJT) is a list of about 20 airlines, railroads and trucking stocks that some traders use to gauge the health of the overall economy. If planes, trains and road vehicles are all buzzing, the economy must be fine. That is the idea anyway. And if the stocks tied to those things are struggling, then it portends bad things for markets down the road.

Wednesday, March 30th, U.S. Commerce Department said third and final estimate for fourth-quarter GDP showed that the U.S. economy advanced by 6.69%, down slightly from the previous estimate of 7%. The data slightly missed expectations, as consensus forecasts were expecting to see an unchanged reading of 7%. This report is ancient history now and not a market mover. Importantly, and the markets seem to have overlooked, if you subtract the inflation of at least 8% from the final growth reading of 6.69% then the net "real" growth was negative.



CONCLUSION: 1) Inflation is much higher than the Western central banks have the stomach to increase interest rates levels to, to counter.

2) The reality of a higher interest expense on a historically high mound of $30 Trillion of U.S. government debt (let alone equally relatively high debts in Europe, Canada, Japan etc.) will put a strain on the U.S. economy and markets around the world.

3) The war in Ukraine is hurting the ability for many countries to get their required supplies of energy, fertilizers, steel computer chips, and the list goes on.

4) The removal of Russia from the Swift system (U.S. currency, world-wide trading platform) has marked a significant change in the hegemony of the U.S. fiat currency. It has forced Russian and China closer together, and other countries such as India joining the two as well.

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According to Offshore Energies UK, the Scandinavian country is a reliable supplier. However the UK is not its only client, suggesting it might need alternative supplies because Norway is already stretched as it is, thanks to the surge in demand and the slump in supply that has plaged Europe since last year.

PRECIOUS METALS. The miners to gold ratio looks to be resuming its breakout from a 26-year downward trend. We believe there is a tremendous amount of value still to be unlocked in this industry.

One of our core positons, a top gold mining company, has just hit a 34 year breakout to new all-time highs. We are still buyers. The power of that breakout, to new all-time highs, will most likely drag the price of other gold miners to new all-time highs as well. Since it is the mining stocks that always lead gold bull markets, we suspect that gold bullion prices will continue to head higher, to new all-time highs, as well.

If other countries want to buy oil, gas, other resources or anything else from Russia, they must pay either in hard currency (and this is gold for us) or pay as it is convenient for Russia, in Rubles.

In other words, Russia is happy to accept your national currency — yuan, lira, ringgits or whatever — or rubles, or "hard currency." For them that no longer means only U.S. dollars, it means gold. Russian has said, "The dollar ceases to be a means of payment for us, it has lost all interest for us," calling the greenback no better than "candy wrappers."

What will this mean? We think a lot. Especially if Russia's lead is followed by countries such as China, India and others that may not welcome Washington's ability to control the global financial system through its monopoly power over the global reserve currency.

And this adds to the argument for having at least some gold in a long-term investment portfolio. No, not because it is guaranteed to rise, but because it is insurance in what could be an unstable world.

Political Shorts

WAR

Yes War. Not an invasion or a Manoeuver, but War. And it carries with it many serious consequences, besides the financial and economic ones which are covered in this Newsletter above. The Russian/Ukraine war has morphed into a Western war. We forget and do not hear much about the other wars that are going on, such as the Saudi Arabian/Yemen one, and the war in the Horn of Africa. Both have experienced unbelievable atrocities and truly starving people. We wonder, is war a part of the Human psyche? Not a century has passed in the History of Mankind without one. The Russian /Ukraine war is different to the others going on now. It could engulf the whole world.

What started out as a Local War, for reasons that are no longer important and were covered in our last Newsletter, has become a proxy war between Russia and the U.S., including several E.U. countries., and is being played out in the Ukraine. The US and several EU nations are supplying the Ukraine with everything (arms), except soldiers. It reminds one of the Proxy war fought between the US and Russia in Afghanistan, when the US supplied the Taliban with all sorts of arms. The Russians eventually had to give up and leave, resulting in an economic collapse.

Where do China and India sit in all of this? China must be concerned, because if Russia falls, they must believe that they will be next on the US list. This would make the possibility of their taking over Taiwan difficult, with the full attention of the US and its allies on them. It is therefore in China's interest that Russia wins some sort of victory in the Ukraine. In fact, China and Russia have become much closer because of all this. As to India, it likes the present Balance of Power in the world, but if Russia falls, the Balance changes.

As mentioned above, this Russia/Ukraine war has become a European war, with some EU countries, like Hungary, splitting away from the rest of Europe and somewhat siding with Russia. And if Le Pen wins the elections in France, France will also side with Russia. There is also Germany that cannot do without Russian Oil and Gas indefinitely and may not be able to completely break away from Russia. Their economy would collapse without it, as they cannot really get enough from anywhere else.

This whole war may go either way, but Russia will likely take over the whole Donbas and Luhansk region in eastern Ukraine, and the Southern corridor, from the Russian border to the Crimea, which they hold. They may even take Odessa, and cut the Ukraine off from the sea, giving the Western Ukrainians great problems in shipping their goods as they have until recently, by sea. Only time will tell.

At RealGrowth, as mentioned in the articles above, we are well positioned to weather the current and or possible coming storm and may continue to profit from it.

RealGrowth Investment Counsel

Ralph M. Adès, CFA

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We offer Personalized, Independent and Pro-Active Wealth Management.

Our Clients include: Individuals, Families, Estates and smaller Corporate and Registered (RRSP, RESP, RIF, TFSA) accounts.

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