A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 OCTOBER 2022

Our Current Stance

EQUITIES: Western central banks are between a rock and a hard place. They have to tighten monetary policy to fight falling currency values, but to do so will cause economic disruptions in the face of rising geopolitical tensions.

Tax Free Savings Account (TFSA)

2022 TFSA Contribution: $6,000

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

This lack of certainty in the marketplace, along with rising interest rates, has caused the general markets to fall in the double digits. We, however, have been fortunate with the assets in our portfolios that we hold, as they have held up strongly far above the general markets. We believe that will continue to be the case, with the added upside of the equities in the portfolios continuing to pay excellent and growing dividends.

The main themes affecting the market for the balance of the year are these: Western Federal Reserve and Central Banks are telling us that they are resolute in taming inflation. The U.S. Federal Reserve is particularly concerned about maintaining the faith in the dollar as the world's reserve currency, and faith in their resolve to manage it.

They say they will accomplish this by raising interest rates until inflation is brought back to 2%.

However, they are well behind the curve, and this is in the face of the world economy heading into a reces-

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Month in Review

TO OUR CLIENTS: Your portfolios remain well above the general marketplace so far this year. This relative strength is despite world markets being down significantly, and all of this against a backdrop of increasingly unstable currency markets.

Despite this uncertainty, we believe that your portfolios are well positioned to continue to be protected against this continuing market unrest. In fact, we believe your portfolios may benefit even more as and when the markets come to the realization that raising interest rates to fight inflation is a no win situation. Western central banks are between the proverbial "rock and a hard place." If they raise interest rates any further, it will cause an economic recession. If they lower interest rates, inflation will rage on and that will also cause an economic recession.

Dividends from the investments in your portfolios will compound income in the portfolio. Their payments are not affected by the market's volatility and many of them have increased their payments due to higher earnings. Importantly, the portfolio is structured to include companies that have the ability to increase their earnings in a stagflationary environment. That is to say, we believe there will be an economic environment where inflation continues while at the same time the economy softens.

We are watching a number of events, very closely, that can affect the markets:

Geopolitical unrest has continued to grow over the year and there has been more and more talk of further military conflicts. The most obvious areas of concern are between Russia and the West and China and the West. The latter is a matter of some breast-beating, however, the consequences could be severe.

The markets have been very volatile (they are all knowing all seeing – in the short-term) and we believe will remain so as long as the Ukraine proxy war, and developing schism between the East and West (China and the U.S.) continues. The big question is this: is the U.S. willing to share its power with the East? If not, further trouble will surely ensue.

There is a symbiotic effect between the contraction of bank credit in the GDP (economy) and financial markets. Unless central banks intervene, during a contraction, it could amount to a perfect storm. But their intervention only serves to destroy the purchasing power of their unbacked currencies, in which case interest rates could continue to rise anyway.

The devaluation of currencies has become erratic. The British Pound, for example, dropped to all-time lows against the U.S. dollar breaking below the prior low from 1985. In terms of investing vs selling and holding cash, there is an argument for keeping as little cash as would be prudent

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	30/09/2022	30/06/2022	Change(3 Months)	Change (Dec 31/21)
Dow Jones Industrial Average (DJ)	28,726	30,775	(6.66%)	(20.95%)
Standard & Poor's 500	3,586	3,785	(5.28%)	(21.61%)
NASDAQ	10,576	11,029	(4.41%)	(32.49%)
Toronto Stock Exchange	18,444	18,861	(2.21%)	(13.09%)
London (FT100)	6,894	7,169	(3.84%)	3.50%
CDN $/U.S. $	0.7307¢	0.776¢	(5.84%)	(7.60%)
CDN$/Euro	0.7441¢	0.7406¢	0.47%	6.86%
Gas	6.95	6.50	6.92%	33.90%
Oil (West Texas Inter)	$79.49	$105.76	(24.81%)	(11.23%)
Gold	$1,672	$1,817.50	(8.01%)	(6.56%)

Our Current Stance

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sion with supply chain constraints and a lack of energy to manufacture goods. This is having an unstable effect on currencies around the world. The most prominent being the recent collapse of the British pound. The Bank of England was forced to buckle under the pressure of their weakening currency (all-time lows) and subsequent unchecked rise in interest rates, which could have caused their economy to collapse. They had to step in and buy government bonds to lower interest rates and increase the value of the pound at the same time (only a short-term fix). It is a method that all central banks have been using for decades, and to date the marketplace has accepted it. But we wonder if this time it is different?

INFLATION: Inflation will be a tough nut to crack. Central banks can affect demand but they cannot affect the supply. They can't affect the world's supply chains and certainly cannot force more production of oil and gas.

Our modern world moves and breaths by burning oil and gas. So far, there is nothing that can compete. Electric cars need it, to be made and run, and everything else is hardly commercial. The world has limited resources and needs oil and gas to get them out of the ground and refined and transported, and supplies are only falling. So, on the supply side, inflation could be stubbornly high for many years to come regardless of how high central banks want us to think they can force up interest rates.

FIAT CURRENCIES: Bank credit funds virtually all the transactions that, in aggregate, make up countries' Gross Domestic Product (GDP). We are in a situation where many Banks are now contracting their credit because they are so highly leveraged, in the relationship between total assets and balance sheet equity, heading into a recession. They, and others such as pension funds, find themselves exposed to swelling losses in an economic downturn, which could expose any weaknesses in their balance sheets.

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in a standard portfolio. The reason is that cash is losing value at about the rate of inflation, which may be as high as 9 per cent annually. With a good return on a locked-in cash position of say 3 per cent, that would mean that the cash portion of the portfolio is losing about 6 per cent per year of buying power. It looks good on the surface when stocks pull back but not so good if left alone for a longer time period. The Pound has lost over 20% of its value against the Dollar this year and more than 50% from its peak in 2007. Is this the canary in the coal mine for other fiat currencies?

We are also watching oil prices very closely. As few are willing to invest the billions needed to increase oil supplies, and build new refineries, oil prices will likely remain high and may rise even more. We are thinking that oil prices may rise suddenly, when the U.S. runs out of room to sell its strategic oil reserves. It is already close.

LOOKING FORWARD: A fiat money trap - What does this mean? Rising interest rates are significantly behind reflecting where they should be.

Interest rates have yet to discount the continuing loss of purchasing power in all major currencies. The theory of time preference suggests that central bank interest rates should be multiples higher, to compensate for the current loss of currency purchasing power, enhanced counterparty risk, and a rapidly deteriorating economic and monetary outlook.

There is no doubt that the majority of investors are unaware of the true scale of vulnerability that interest rates pose to financial assets. Some wealthier, more prescient investors are only in the early stages of beginning to worry. But if you liquidate your portfolio, you end up with depreciating cash paying inadequate interest. What can one do to escape the fiat currency trap?

Part of the way to mitigate this is a flight into real money, gold companies — the rest is rapidly depreciating fiat credit. Owning companies that own real money and hard assets, may be the only way to escape the potential devaluation of fiat currency and other overpriced assets.

DEBT: There is a great deal of debt around the world. Many foreign entities have borrowed in U.S. dollars and for them the rising dollar is a problem because as it rises, that debt becomes more expensive. Just looking at one area of the economy, according to the U.S. Federal Reserve, there is close to $1.5 trillion in U.S. automotive debt outstanding. Most cars are bought with financing. Residual values—essentially what a car will sell for coming off a lease or in a repo situation—are critical estimates for lenders. If residual value estimates are wrong, it can mean big losses for lenders. With interest rates rising there could be a sudden downward change in the car valuations, and that would be hard on all lenders' profits and, in particular, for the car companies and banks.

According to the Federal Deposit Insurance Corporation, Capital in the U.S. banking industry is roughly $2.5 trillion, about 10% of total assets. Auto lending doesn't look like it can create an existential issue for the U.S. economy. Still, credit losses will be something to watch for on upcoming conference calls at car companies and lenders such as Ally Financial (ALLY).

Right now, residual values have been a boon to lenders. General Motors (GM) finance unit, for instance, has averaged roughly $1 billion in quarterly operating profit since the pandemic hit. That's up from about $500 million a quarter in the years leading up to Covid-19.

ECONOMICS: During last week of September, the Bank of England said it would be willing to raise rates as much as is necessary to bring inflation back down to 2%. We believe that this incessant rhetoric (doth protest too much), coming out of the U.S. media outlets, Canada and Europe included, has just been exposed for the false propaganda that it is.

Just after the announcement, the very next day, the U.K. gilt yields fell back from their highest in 14 years after the Bank of England the opposite and said it would buy bonds at "whatever scale is necessary" to restore orderly market conditions.

THE PENNY DROPS: The Bank of England took emergency action Wednesday (Sep. 28th) to stabilize U.K. financial markets to head off a crisis in the broader economy, this after the government spooked investors with a program of "unfunded" tax cuts, sending the pound tumbling and the cost of government debt soaring. The funny thing is, that this has been going on for decades and shows that this charade may be at its end.

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As a non-traditional way (speculation) to make money, a product called a Liability Driven Investment (LDI) is what UK pension funds took part in. Simplistically speaking, they bought leveraged positions in gilts (UK bonds) in order to reach future return requirements. As gilts sold off, they got margin calls in need of more collateral and the currency fell in value.

So, as seen 15 years ago, the last time rising interest rates exposed weaknesses in the economy, when the cost of capital rises sharply, over leveraged entities were exposed.

When the tide goes out we find out (not always a pretty sight) who didn't have their bathing suits on!

INTEREST RATES: The U.S. Federal Reserve and other Western Central Banks (including Canada) are trying very hard to increase interest rates to get ahead of inflation – a very difficult task. The problem is that they can only affect demand. At least half of the inflation story is from the supply of goods side. Increasing interest rates will only constrain the ability of manufacturers to produce more product and get it to markets. That will exacerbate the cost of goods causing inflation to increase even further. The other side of their efforts will be hampered by politicians that don't want the economy to fall into a recession. With the historically high levels of debt, both government and private, higher interest rates will only hurt those the Federal Reserve is bound to protect.

OIL AND GAS: Because of the size of the investment typically needed for LNG export facilities, total reliance on private funding means that the developers, such as those behind the two proposed projects—Pieridae Energy and Repsol, will probably insist on sealing long-term supply deals with their European buyers.

However, long-term contracts for any form of fossil fuel imports go against

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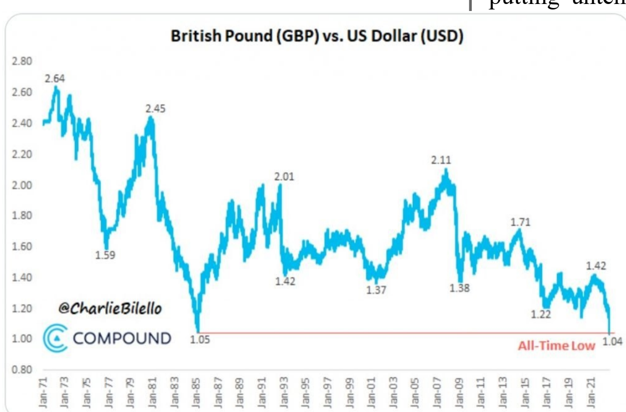
The central bank warned that crumbling confidence in the economy posed a "material risk to U.K. financial stability," while the International Monetary Fund took the rare step (telling a first- tier Western nation) to urge them to abandon its plan to cut taxes and increase borrowing to cover those proposed costs.

"Were dysfunction in this market to continue or worsen, there would be a material risk to U.K. financial stability," the bank said in a statement. "This would lead to an unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy."

The move came five days after Prime Minister Liz Truss' new government sparked investor concern when it unveiled an economic stimulus program that included 45 billion pounds ($48 billion) of tax cuts and no spending reductions. It also wanted to spend billions to help shield homes and businesses from soaring energy prices, sparking fears of spiraling government debt and higher inflation, which is already running at a nearly 40-year high of 9.9%.



The British pound plunged to a record low against the U.S. dollar Monday following the government's announcement, and yields on U.K. government debt soared. Yields on 10-year government bonds have risen 325% this year, making it much more expensive for the government to borrow to finance its policies. The pound traded at $1.0628 on Wednesday in London, after rallying from a record low of $1.0373 on Monday. The British currency is still down 4% since Friday, and it has fallen 20% against the dollar in the past year.

CONCLUSION: UK opposition parties demanded Parliament be recalled from a two-week break to confront the economic crisis. But Truss and Treasury chief Kwasi Kwarteng stayed silent, and out of sight, gambling that the economic storm will pass.

These goings on in the UK and resulting actions by the The Bank of England to buy government debt to help stabilize the bond market, is the proverbial "a canary in the coal mine" for the world. The rhetoric from the U.S. Federal Reserve, promising to keep raising interest rates to bring inflation down to "2%," is nonsense. The world's economies cannot afford higher interest rates and/or a higher U.S. dollar (still the world's reserve currency). The U.S. government alone, with over 30 trillion in debt can't afford higher interest rates, its public cannot afford higher interest rates, foreign countries and corporations can't afford higher interest rates and the list, like the Universe, seems never ending.

A Barron's headline today, Wednesday the 28th, reads, "The greenback has gone ballistic." The strong U.S. dollar has been putting untenable pressure on the currencies of many smaller countries, which is very troublesome to those who endured currency crises, and social unrest, of past decades. The main concern is a general marketplace contagion developing if secondary currency disruptions and illiquidity spill over into extreme disquiet and lack of confidence in the global financial transactions system. Major economies have taken steps over the years to prevent another global financial market crisis, but when everyone runs for the exit doors at once, even vigorous systems like those in Canada can be over-run. Any investment bank or big hedge fund that appears to be in trouble may provide the first clue of a much bigger problem developing. Such a scenario would likely prompt a bigger move into the securities that have hard assets, such as safe-haven gold and silver.

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the Brussels commitment with regards to climate and emission reductions, and this will likely complicate matters for Canadian LNG export hopes. Somehow that didn't stop Germany and others from re-starting up their "dirty" coal power stations. But hypocrisy is rampant in a "woke" world.

Certainly, and importantly to any hope of switching away from fossil fuels, the current situation will stop most companies, and countries, from making big, or new, capital commitments. And that will put a long-term strain on any kind of new developments...no net new supplies as a bridge to find new forms of commercial energy.

PRECIOUS METALS: Gold is money — everything else is credit. So said John Pierpont Morgan in his testimony before Congress in 1912. He wasn't giving an opinion, but stating a fact, a legal fact that is as true today. Despite all attempts by the Central Banks to persuade us otherwise, and despite periods of bans of real money such as what President Roosevelt did in January 1934. Among other things, the Act he proclaimed was the transfer of ownership of all monetary gold in the United States to the U.S. Treasury and prohibited the Treasury and financial institutions from redeeming fiat dollars for gold. It was unsustainable then, and couldn't happen in today's globally connected community. They tried it with Russia, but they just trade with non-U.S. entities.

This is one of many reasons why central banks accumulate and retain large reserve balances in gold, and why they refuse to part with them. It is why, in official circles, the topic is taboo.

Ever since the end of barter many millennia ago, transacting people have used media whose primary function was to allow an exchange of goods. Over time, different forms of money were tried and discarded, leaving metals, particularly copper, silver, and gold universally regarded as most durable and capable of being rendered into recognisable coins of a standard weight. Our coins today reflect this heritage. While not containing the original metals, they often reflect the metals' colours: the highest value looking like gold, intermediate silver, and the lowest copper.

Political Shorts

OIL

To say the least, the world is in a terrible mess. There are little wars going on here and there as usual, plus a big proxy war between the west (U,S., Germany, etc.) and Russia in the Ukraine. There is also a big potential one brewing in the Far East between the west (again) and China over Taiwan, which is claimed by China. This latter is of a critical nature, as the area is part of important commercial world sea lanes. The world is also experiencing heavy inflation, which is hurting both trade and the general public.

The proxy war in the Ukraine has led to an upheaval in the world's energy status. Europe, which depended to a large extent on Russian oil and gas, has been cut off by Russia. These countries are now scrambling to find alternative sources, but at higher prices, and from reserves that are not immediately available. The country hardest hit is Germany, that got most of its gas from Russia, and at a good price, helping its industries to produce at lower prices.

Who gains from all this? Well, mainly the OPEC countries. This energy crisis, and the resulting alliances, are making the OPEC Gulf countries more powerful – and more volatile. This region is in the midst of a U.S. $3.5 trillion energy bonanza, curtesy of Putin's war in Ukraine. Saudi Arabia and the United Arab Emirates have the long-run goal of being the last man standing in oil production, enjoying the lowest cost and least dirty extraction. Together, they hope to raise output from 13 Million barrels a day, (they did last year), to 16 Million. Qatar wants to produce the equivalent of 33% of all the liquefied natural gas traded worldwide The Middle East is also adapting to a multipolar world in which the U.S. is no longer a reliable guarantor of security. This is reflected in the Abraham accords signed by Israel and two Arab nations in 2020. The accords will help normalise relations in the region and develop common defences against Iranian drones and missiles, probably using Israeli technology. But it is also a bet that trade can make these countries richer in a region with low cross-border links. This "new-look" Gulf is destined to remain pivotal for years to come. Yet Iran and domestic politics may change the status. Time will tell.

At RealGrowth we watch world events and trends closely, as they are important in portfolio security selection

RealGrowth Investment Counsel

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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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