A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 SEPTEMBER 2023

Our Current Stance

EQUITIES: It's somewhat surprising that despite investors preferring stocks over bonds, stocks still look to outperform in the months ahead. Digging a little deeper, some of the more value type stocks have been sold off and have good upside potential while paying excellent dividends. Their lofty dividends are hard to ignore. Looking at other areas with over balanced influence on the markets' movements are a number of the larger capitalized, high multiple type stocks. We believe they are overloved, overbought and overvalued, and are vulnerable to sizeable retracements. Apple and Tesla would be two examples.

Multiple times over the summer, we've seen evidence that the broader sentiment investors are exhibiting toward stocks has tilted strongly into excessive optimism. The knee-jerk reaction for any investor with the hint of a contrarian streak is that this is bad. And usually, it is. The most consistent exception is when extreme optimism follows a prolonged bear market. That isn't where we are presently, but the potential exists and investors should be cautious.

Optimism alone is not good evidence of an imminent and protracted retracement. We do see many areas that are undervalued so it is possible that the markets will continue to grind forward with the higher multiples coming back while the undervalued areas play catch up. A broad based bear market isn't necessarily a forgone conclusion.

With higher interest rates, deposit money seems to be flowing back out of banks. It is possible that small and medium size banks, especially those that are heavily exposed to the failing commercial office real estate market, and with less reserves on hand than the "too big to fail" banks, may go bust. The results of this will likely be that they are forced to merge with the

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Month in Review

TO OUR CLIENTS: Over the course of the month your portfolios' have been consolidating their market values. The underlying companies continued good earnings and maintained (in a few cases being increased) excellent dividends.

Tax Free Savings Account (TFSA)

2023 TFSA Contribution: $6,500

Cumulative Contribution 2009 - 2023: **$88,000**

The set up going forward is for gains through the balance of the year. To do this one has to maintain a well thought out secular strategy, and that requires holding to our plan of action.

The best strategy is to ignore the proverbial bear calling you into his cave with promises of the momentum flavors of the month, and on the other side letting the proverbial bull kick you off his back by selling those stocks with the most potential. We are staying in the saddle, which over the many years we've been in this business, has always paid off.

We hope you all had a good summer. My family and I were fortunate to reconnect and to go on a wonderful vacation together.

LOOKING FORWARD: The term "Guild the Lilly" is the way we see the rhetoric coming out of government media outlets, in what we believe are the ways they try to control the conversation. The good is really good and the bad is really bad. The good is the way Western governments are handling our economy, the environment and the power struggle between the West and the East. The bad is inflation, the demagoguery from the East and the warming planet.

We look at the world in a more strategic way and the good is never as good as you think. However, the bad is never as bad as they say either. That is why not straying from the Asset Allocation Model is so important.

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	31/08/2023	31/07/2023	Change(1 Months)	Change (Dec 31/22)
Dow Jones Industrial Average (DJ)	34,721.91	35,559.53	(2.36%)	4.75%
Standard & Poor's 500	4,507.66	4,588.96	(1.77%)	17.40%
NASDAQ	14,034.97	14,346.02	(2.17%)	34.09%
Toronto Stock Exchange	20,292.60	20,626.60	(1.62%)	4.68%
London FT100	7,439.10	7,699.40	(3.38%)	(0.17%)
USD/CAD $	1.3535¢	1.3250¢	(2.11%)	0.12%
EUR/CAD $	1.4801¢	1.4609¢	(1.30%)	(2.39%)
Natural Gas	2.77	2.63	5.09%	(38.15%)
Oil West Texas	$83.63	$81.80	2.24%	4.20%
Gold	$1,938.20	$1,970.50	(1.64%)	6.51%

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"Big ones" and they, the big ones, will get even bigger.

That kind of de-diversification of the banking system could be a deliberate decision by the powers that be. They will wield too much political influence and likely focus their lending to the largest companies leaving the core strength of the middle size and majority of start-up companies to flounder. In the short-term, it probably doesn't matter, but the start-ups and the middle classes are what built the western economies. So, in the long-run, we are not so sure that strategic change would be good for Canada and the United States.

INFLATION: Inflation in the U.S. is still hovering around 3 to 4 percent, which is higher than the Federal Reserve's target of 2 percent. Going forward, any interest rate hikes will depend on the reaction of the stock market and to corporate earnings.

The yield on the 10-year Treasury settled just under 4 percent and the whole yield curve remains inverted. That is portending a recession, however, the stock market doesn't see that eventuality as yet. Certainly, rhetoric from Western governments is that they are anticipating a gentle/soft landing, miraculously lower inflation and, utopian like, lots of work available for those that want it.

You may ask what we think. Well, we've never – ever – seen the markets do what they (government, economic prognosticators, Federal Reserve officials or analyst forecasts) are supposed to do. So the answer is the markets will do anything but what is expected. In this case, inflation will either continue to shoot higher with a recession to boot or drop into negative territory due to a recession.

Fiat CurrenciesIt's been pretty much all downhill for the U.S. dollar Index for over a year now. Two or three dead-cat bounces off of recent lows are unlikely to break above the long-term downtrends and nothing seems to have changed that scenario.

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For decades, the government has refused to let the economy fall into a recession, to clean out the rot by continually sweeping weaknesses under the proverbial table that should be allowed to fail (i.e. UBS Group AG's takeover of failed bank Credit Suisse). Instead of letting it fail, the Swiss government ordered UBS to take it over. Now UBS just reported its plan to lay off as many as 36,000 workers. That would make it the company with the largest job cuts globally in a long time. (The cuts could reduce the combined workforce by as much as 30%). The banking crisis has eased but a credit crunch still threatens the U.S. economy.

As for what is happening in the proxy war over Ukraine, and coups in Russia, really nobody has a clue. Was is a coup attempt, or a ruse to move Western attention into thinking they may have the upper hand to counter attack Russian defensive positions?

In the meantime, inflation is a word-wide phenomenon and raising interest rates by ¼ or even a half a point is not going to change the fact that fiat currencies are being devalued by 5 to 10% per year…every year.

DEBT: Banks are seeing a virtual collapse of deposits along with cash withdrawals in record numbers. Not only are banks having to deal with lack of deposits and capital outflows, but they are also seeing loan defaults, due to record high debt levels and rising interest rates, increasing across the board. On a greater scale, what this comes down to is the potential for a rapidly developing liquidity "crisis."

We don't believe that the Western governments are handling the economy as well as they say they are doing.

The Western world has so much debt that it is really difficult to comprehend. The U.S. has a staggering 32 trillion in government debt, which doesn't include the unfunded liabilities and promises for pensions and other liabilities. Other western countries, including Canada, are in relatively similar situations.

Imagine the following calculation. Take a fantasy number of a mere 100 billion one dollar bills. If we lay them end to end they would circle the earth 200 times. Wait, there's more. There are dollar bills that are left over. If you stack those left over dollar bills up right they would reach the moon, and then back to earth TEN TIMES.

Many have asked whether increasing western government debt is good for our futures? For the most part, it certainly seems to have improved the lives of many over the past 40 years I have been in this business. It has also allowed the West to build up a mighty military (NATO anyone). But we still wonder, what is the eventual outcome? Would it have been better to have had balanced budgets and live within our means (The Grasshopper

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The dollar has and continues to be devalued, and consistently eroded against hard assets, since Aug. 15, 1971, when President Richard Nixon ended its link to gold.

As a reminder, from the founding of the country in 1787 to the founding of the Federal Reserve in 1913, gold was \$20.67 per ounce, which established more than a century of stable prices and a strong, growing economy. Compare that performance to how badly the dollar has done over the past century of central bank mismanagement, with gold today not too far from record highs of around \$2,000 per ounce.

U.S. dollar depreciation: The U.S. dollar index hit a 15-month low around the middle of July. Veteran market watchers know that trends in the currency markets tend to be stronger and longer-lasting than price trends in other markets. Look for the USDX to continue to trend lower until at least early September. After the U.S. Labor Day holiday in early September, market participants will get back down to more serious business, with summer vacations over and the kids back in school. Markets can become more volatile in September, so the price downtrend in the U.S. dollar index could accelerate, or reverse. Until then, the path of least resistance for the USDX will remain sideways to lower—barring an unexpected geopolitical event that could drive safe-haven demand into U.S. dollars.

INTEREST RATES: The 10-year Treasury bond is on track for a third year of losses in 2023, something that hasn't happened in roughly 250 years of U.S. history.

In short, it has never happened, say strategists at Bank of America.

Interestingly, that reflects a "staggering 40% of the jump in the way the U.S. nominal GDP growth, which is growth plus inflation) since the COVID lows of 2020 is calculated.

This year has been better for stocks, but the bounce since the COVID pandemic has been very concentrated in U.S. stocks, especially the technology sector, with breadth in global markets incredibly bad. Breadth refers to the number of stocks actively participating in a rally.

OIL AND GAS: Oil and Gas is still the engine that runs the world. We don't see that changing for many decades and certainly not during an investment horizon. The oil and gas stocks that we have pay excellent dividends and finances are in excellent shape. The problem with chasing fads (in this case an unloved sector) is that the upside can happen when least expected, as a catch up, and violently as well.

We opt for excellent real returns on our money in this sector, and with compa-

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and the Ant, one of Aesop's Fables,), or to live fast off debts (not saved stores for harsh winters – reminds me of another fable) to stay ahead (and end up like the proverbial starving grasshopper dancing in the snow).

The fable tells the story of a grasshopper that has spent the summer singing and dancing while the ant worked hard to store up food for winter. When winter arrives, the grasshopper finds itself dying of hunger and begs the ant for food. However, the ant rebukes its idleness and tells it to dance the winter away now.

All we hear from our seemingly self-serving governments is how printing money, giving it away and running up debts and deficits is just fine. After all, we need to do it to pay for it all, for our Country's futures and grow strong from doing it.

We aren't so sure that is the case.

As a wise man wrote:

> ***Therefore, to be possess'd with double pompe, To guard a Title, that was rich before; To gilde refined Gold, to paint the Lilly; To throw a perfume on the Violet, To smooth the yce, or adde another hew Vnto the Raine-bow; or with Taper-light; To seeke the beauteous eye of heauen to garnish, Is wastefull, and ridiculous excesse.***
>
> ***(William Shakespeare, King John, 1623)***

Our governments tell us that they are fiscally responsible and that everything they do is good and righteous: The more they tell us that, the less we believe them.

One of the hardest things to do in the investment business is trying to figure out what the right P/E multiple should be for a security or the broader market. It's all experience, and art, of course and we can throw in a variety of variables into the mix. Either way, the current average multiple of about 30 has only been seen a few times over the past 100 years. Multiples mean nothing for market performance in the short term, so I'm not using this at all as a market call, just perspective as we digest much higher interest rates and are about to review Q3 earnings.

ECONOMICS: If you think gold & silver are in a slump at the moment, consider this XAU/TRY (Gold in Turkish Lira). Gold rose 21x vs Turkish Lira over the last 10 years, and 20% in one month alone. It could happen to any currency. We have to play this coming commodities bull right, as the outcome could be significant.

Gold has risen 500% vs GBP over the last 16 years. This 4th most traded currency globally is in a losing parabolic move vs gold, a parabolic chart.

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nies that the world would literally stop running without.

PRECIOUS METALS: Gold bullion ran up in value close to its previous record high levels during the first quarter and pulled back during April, May and June, and has since stabilized.

Gold is now on the verge of breaking out to record levels. There are a number of factors that seem to be affecting its price against the U.S. dollar.

The number of countries joining the BRICS group is growing. They want to trade in a medium of exchange that is not solely related to the U.S. dollar, if at all, and that is causing a glut of U.S. dollars around the world. The other thing happening is that the U.S. is fighting that potential change both economically and militarily.

The Ukraine war is a part of that fight and the outcome will have a great influence on the future power of the world. It could be a distraction, sucking the west into a void while the BRICS make deals across the Middle East, Africa and South America.

We are holding our gold positions for insurance against fiat currencies and as a counter balance to a possible shock to the equity markets. Regardless, the stocks we hold pay excellent dividends, are well run and are growing.

Political Shorts

BRICS

In the previous Newsletter, we wrote about two changes in the world's geopolitical scene. Firstly, a critically important meeting between the BRICS countries and the fact that they showed a united front both politically and economically. Secondly, and potentially more dynamic, was the seemingly internal strife in Russia and the related ongoing war in Ukraine.

The BRICS group of major emerging economies - Brazil, Russia, India, China and South Africa held its 15th heads of state and government summit in Johannesburg from Aug. 22-24. South African President Cyril Ramaposa, as chairman of the BRICS, sent invitations to the leaders of 70 countries to the summit of the association, but neither French President Macron nor the leaders of the United States and Great Britain were among those invited.

After reading about the BRICS meeting, and new countries asking to join, including interest from former French colonies, we have come to the conclusion that the war in Ukraine could, in part, have been a distraction by Russia to keep the West occupied with expanding NATO, while China and Russia make moves to form new, very important, global business and military alliances.

It is telling that, according to the 2023 summit chair of South Africa, countries, including Iran, Saudi Arabia, United Arab Emirates, Argentina, Algeria, Bolivia, Indonesia, Egypt, Ethiopia, Cuba, Democratic Republic of Congo, Comoros, Gabon, and Kazakhstan have expressed interest in joining the forum.

The potential new players view BRICS as an alternative to global powers who are viewed as being dominated by the traditional Western corporations. Their hope is that membership will unlock benefits including development in finance, and increased trade and investment.

If those oil producing nations join the BRICS, they would control a majority of the oil produced in the world. All that oil would no longer be bought and sold with U.S. currency, and at a time when the West is actively reducing their ability to produce their own oil.
Additionally, and potentially alarming, North Korean leader Kim Jong-un will likely travel to Russia for a summit with President Vladimir Putin, in a trip that would deepen cooperation as the two "isolated" leaders join forces, along with China, that is 100% behind N. Korea. Apparently, Russia is seeking to buy ammunition from North Korea to refill reserves drained by its war in Ukraine. In return, experts say, North Korea will likely want food and energy shipments and transfers of sophisticated weapons technologies. Also, in another part of the world, Political instability in former French colonies in Africa is fast gaining prominence with the latest military takeover in Gabon.

The point of all this, is while the West is focused on their next elections, harming former President Donald Trump, and giving money and arms to Ukraine for little, if any, potential payback, the East is focused on much bigger strategic issues. One objective is making new economic partnerships, being backed by expanded military alliances. This is in direct conflict with the West's foreign policy objectives. We wonder if the West is chasing a mechanical rabbit down an empty hole.

When will the West recognize that while they are focused on expanding NATO, their own internal political strife and on climate change, they could be losing their most powerful weapon, that being the U.S. dollar, as the world's reserve currency?

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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