A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 AUGUST 2024

Our Current Stance

EQUITIES: The S&P 500 and NASDQ were hit hard during the past two weeks of July. This was particularly true for the big cap tech stocks that make up a highly concentrated percentage of the overall markets. This recent weakness makes it look like equities are in for higher volatility in the months ahead. In addition, there is pressure being applied on the markets by the Federal Reserve, as it has failed to lower interest rates at a pace that most people were expecting. However, this will likely change in September. The Dollar Index peaked in September 2022, and since its low a year ago has done nothing more than complete a so-called 'dead-cat bounce'. This action does not portend well for the dollar going forward.

Tax Free Savings Account (TFSA)

2024 TFSA Contribution: $7,000

Cumulative Contribution
2009 - 2024: **$95,000**

Although a weaker dollar (cheaper goods priced in U.S. dollars) can be good for international trade, in the long-run the strength of the U.S. dollar – or weakness – is the Achilles heel for the strength of the U.S.. Ultimately, we don't think that a weaker U.S. dollar is good for the general markets or its geopolitical strength.

INFLATION: Paul Krugman once claimed that "inflation was necessary for relative income equality." We believe the truth is that inflation by exacerbating winners and losers, through debt, increases and aggravates income inequality.

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Month in Review

TO OUR CLIENTS: Your portfolios increased in value during the six months to June 30th, 2024, and have further continued their growth during July.

The portfolios have been responding well to what looks like developing uncertainty in a narrowly based market and a tenuous geopolitical environment. Both are affecting developing stagflationary type economic environments due to continuous money printing to keep all afloat.

As the economy is slowing, inflation is remaining stubbornly high and that will continue to affect the amount of tax revenues that governments can take in. This has put the central banks in a difficult position. They should be tightening, however, they are all too aware that would stop the economy in its tracts. The issue is the amount of debt. Whenever an economy has too much leverage, any resulting changes in economic activity will be exacerbated. Things become more and more volatile.

Your portfolios are well suited for this scenario by our maintaining core positions in economically resilient companies with high dividend payments, and those that will counter the inevitable money printing that must continue for further growth.

DEBT: Global debt has already tripled since 1971, with the U.S. dollar and most of the other western currencies having lost about 98.5% of their purchasing power since that time.

Experts say the U.S. can never default as they have the world's printing press. Whatever descriptions the U.S. and European governments come up with, a 98.5% fall in the value of a nation's currency is, for all intents and purposes, a default. All other explanations are just political noise.

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	31/07/2024	28/06/2024	Change (1 Month)	Change (Dec 31/23)
Dow Jones Industrial Average (DJ)	40,842.79	39,118.86	4.41%	8.37%
Standard & Poor's 500	5,522.30	5,460.48	1.13%	15.78%
NASDAQ	17,599.40	17,732.60	(0.75%)	17.24%
Toronto Stock Exchange	23,110.81	21,875.80	5.65%	10.42%
London FT100	8,367.98	8,164.10	2.50%	8.21%
USD/CAD $	0.7245¢	0.7314¢	(0.94%)	(4.15%)
EUR/CAD $	0.6688¢	0.6810¢	(1.79%)	(2.05%)
Natural Gas	$2.04	$2.60	(21.72%	(19.01%)
Oil West Texas	$77.91	$81.54	(4.45%)	8.74%
Gold	$2,473.00	$2,327.70	6.24%	19.91%

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On Monday July 29th, McDonald's reported quarterly earnings and revenue that missed analysts' expectations as same-store sales declined across every division.

On the company's earning call CEO Chris Kempczinski said: "Industry traffic has declined in major markets like the U.S., Australia, Canada, and Germany. In several markets, we also continue to be negatively impacted by the war in the Middle East,… These external pressures certainly weighed on our performance for the quarter, with declines in comparable sales globally and across each of our segments, but there were also factors within our control that contributed to our underperformance, most notably, our value execution." They also recognised that customers considered their prices too high and said that they are taking a "forensic approach" to evaluating value offerings and working with franchisees to make the necessary adjustments.

The bottom line here is that, even for a low-cost company like McDonalds, inflationary costs are becoming a drag on revenues and their margins (sale vs costs).

Unless western countries can get inflation under control, the economy will suffer. The proverbial "elephant in the room" is that to stop inflation they would have to stop printing so much fiat money. The problem is that there is too much debt and ongoing deficits. It would cause a recession, and to do so before the U.S. elections would just about guarantee that the sitting government would be voted out.

FIAT CURRENCIES: The movement by BRIC nations to circumvent U.S. treasury bonds ("de-dollarization") as a reserve asset to recycle trade surpluses is beginning to gain traction. We believe that weaponization of the U.S. dollar in response to the Russian invasion of Ukraine in February 2022 was the catalyst. Undermining the apolitical aspect of U.S. currency as reserve assets set off a chain reaction that has extended be-

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A way to understand what this level of debt means is by way of a comparison. With global debt at around $350

trillion (completely unfathomable) and global GDP $100 trillion, the Global Debt to GDP is 350%. Under most circumstances, an over 100% Debt to GDP is unsustainable and cannot be financed over the longer term.

We picked 1971 as a starting date for comparison purposes because this is when the U.S. took the dollar off of the gold standard to stop the increasing flows of gold away from the U.S..

"President Richard Nixon's actions in 1971 to end dollar convertibility to gold and implement wage/price controls were intended to address the international dilemma of a looming gold run and the domestic problem of inflation. The new economic policy marked the beginning of the end of the Bretton Woods international monetary system and temporarily halted inflation.

The international monetary system after World War II was dubbed the Bretton Woods system after the meeting of forty-four countries in Bretton Woods, New Hampshire, in 1944. The countries agreed to keep their currencies fixed (but adjustable in exceptional situations) to the dollar, and the dollar was fixed to gold." (From the Federal Reserve History).

Because of the recent even further increasing levels of debt, starting during the "Covid lockdowns," for the most part, financial markets have become distorted, money concentrated in a few technology companies, as well as leveraged to the hilt. Global economic risk today is greater than ever.

LOOKING FORWARD: So, are the U.S. and Europe on the path to becoming banana republics?

A banana republic can be described as: A highly stratified, politically unstable socioeconomic structure, with a small ruling class that controls access to wealth and resources.

Let us see. That definition certainly fits the U.S. and possibly Europe as well, with a small elite in America, of 1%, owning 1/3 of the total wealth in the U.S..

That is a great deal of wealth in a few hands. Global financial assets are $600 trillion (incl. PNFC – Private Non-Financial Corporations) plus potentially $2+ quadrillion of derivatives, much of which will be-

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yond the list of U.S. adversaries. Dollar avoidance shrinks the pool of non-U.S. countries willing or able to invest in Treasuries. This while the supply (issuance) across the west remains high or, in the event of a recession, becomes more pronounced. In a free market, the worsening mismatch between supply and demand would normally cause one to expect long-term interest rates to rise, potentially destabilizing private sector economic activity as well as equity market valuations. Should market pressure favor rising long-term rates, and public policy respond by manipulating interest rates lower, the safety aspect of the U.S. dollar would be severely tested.

Very interesting, surprising really, when one considers the stance on the "strong U.S. dollar" of the Republican nominee for Vice President (J.D. Vance). This was Vance posing questions to Chairman Powell at the most recent Senate hearings: *"I'm struck by the idea that you could make a similar argument about the reserve currency status of the United States dollar. Americans have enjoyed one of the greatest privileges of the international economy for the last nearly eight decades, a strong dollar that acts, of course, as the world's reserve currency. You know that better than I do now. This has obviously been great for American purchasing power. We enjoy cheaper imports.*

Americans, when they travel abroad, benefit from lower costs, but it does come at a cost to American producers. I think in some ways you can argue that the reserve currency status is a massive subsidy to American consumers, but a massive tax on American producers. Now, I know the strong dollar is sort of a sacred cow of the Washington consensus, but when I survey the American economy and I see our mass consumption of mostly useless imports on the one hand and our hollowed-out industrial base, on the other hand, I wonder if the reserve currency

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come debt when counterparties fail. So maybe not a banana republic just yet, however, it certainly seems like they are on that path.

The recent rally in the yen, the third week in July, imposed losses on their foreign investments. As a result, Japanese institutions faced substantial losses on their domestic portfolios. It was hardly surprising that they were panic sellers of Japanese equities and U.S. equities alike.

Other markets Japanese investors are known to be long on include France and Italy, whose major indices have also fallen 2% and 2.5% respectively along with the selling of U.S. equities, especially the highly concentrated likes of Nvidia and Tesla.

Since U.S. equities peaked during the middle of July, the S&P 500 Index has fallen nearly 5%, with those large caps badly hit. Consequently, leveraged hedge funds geared to rising tech stocks were forced to liquidate long positions. The first whiff of distress saw buyers vanish.

They will no doubt recover, however, the fact remains that many are extremely overpriced and sensitive to further higher than normal volatility.

CONCLUSION: For our part, we are very cautious of possible future market volatility. Fortunately, as can be seen by our own further upturn in performance, all while the markets faltered, our strength comes from our commitment to our Asset Allocation Model. We invest in conservative companies that pay relatively high dividends that have good potential for further growth.

First Home Savings Account (FHSA), One of the newest tax breaks available - IS HERE!

1) Annual contributions to an FHSA up to $8,000, with a lifetime max. contribution of $40,000.

2) Contributions can be claimed as a deduction against taxable income. Investments grow in the account without being subject to tax.

3) Income and withdrawals aren't taxable, if they are used for a home purchase. No repayment is required on withdrawals.

4) Withdrawals not made to purchase a qualifying home are taxable income. HOWEVER, if the clients decide to use the funds for something else, they can transfer the money to an RRSP or RRIF without affecting their contribution room.

By taking advantage of both the FHSA and the Home Buyers Plan (which allows to withdraw up to $35,000 from an RRSP tax-free for a home purchase) the Client could save up to $75,000 to use toward a first home, plus any growth in the FHSA.

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status also has some downsides and not just some upsides as well."

INTEREST RATES: U.S. government bonds are losing status as the unquestioned "go-to" safe asset. Bonds may have begun a secular bear market, i.e. rates not falling, but rather steady. Concerns over sovereign creditworthiness and the embryonic "de-dollarization" movement initiated by the BRIC (Brazil, Russia, India, China) trading bloc could be important causes. In other words, lower interest rates from here may not be a forgone conclusion.

OIL AND GAS: No matter how much the well intentioned, left of centre, politicians in the west want to be, it will be very difficult to limit the use of oil and gas any time soon. Already there have been a number of large corporations that have stated that they can no longer implement any greener policies than they have already attempted. It's not possible for the world to go green, not yet. As such, while the west has been limiting production, causing supplies to decline, demand is higher than ever. That can mean only one thing, prices have to rise further.

PRECIOUS METALS: ***Gold is money — everything else is credit!!!*** A recession would lead to new bouts of money creation by central bankers, fiscal excess, and overtly bipartisan monetary debasement. A recession, an event for which financial markets are incorrectly positioned, would cause demand for gold to surge.

Technically, gold and silver have begun what looks to us like the beginning of a breakout long-term trend on the upside.
As this is happening, the gold mining shares, although they have rallied this summer, remain extremely undervalued.

Political Shorts

PERCEPTION

If the U.S. is seen to "lose" to the Russians in Ukraine (through a deal encouraged by the U.S.), it would ruin the reputation of the U.S. around the world and, in particular, across East Asia. And this would, no **doubt**, affect the markets.

The Chinese, in particular would see any loss (deal) by the "U.S." in Ukraine as an indication that the U.S. (including Europe) are weaker than Russia (who is much smaller than the U.S.). As China is much bigger, relative to the United States than Russia, this would therefore give China a boost to their confidence and military and/or economic actions. The resulting possibility of further aggressive moves on the part of China could cause us, the West (including Canada), real trouble.

The Hungarians, with their Prime Minister Victor Orban taking the brunt of media attention, tried to call out NATO (backed by the Europeans and the U.S.) about their being solely focused on continuing the war in Ukraine. This, rather than opting for a diplomatic solution was, he said, their sole objective. In Hungary's opinion, an ongoing war is not worth the lives lost on either side, or the economic destruction of Ukraine. Hungary's leader is being condemned by the European Union because of his close ties to Russia. Orbán was stripped of his right to host the EU's Foreign Affairs Council meeting in Budapest in August.

The meeting, where EU foreign and defense ministers informally discuss international issues is, traditionally, a democratic process, hosted by the rotating president of the EU Council, which for now was to be Hungary.

It seems that, from the prospective of the U.S. and Europe, the reputational cost of losing any ground, let alone the war in Ukraine, makes is likely that we/they will stay in the war until the bitter end. That is why we believe it is going to be difficult to shut down the war.

On the other hand, it is in China's best interests, and other countries opposed to the West's economic control of worldwide trade, to help Russia win as much ground as possible in Ukraine.

Any meaningful diplomatic solution that the Russians accept will appear to be a Russian victory to people in the West and to people in the Ukraine. In addition, the perception of a Russian so called victory will have reputational consequences in East Asia.

For China and the U.S., this is a game of risk, to see who can win perceived reputational dominance. For the Russians and Western Ukrainians, however, this a 2,100 kilometer border and control of the Black sea trade. The Russians view this as an existential issue where there is no option but to protect their control of the Crimean Peninsula.

Ultimately, for the Russians, the peninsula has been critical for Russian leaders ever since Russian Tsarina Catherine the Great annexed it from the Ottoman Empire in 1783. The strategically located peninsula, which is/was officially part of Ukraine, has given Russia military leverage not only in the Black Sea, but the greater trade routes through Turkey and into the Mediterranean Sea. This would enable Russia to dominate the maritime trade and energy routes critical to Europe, across North Africa and then out into the Atlantic Ocean.

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