A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 FEBRUARY 2024

Our Current Stance

EQUITIES: The Western markets have done well of late, however, the number of stocks included in the make-up of the indexes driving the move is shrinking. A smaller number of very high priced, mega large companies is responsible.

Tax Free Savings Account (TFSA)

2024 TFSA Contribution: $7,000

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

We've seen this type of equity market before, where the lack of concern for risk can be seen in the way funds flow into high priced (sexy) equities. Unless productivity gets better for the broader markets there is a good chance that a downturn and recession (in that order) are on the horizon. The only thing that is keeping up the enthusiasm is the belief that the U.S. government will do everything it can to promote a positive view of the economy leading up to the next U.S. presidential elections.

Many of the equities we hold are not overpriced and will likely do well to counter any pullback. A downturn, at this juncture in the economy (and with geopolitics the way they are), will bring on a wave of currency devaluation and uncertainty. The types of stocks we hold are well-priced, yet financially strong, paying excellent dividends, and will attract investors looking for safety.

Looking forward, when it comes to U.S. national debt (now over 120% of its GDP), we have been concerned that such abstract trillions of

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Month in Review

TO OUR CLIENTS: The major markets seem to be driven by a narrow band of stocks that have been propping them up over the past year. It's hard to know if there is going to be some sort of corrective downturn, due to many of those influential stocks having very high market price multiples, or if there is going to be a major bear market. As such, day to day, and short-term, market fluctuations are challenging for most veteran investors to interpret, as a reason to buy or sell a core holding. It is important to not let those kinds of short-term market (or individual stock) movements alter our plan of action.

With that said, we believe that your portfolios remain solidly positioned to continue to outperform the general markets, with excellent cash flow, over the medium and long-term. This can only be achieved by standing firm on a well thought out plan of action, from a top down analysis of the economy and geopolitical developments. And I must say, there are a lot of geopolitical changes happening around the world.

On an economic note, one key element that can affect the markets is that all Western governments have too much debt, and ongoing and growing deficits. This situation is most likely to be resolved in either (or both) of two ways. One is a wider war, potentially between the Far (and Near) East and the West (or possibly somewhere that we haven't even thought of yet), and the other (hopefully more likely) being more and more fiat money printing (currency devaluation) to help goose the Gross Domestic Product to pay for interest payments and budget deficits that will lead to greater, and more stubborn, inflation.

The above will affect the economy, the stock markets and potentially geopolitics, especially if interest rates rise further, and we intend to stay protected from those eventualities. Within that framework, we continue to hold and are buying companies with finances that have the potential to be positively affected by either scenario, or who pay solid dividends. Those remain our focus. An investor can hope for a higher price, and pay up for that hope of higher earnings (which can be manipulated), but investments must pay dividends because those payouts are real and form a core part of long-term returns that can outperform the markets.

Events we are watching, very closely, that can affect the markets: New York Community Bancorp 's (NYCB) share

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	31/01/2024	31/12/2023	Change (1 Month)	Change (Dec 31/23)
Dow Jones Industrial Average (DJ)	38,150.30	37,689.54	1.22%	13.70%
Standard & Poor's 500	4,845.65	4,769.83	1.59%	24.23%
NASDAQ	15,164.01	15,011.35	1.02%	43.42%
Toronto Stock Exchange	21,021.90	20,929.40	0.44%	7.97%
London FT100	7,630.60	7,733.20	(1.33%)	3.78%
USD/CAD $	0.74620¢	0.755900¢	(1.28%)	2.44%
EUR/CAD $	0.68780¢	0.682800¢	0.73%	(1.33%)
Natural Gas	2.10	2..51	(16.47%)	(43.82%)
Oil West Texas	$75.85	$71.65	5.86%	(10.73%)
Gold	$2,048.40	$2,062.40	(0.68%)	13.34%

Our Current Stance

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debt are also mathematical deterrents to genuine (rather than debt-based) “growth.” If productivity rose along with the growth, the added debts would be a long-term positive for our economy.

On its own, however, without better productivity, debt-based “growth” is not actual growth. It’s just more debt that has to be paid back in the future, along with interest payments on it.

At the moment, the West seems to need inflation, and debased fiat currencies (via “clicked” added trillions), to not only pay for and inflate away the public debt but also the trillions more needed in unfunded liabilities.

Caught in this potential fatal debt trap, Western governments and hence their economies, and their respective currencies, may now be openly trapped.

INFLATION: Inflation remains a tough nut to crack, in large part, because of supply issues and ongoing consumer demand enhanced by excess money printing.

Thus, and long before hitting the often pronounced government target 2% inflation, the Federal Reserves will once again throw in the towel this year for the simple reason that no Western government can afford the interest costs on the debts.

History confirms, without exception, that currencies are always sacrificed to save broken regimes.

FIAT CURRENCIES: How Much Worse Can It Get for the USD?

Given the rapid pace and percentages of oil trading not using the USD, the obvious next question is how much worse can it get for the “Petro Dollar”? The short answer: A lot worse.

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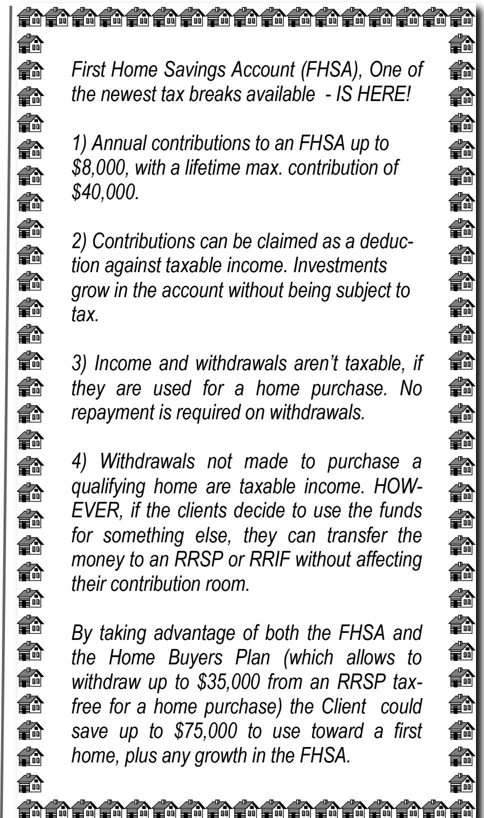
price gyrated wildly on the last day of January, touching its lowest point in years. The bank’s surprise loss and drastic loss-reserve increase dragged down other regional bank stocks as well for a second day, despite a number of positive arguments of Wall Street bank analysts. We’d expect nothing less. Shares in NYCB were down 3% the next day, after their 38% plunge on Wednesday, the stock’s biggest-ever one-day drop. The lender took a half-billion reserve against real estate loan losses, in a move that analysts believe was prompted by regulators. As traders remembered last year’s regional bank crisis, fears of more bank troubles to come are very real due to bad real estate loans. We are keeping our powder dry in that area of the market.

Geopolitically, an interesting item coming out of the Israeli Hamas war, is the amount of deep seated attention from around the world over what one might consider a relatively small conflict when compared to others going on at the same time.

The stock market, however, is totally indifferent to the furor of public opinion from either camp because it is a voting machine that only cares about future corporate profits. Yes, there are problems for shipping through the Red Sea, which may cause prices to rise somewhat as ships have to reroute, but other than that the world economic situation hasn’t, so far, been affected to any great extent. Interestingly, it is possible that the wars in Ukraine and the Middle East are actually adding to, what otherwise might be depressing effects on, the economy. For example, the increased manufacturing of weapons, shipping them, distributing them and all that entails from the ground up.

With regards to the equity and bond markets, the emotional aspects (and there are plenty) won’t play into movements up or down. However, if the conflict grows, and has wider implications, the economy could be affected. So far the effects have been small, but we are keeping a close eye on it.



DEBT: Foreign holders will be assessing the outlook for the dollar and Treasuries. With the potential for the U.S. entering a recession and a typically wasteful administration in charge, plus $7.6 trillion of maturing debt to be rolled over next year, there are enormous government funding hurdles ahead. Furthermore, the next recession is likely to be global, which is not only driving government deficits higher in Canada and the U.S. (to prevent a recession) but in the whole G7 as well. If international trade contracts, there would be less tax revenues and fewer dollars needed to be held in reserve. Inevitably, this could result in selling pressure in the markets and in fiat currencies as a potential dollar debt trap unfolds. The question we have to ask ourselves is not how low global interest rates may fall but how high they could rise to compensate for a devalued currency.

LOOKING FORWARD: Regardless of what the media thinks of Putin,

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Our Current Stance

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Iran and Russia, for example, are playing hard-ball, but what happens if Saudi Arabia, which is now an official BRICS member (and more prone to "fist-pumping" Biden, while respectfully shaking hands with Xi), decides to look more East than West in the coming years?

Saudi Arabia's increasingly open relations with the Shanghai Cooperation Organization and BRICS New Development Bank suggest that unlike former nations who tried to sell oil outside of the USD (think Iraq and Libya), the Saudi Crown Prince appears far less afraid of meeting the same coincidental fate of say, Saddam Hussein or Muamar Gaddafi…

Once the U.S. weaponized the USD, by not allowing Russia to use the Swift trading platform, like a genie that can never be put back in the bottle, there was no turning back. Many nations both friendly or not to the U.S. would never again trust a non-neutral reserve currency in the same way they had after WWII.

Thanks to folks like Nixon, who removed the U.S. dollar from the gold standard, and now a weak Biden administration, we are far removed from the Bretton Woods agreement.

Thus, despite recent and openly desperate attempts by the FOMC to project reduced rates this year, we foresee a longer-term scenario of tanking U.S. treasury prices, which means rising interest rates.

This will be a perfect storm of more IOU government issuance colliding with even higher rates and hence higher costs, which will in turn only be payable if governments print ever more trillions out of thin air to pay its bar tab.

INTEREST RATES: Almost a year ago to date, the U.S. Congressional

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American use of the U.S. dollar as a weapon was a foreseeable disaster that arguably none of Washington's worst-and-dimmest, seemed to fully comprehend.

These vocal political opportunists have forgotten that military power is not as wise as financial strength, which is why broke (and increasingly centralized) nations inevitably lead their country toward a state of permanent ruin preceded by cycles of war and currency-destroying inflation.

Are we there yet? It is heading that way? Yes!

The myopic sanctions against Russia (Putin) simply (and predictably) pushed Russia and China closer together while the BRICS+ nations increasingly began arbitraging for trade to move away from using the U.S. dollar and towards their own currencies, and using gold for oil. We believe that America's plan to weaken the Ruble has only served to put the USD at an historic risk.

CONCLUSION: The general markets have moved up over the past year and a half and there is a great deal of bullish sentiment in the markets and especially in the high tech. arena.

One must tread carefully in this so-called "bull market" of new stock highs, as there's a great deal of broader decay beneath its headline positive numbers.

So far, 2024, there have been a number of equities opening at all-time highs marked by extreme volatility, short-term earnings momentum and Artificial Intelligence (AI) mispricing reminiscent of the dot.com mania. The market is dangerously narrow- lead by Amazon, Microsoft, Nvidia and META and a few others.

The fact that Microsoft is bigger than the French GDP has us wondering about real values.

Meanwhile, in the span of the last 30 days, Nvidia has become another Tesla in terms of market cap, with concerning moves (i.e., price to value mismatches). The signals we are seeing are looking similar to the 1998-2000 hype, circumstances that did not end well.

That kind of bullishness doesn't often last. And, in the face of such growing tensions around the world and uncontrollable government debts and deficits, combined with rising interest rates, a downturn in those overvalued companies, and the economy, is inevitable. All the more reason for us to continue to follow our long-term plans.

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Budget Office (CBO) announced a staggering $422B Federal budget deficit for Q1 2023.

Fast forward to January 2024, and that same CBO has just announced a $509B Federal budget deficit for Q1 2024.

That adds up to annual deficit run rate of $2.2T.

With U.S. public debt now racing past $34T, the current Federal Reserve, unlike Paul Volker in the late 1970's and early 1980's, no Western Government has the ability to put such a steadfast rate-hike talk on the table.

OIL AND GAS: We can say this about oil, with worries about possible disruptions because of a war breaking out in the Middle East, it is shocking that there has not been a greater attempt at refilling the U.S. Strategic Petroleum Reserves that were drained under the Biden administration to help lower the look of inflation.

PRECIOUS METALS: Gold is money - everything else is credit!!!

The potential for a historically significant repricing of gold higher (even from already record high levels) is as powerful (and predictable) as good ol' fashioned supply and demand.

In the case of the gold and copper mining equities, they are at bear market rock-bottom levels relative to the price of gold bullion. We haven't had too many circumstances over these past many decades in this business when we were more comfortable to back up the truck to buy them at these levels.

As more nations are moving away from the "weaponized" U.S. dollar and net-settling their trades between bid/ask spot prices in gold rather than the U.S. dollar's swift exchange system (a fact which Putin, love him or hate, coyly reminded Tucker Carlson during their recent interview), the Shanghai Gold Exchange (SGE) is apparently getting busier by the day. The exchange is actively converting Rubbles, CNY and other currencies into gold to settle trade imbalances outside U.S. dollar exchange circles.

Premiums on the SGE, as well as pricing of the metal, are arbitraging/moving gold bullion wealth from West to East.

Technically speaking, the 200-day moving averages in the gold price set on exchanges in London and New York will have to mirror rather than ignore what's happening in the increasingly more popular Chinese exchange.

Political Shorts

Flash Points

It would be nice to discuss the benefits for the many countries in the BRICS+ that are involved in "The Belt and Road Initiative" (One Belt One Road), and how it could help millions out of poverty.

After all, it's a global infrastructure development strategy that was adopted (unfortunately not us, but by the Chinese) in 2013 to invest in more than 150 countries and international organizations.

Unfortunately, for the fate of the U.S. dollar's position as the world's reserve currency, part of the initiative would be using currencies for trade other than the U.S. dollar.

But it is not China, or any other country, that has threatened the hegemony of the U.S. dollar of late. The U.S. did that all by itself, when the Biden administration weaponized the dollar against Russia. What country wouldn't wonder if they could be next?

The world already knows that the U.S. has made up fictional reasons for recent invasions. One example, of many, happened after President George Bush invaded Iraq in 2003, and "no weapons of mass destruction" were found there. One main reason behind the invasion was that Saddam Hussein was planning on opening an oil exchange that would sell oil for Euros instead of dollars. That was a threat to the dollar so, it would seem, Saddam Hussein had to be stopped.

Since the weaponizing of the U.S. dollar to punish the Russian economy for its invasion of Ukraine, trust in the dollar's worldwide reserve status has been diminished.

With the ongoing development of the "One Belt One Road" and new countries joining the BRICS, a new competitive environment for the U.S. dollar is at hand. Close to 30 countries with over 50% of the world's GDP are very interested in the BRICS+ Trading potential, outside the control of the U.S. government, and many are ready to reduce their use of the dollar for trading purposes.

How the U.S. responds to what they can only perceive as a threat will determine the future course of geopolitics over the next few years. That response will directly affect the direction of the markets going forward.

RealGrowth Investment Counsel

Ralph M. Adès, CFA

February 12, 2024

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.

OUR TEAM:

RALPH M. ADES, CFA — Senior Partner
JENNIFER BOYNTON — Partner
DAVID S. ADES, AMCT — Partner
GRACE STRYJEK, MA ECON.— Art Editor

OUR ADDRESS: 20 Eglinton Ave. West
Suite 1002, PO Box # 2081
Toronto, Ontario M4R 1K8 Canada

WEB PAGE: www.realgrowth.ca

Tel: (416) 486-7729