A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981

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Our Current Stance

EQUITIES: In most of the developed countries, economic strength seems to be holding up. Retail sales data is showing that the consumer is still spending and borrowing. While there are signs that the economy is slowing in a number of other areas, such as the labour market, it does seem to be gradual. In the face of the potential for economic weakness, and a drop off in the rate of inflation, government central banks have started to lower their lending rates that will likely add to the markets' strengths.

We must assume that part of the reason governments seem keen to lower interest rates has to do with the potential for an economic recession in the face of record high (unsustainable) debts and deficits, and the resulting costs for governments having to service those debts, and the geopolitical instability around the globe.

We believe that the general markets are already reflecting the above conditions quite well, and we suspect that all else being equal, equities should hold up well leading up to the U.S. elections.

In our case in particular, we believe that we are positioned well for a number of different outcomes. That could be an economic recession, wider global conflicts or home grown political instability.

INFLATION: The rate of inflation does seem to have pulled back to a more sustainable pace. It is, however, difficult to tell if some of that pull back has to do with a recent drop in the price of oil and gas. From this writer's vantage point, I sure don't see it in the exceptionally high price of groceries. I can think of a few more things as well, but we think that most western governments will use any excuse to lower interest rates regardless.

FIAT CURRENCIES: The U.S. Federal Reserve concluded its meeting this week, Wednesday the 18th, and lowered interest rates by half of a percentage point. They also indicated a possible additional 50 more basis points by the end of the year because they are con-

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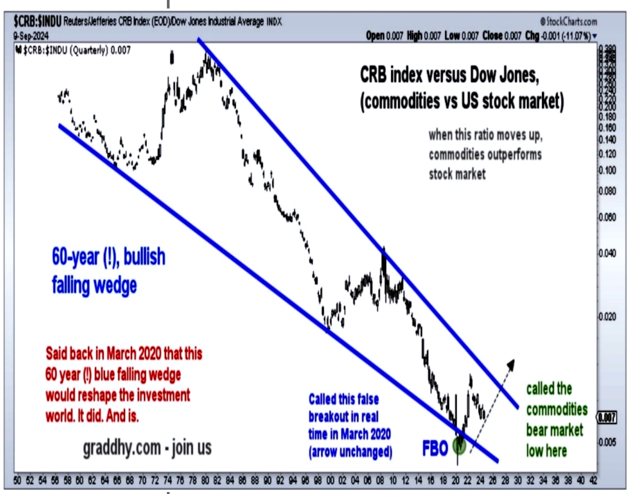
Month in Review

TO OUR CLIENTS: Your returns have been very good so far this year, far outpacing the general marketplace, and the upside has continued into September.

The Western Governments are sensitive to any kind of market correction that would portend a recession. There is too much debt in the system and a recession would be enough to change the power base for most in power presently. Lowering interest rates (printing money) is the go to solution and that is what will happened.



We are not permabulls – I often write about (and back up with real purchases) being bullish on what we believe will be the best investments in the medium to long-term. For some time now, the big picture in the commodities markets have, in particular, been the best risk/reward place to be invested in. We have no doubt that this recent run up in gold bullion prices, to be more specific, is only the beginning of a secular bull market that could last years. Printing fiat money, to get out of an unsustainable scenario of too much debt seems the most likely outcome. The alternative is, we believe, unpalatable to even the most ardent military pundits.

We are fortunate being here at this point in time and plan to take full advantage of this opportunity, at this inflation point in this long-term market cycle.

DEBT AND THE ECONOMY: It is funny that although government debt and deficits continue to grow we don't read much about it in the news anymore. It's possible that all those concerned,

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	30/08/2024	31/07/2024	Change (1 Month)	Change (Dec 31/23)
Dow Jones Industrial Average (DJ)	41,563.08	41,563.08	1.76%	10.28%
Standard & Poor's 500	5,648.40	5,460.48	2.28%	18.42%
NASDAQ	17,713.62	17,732.60	0.65%	18.00%
Toronto Stock Exchange	23,346.20	21,875.80	1.02%	11.55%
London FT100	8,376.60	8,164.10	0.10%	8.32%
USD/CAD $	0.7413¢	0.7314¢	2.32%	(1.93%)
EUR/CAD $	0.6690¢	0.6810¢	0.03%	(2.02%)
Natural Gas	$2.13	$2.60	4.47%	(15.39%)
Oil West Texas	$73.55	$81.54	(5.60%)	2.62%
Gold	$2,493.80	$2,473.00	0.84%	20.92%

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cerned about the labor market. The euro and yen heavy U.S. dollar index has fallen back close to 100 again, as it retests the last August lows. If it breaks below 100, which it did in July 2023, one would have to go back even further to around April 2022, to see levels that low. It is a long-term trend that is difficult to see in any given month, but it is happening. To ease up on the money supply means that more is being printed, which means the real value of money will decrease further. This is represented in the value of most good hard assets.

INTEREST RATES: As briefly discussed in the inflation section, it is likely that interest rates will be lowered over the coming months. The debts and deficits are so large and, in our opinion, have become so unsustainable, that it is in their best interests (parties in power presently) to lower interest rates and thus their cost of borrowing. It would also reduce the chances of a recession that would cause a drop in tax revenues and thus make it harder to pay the interest on their debts. Further, and most importantly, reducing the value of a currency is the easiest way to pay back debts because the value of those debts drops.

OIL AND GAS: As the green economy and the AI (artificial intelligence) boom drive demand higher for electricity worldwide, U.S. power-generating companies are announcing plans for maximum volumes to supply new record high natural gas-fired capacity to meet those expanding needs. Natural gas-fired electricity generation in the United States has jumped year-to-date compared to the same period last year, as total power demand rose with warmer temperatures, demand from data centers (the cloud and bitcoin data mining etc.) and general economic growth. Natural gas is cleaner than other “dirtier” forms of power generation and is a valiant effort by the U.S. to move away from less friendly energy sources, however, much of the rest of the world still uses vast amounts of coal to generate electrical power.

The irony, or “elephant in the room,” regarding this new green economy, is that the increase in gas-fired generation jeopardizes the current U.S. emissions and ‘clean grid’ goals.

Looking further into the future, natural gas investments could be big winners in

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Month in Review

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Conservatives and Liberals alike, have no intention of ever paying any of the debt back, or lowering the yearly deficits.

Interestingly, that is a reason we continue to focus on the destruction of fiat money and are always looking for ways to preserve “real” capital.

Not only has that not changed, with the global conflicts continuing and possibly getting worse, investing in those kinds of assets that protect your portfolios is more important than ever.

The declining value of the U.S. dollar, still the world’s reserve currency, isn’t the only reason for our cautious approach to the world’s economic health over the next decade. On Friday, September 13th (ominous day?), the London’s High Court quelled a planning permission for the UK’s first new coal mine in thirty years. It ruled that the permit was unlawful as it hadn’t considered the emissions from burning the fuel.

The UK’s previous Conservative government had approved this Woodhous Colliery project in North West England.

This project, to mine metallurgical coal (the kind of coal used for steelmaking), would have been required to allow steelmaking throughout the transition to “Net Zero” (not possible in that time frame – certainly not anymore) over the next few decades.

However, the new Labour government in the UK pulled its support for the project and said that “it would no longer defend the case at High Court.” The UK’s new Secretary of State for Housing, Communities and Local Government, Angela Rayner, has accepted there was an “error of law” in the approval from December 2022.

The government’s move to drop its defense of the project follows a landmark Supreme Court judgment from June 2024, which ruled that a local council unlawfully granted approval to an onshore oil drilling project as planners should have considered the emissions from the oil’s future use as fuels, in a landmark case that could upset new UK fossil fuel projects.

Tax Free Savings Account (TFSA)

2024 TFSA Contribution: $7,000

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

“We have to leave fossil fuels in the ground and build the cleaner, brighter future that will slash emissions, cut bills and create the well-paid jobs of tomorrow that areas like West Cumbria so urgently need,” said Niall Toru, senior lawyer at Friends of the Earth.

The bottom line with this misdirected policy is that it will limit new supplies of oil and gas and coal, and cause prices to rise much further. This means that manufacturing, of all that is required to run a country, will be forced to move to the far east where production is cheaper and, at least, possible at all.

LOOKING FORWARD: The general marketplace has been getting more and more volatile. We believe that is a function of the amount of debt in the system holding up the equity and real estate markets, and the amount of government debt and deficits to run the country. The marketplace is a voting machine and is completely unimpressed with the media about all else, regardless of any perceived moral ramifications on society. The drivers of the markets are, however, influenced by printing money. If that becomes unproductive to economic growth, that would be the time we should become concerned about the equity, bond and real estate markets. We believe the world is in a transition in that respect, but that the one thing that is certain going forward is further fiat cur-

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the AI-driven power demand surge in the west. While many tech companies prefer to be public friendly, about using solar and wind to power, those kinds of AI development centers can only provide a small fraction of what is required. The need to get these data centers built, and powered, requires fossil fuels, (lots and lots of oil and gas). That would boost demand, and as new supplies (from new drilling) are being limited, prices are sure to rise.

After more than a decade of steady power consumption in America, the AI boom and the chip and other tech manufacturing growth areas are leading to much higher U.S. electricity demand.

For years, natural gas has accounted for the largest share of U.S. power generation, at around 40% of all electricity-generating sources. This year, natural gas is expected to provide around 42% of America's electricity, similar to last year, and total consumption is set to grow by 3% for the balance of this year and into 2025 as per Energy Information Administration(EIA).

As demand rises with warmer temperatures and higher demand for cooling, as well as expanding, and new, data centers necessitating more and more power, utilities in North America have been forced to increase the generation from gas-fired capacity to meet higher and higher peak loads.

Renewable power generation has set record highs from both solar and wind, but that is off a very small base and remains a small fraction of total power required. Coal continues to be the baseload backbone of the U.S. power generation system and importantly around the world.

PRECIOUS METALS: ***Gold is money — everything else is credit!!!*** Yes, we believe that the Fed is about to start cutting interest rates, helping to explain some of the weakness in fiat currencies or, to put it another way, the strength in gold bullion. I say 'some' because other central banks, outside of the BoJ (Bank of Japan), are cutting aggressively as well.

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rency devaluation is a blossoming concern. The value of the U.S. dollar is the Achilles heel of the west.

With that in mind, the annual BRICS summit is only six weeks away. We understand there is mounting speculation about a proposal for an alternate trade settlement currency being on the agenda.

The speed with which problems for the U.S. dollar are mounting, with "non-friendly" countries being squeezed out of the SWIFT settlement system, suggests that there is insufficient time for unhurried deliberations within the BRICS membership. It is likely that the summit will be in conjunction with the Shanghai Cooperation Organization and the Eurasian Economic Union, in order to come to an agreement on this developing currency settlement issue. For defensive, or offensive anti-dollar reasons, it makes sense for the BRICS to implement a new type of gold standard. Its members can have the option to use a new currency settlement system for trade between them, or with the west. It could be set up in a matter of a few months and, in the face of growing geopolitical tensions, may well have to be sooner than later.

CONCLUSION: In our experience, today's markets resemble the Dotcom bubble during the late 2000's. The narrative is AI is going to change everything. Back then the internet was going to change everything, and it did. However, their fortunes were already rooted in share prices beforehand. The world of 2024 is not too different than the world of 2000 and in the face of the present debt and geopolitical uncertainties, it is likely that today's historically high technology valuations are a bubble that is not likely to last.

The dot-com bubble was actually a very interesting period. "It was a stock market bubble that ballooned during the late-1990s and peaked on Friday, March 10, 2000. This period of market growth coincided with the widespread adoption of the World Wide Web and the Internet, resulting in a dispensation of available venture capital and the rapid growth of valuations in new dot-com startups..."

We don't think that the powers-that-be will allow this potential market bubble to burst before the next U.S. elections. They will do everything in their power to prevent a market crash and that will include a faster pace of currency devaluation to hold up the markets.

We are prepared for that and the eventual drop in the markets, but continue to closely watch world events as they are unfolding presently. We will act accordingly to protect our growth and capital.

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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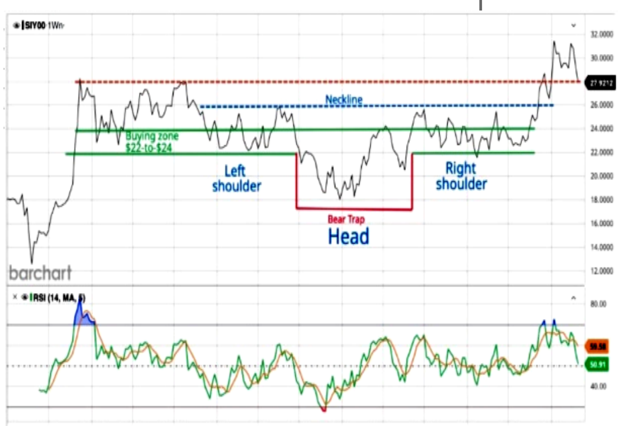
We wonder if there is something else going on? Like worries about U.S. debts and deficits reaching a point of no return. We'll see, but the rising price of gold is, we think, a sign that something is up. Particularly as it is becoming clear that foreign central banks have begun to diversify away from their reserve holdings of the U.S. dollar and into other things like that soft yellow metal.

As we can see by the technical chart below, gold and silver have begun what looks to us like the very early stages of a long-term breakout trend to the upside.

We are holding onto our precious metals (including copper) equity positions for two main reasons.

One is that their price multiples are historically extremely undervalued, especially when measured relative to the strong gold bullion, silver and copper prices.

The second is that gold bullion has, we believe, a strong tailwind pushing it higher (in reality other fiat currencies are depreciating).



Years, generations, of unsustainable debts and deficits means that there will be only one way for the government to get themselves out of a corner, and that will be fiscal stimulus…more money printing. A war and deep recession might fix the debt problem as well, but the cost of that scenario would be much too high for the world to bear.

Political Shorts

THE COST

The price of U.S. WTI crude oil has finally stayed in the low $70s per barrel for some time, allowing the Biden Administration to ramp up the refill of the Strategic Petroleum Reserve (SPR). They said they would do so at prices of $79 a barrel or below.

That sounds like a good plan, and WTI Crude is now at $70 per barrel (mid September), after spending days below that threshold. However, the Energy Department "only" has $841 million left to buy crude for the SPR, Bloomberg reported on Tuesday the 17th.

That money would probably be enough to buy only about 12 million barrels of crude at today's prices. The crux of that paltry amount is this would only be a drop in the proverbial ocean. This, considering that the SPR is only just over half full compared to its capacity of 700 million barrels.

The Department of Energy says that the Office of Petroleum Reserves has recently announced a call for bids to supply up to 1.5 million barrels of oil to the Bayou Choctaw site in January 2025. An additional solicitation will follow on August 12, 2024, for another 2 million barrels destined for the Bryan Mound site, also for delivery in January 2025.

This replenishment strategy comes in the wake of the SPR's critical role in stabilizing the economic costs and oil market during global supply disruptions. Notably, they have released more than 180 million barrels of oil from the SPR since 2021, as gasoline prices remained high and looked bad for the government. The Department of Treasury claims that these releases, along with coordinated international efforts, helped reduce gasoline prices by up to 40 cents per gallon in 2022.

The SPR currently houses 375 million barrels of crude—a figure that is 263 million barrels less than oil in the SPR at the beginning of President Joe Biden's term in office. The SPR, capable of storing as many as 714 million barrels of crude oil, is kept in underground salt caverns at four sites in Texas and Louisiana and was designed to protect the economy and American livelihoods during oil shortages.

It is easy enough to say that they can replenish the reserves, but in the real world, doing so is a whole other ball of wax. There are supply issues, costs (no government has the funds to do it) and a push by western governments to go green. The problem with the latter is that going green means that the present governments are against finding new supplies and against any new pipelines to ship what is there.

If there is any kind of geopolitical hiccup, where oil supplies get disrupted, oil and gas prices will rise much higher. That in turn would likely lead to an economic recession, which no amount of money printing could fix. Would that also mean further geopolitical conflicts?

The "Green's" strategy of limiting new supplies of oil and gas, releasing critical reserves of oil to lower prices for the purposes of re-election, is not a viable way to reduce its use. We think that the only way to reduce the world's carbon footprint is to reduce consumption.

Unfortunately, that is not the "American" way.

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.

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