Investing Wisely

A Newsletter from Mike Wise

September 2021

I hope that this letter finds you and your loved ones safe and healthy.

We enjoyed the beautiful warm weather here in Calgary this summer. We're also appreciating the above-normal September temperatures! We regret the devastating fires in BC. We complained about the smoke, but one of my BC clients had to evacuate for a while. Thankfully the fire didn't spread over the mountain behind them, and their property was safe.

Family Photo

The highlight of our summer was the visit of both of our kids and family in early July. David and family drove out from Ottawa, and experienced first-hand the immenseness of this country. They couldn't believe how it takes several days just to drive across Ontario! Liz and family drove up from Los Angeles. Edgar's father is quite ill in Edmonton, so that was a major focus of their trip.

The kids had a great time at Stampede, and came back home with arms full of stuffed toys won on the midway. Fewer crowds meant they overdosed on the midway rides as well. They all enjoyed Heritage Park as well, and Carmen and I took them to the Tyrell Museum in Drumheller.

Elections

We're about to face 2 elections over the next couple of months. I hope that you'll do your part, research the candidates and their platforms, and cast your vote.

The CBC has published an interesting questionnaire about how your views might coincide with the platforms of the various parties. While I might quibble with the wording of some of the questions, in general I thought it gave a good summary of the positions of each party. See https://votecompass.cbc.ca/canada/survey.

Unfortunately, the federal election is likely to be decided in southern Ontario, and we have little say in the outcome. I am more interested in the municipal election.

I live in Ward 11, and asked the 8 candidates for their response to a couple of questions:

- As you know, municipal taxes are based upon the assessed market value of property. Previously, the market value of downtown properties was very high, to the extent that they carried almost half of the assessed value in the city. That has now changed, and many downtown buildings now sit partially or completely empty. Their market value has accordingly fallen - probably by as much as 20%; maybe even more. *How will you approach the new reality of coping with a very substantial decrease in municipal tax revenue?*
- A Councillor must of necessity read and understand a variety of technical reports produced by officials within City Hall, in order to

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make informed decisions. *What qualifications and experience do you have in reading and understanding complex budget documents, and technical reports produced by the bureaucrats in City Hall?*

I've received responses from 2 candidates so far, and can forward them to you if you are interested.

I've tended to pay little attention to School Board trustees, but I'm now seeing heated battles in the US between school boards and parents with regard to contentious issues like Critical Race Theory. It makes me think that who we elect as school board trustee may be important, particularly as the province is trying to revamp the school curriculum.

Where We Are

Table 1 shows how stocks, bonds and commodities are performing so far this year. The stock market is telling us that everything is wonderful; the bond market is telling us that low interest rates will be around for a long while yet.

The latest economic growth numbers were much lower than expected, so the chances that Central Banks will tighten up monetary policy anytime soon have faded. The Liberals and Conservatives seem to be competing with each other as to who can promise more of money that they don't have.

Interest rates jumped up substantially in the first 4 months of this year, albeit from very low values to their peak in April. See Chart 1. They have since settled back, with Canadian 10-year bonds trading at around 1.2%, and US 10-year yields around 1.3%. The current rates are about 0.5% above rates at the start of 2021. Bond prices move inversely to bond yields, so bonds, in general, are down so far this year. The Universe Bond Index is down -2.2% year-to-date, while the Long Term Bond Index is down -5.5%.

Chart 1
Source: Bank of Canada; US Federal Reserve

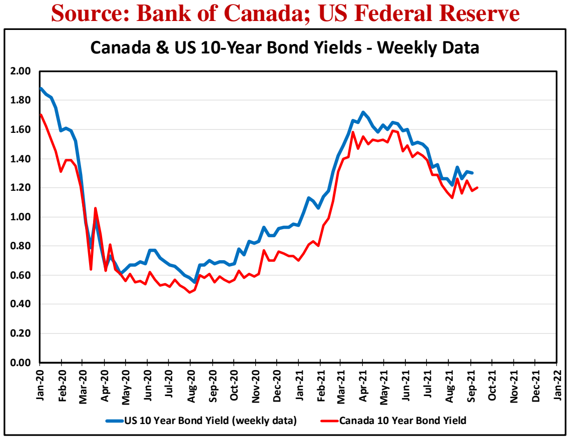


Table 1
2021 Returns - Year to 31 August

	31 August Price	YTD Change
Equities		
TSX (CAD)	20821.4	19.4%
S&P500 (USD)	4535.4	20.7%
NASDAQ 100 (USD)	15363.5	19..2%
Commodities		
Oil (WTI; USD)	$69.10	42.4%
Gold (Comex; USD)	$1829.90	-3.4%
Fixed Income		
DEX Universe Bond Index (CAD) - Total Return	1194.8	-2.2%
Govt of Canada 10-Yr Bond Interest Rate	1.189%	0.515%
Best 5-yr GIC Rate (rate as of Nov 10)	1.50%	0.40%
Exchange Rates		
USD/CAD	$0.7982	$0.0127
EURO/CAD	$0.6720	$0.0269

A recovering economy, with prospects for a post-Covid boom not unlike the boom after World War II, has pushed stock markets to all-time highs, as shown in Table 1. Unlike last year, when it was Tech all the way, the gains are spread across all economic sectors. The Canadian market is a full participant this year because of our exposure to resources. Oil prices are back to where the Canadian producers can make money.

Most of my clients have a mixture of stocks and bonds in a balanced portfolio. My Canadian Neutral Balanced Benchmark is up 8.8% so far this year. Canadian stocks are up; bonds are down; and returns from foreign stocks are up.

> ***"They who can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."***
> ***Benjamin Franklin***

Where We're Heading

The Pandemic

I think that our response to the Covid-19 pandemic needs a dose of reality.

We are hurtling towards a life that we can see in action in Australia. New South Wales (NSW) includes Sydney and area. The latest data shows there are 1071 patients in NSW hospitals and 177 in intensive care. The state has 863 open and staffed ICU beds, and has sufficient staff to handle an additional 164 ICU beds on an emergency basis.

> ***"The reality is that Covid-19 is now endemic. We'll never get rid of it… We can't rely upon vaccines to get us off the treadmill and the cycle of fear… We need another approach."***

NSW is in a state of total lockdown with vaccine passports, facial-recognition cameras monitoring movements, armed police & soldiers manning the streets, and busybody health inspectors at your door, checking that you buy no more than 6 bottles or beer or 1 bottle of wine per day!

That's not the kind of life that I want to live. Unfortunately, it seems that a majority of Canadians prefer the illusion of temporary safety over freedom. Our beloved Prime Minister now calls those who would agree with Benjamin Franklin as "those people", with a sneer in his voice.

The reality is that Covid-19 is now endemic. We'll never get rid of it. We're now in the Delta variant; Mu and Lambda are already on their way, with more to come. Our present course, in Canada and Alberta, is a never-ending cycle of partial relaxation, then further restrictions, then booster shots and vilification of those who resist. We're on our way to Australia.

A table in the approval documentation for the Pfizer vaccine showed that the incidence of fever occurred in 1.3% of people after 1 shot of the vaccine, and 11.8% after the 2nd jab. What will be the incidence after Jab #3, or #4, or ……? No one knows. I know that I felt pretty crappy for a day after Dose #2 and am not eager to be a guinea pig for a third shot.

Who are the anti-vaxxers?

There is pretty good evidence that the best immunity to Covid-19 occurs within those who have previously had the disease and recovered. For these people, the risks inherent from side effects of the vaccine outweigh the risk of contracting Covid. According to Alberta Health Services, there are 243,975 Albertans in this category. Are they anti-vaxxers?

Why should they be prevented from attending a Stampeders or Flames game? Why could they soon be fired if they work at Westjet, Air Canada, or the City of Calgary?

A number of people had a bad reaction to Dose #1, and on doctor's advice have declined further jabs. Are they anti-vaxxers?

One of my friends is under doctor's care for a chronic condition. Her doctor has recommended not getting vaccinated. Is she one of the evil anti-vaxxers?

We can't rely upon vaccines to get us off the treadmill and the cycle of fear. We need to make use

The Three Sisters

Geese at Bowness Lagoon

of the information that is out there, but has been ignored by the medical establishment in North America. We need another approach.

This is now the third newsletter in which I have written about therapeutics to manage Covid and keep us out of the hospital. I've written our Premier twice, with no response. Alberta Health Services still maintains that if you contract Covid-19 you should stay home, and drink lots of fluids and chicken soup until you are sick enough to go to the hospital.

I've written before that there is good evidence that regular gargling with a mouthwash morning and night will kill most viruses that you might have picked up during the day. An adequate level of Vitamin D in the body seems to greatly reduce the severity of the disease.

Disclaimer: None of the therapeutics mentioned in the following section have been approved by Health Canada for use by humans as a treatment for Covid-19. Always consult with your doctor before taking any medicine.

A major complaint of mine is that Alberta Health Services (and the government) seem unwilling to conduct research on potential therapies that have been shown to have promise elsewhere, but may require confirmation before being approved for use in Alberta. Alberta has 2 excellent research universities, a centralized database with the health information on all citizens, and a genetically diverse population. What potential therapeutics could they study? Here are three possibilities:

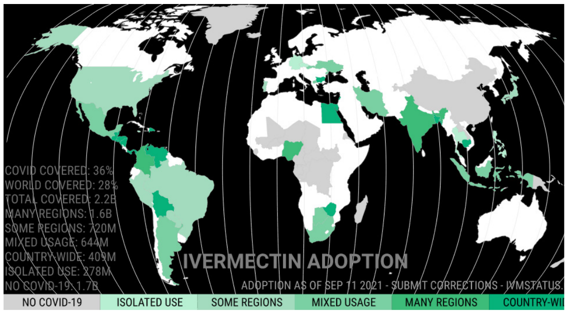
- A study led by Montreal Heart Institute showed that colchicine (an anti-gout medication) had promise as an anti-Covid-19 therapy. According to an article that was published in the *National Post*, the drug helped reduce hospitalizations by a quarter, ventilator use by half, and deaths by 44%.

- A recent study led by researchers at McMaster University showed that fluvoxamine (an anti-depressant drug) had statistically-significant results in reducing Covid-19. The results have not yet been published in a scientific journal.

- The biggie in the world of therapeutics is Ivermectin. Ivermectin is on the WHO's list of essential medicines; the discoverer won the Nobel Prize for Medicine; around 4 billion doses have been administered over the years. Its main use has been prevention of river blindness and other parasitic diseases in tropical countries. It has since been found to have broad-spectrum anti-viral properties, including the virus responsible for Covid-19. Its use as a Covid-19 therapy has been opposed by the medical establishment and information about Ivermectin is suppressed by Big Tech. The chief US advocate is the Front Line Covid-19 Critical Care Alliance (FLCCC.net). The most prominent advocate in the UK is Dr Tess Lawrie and the BIRD research group. It recently achieved prominence as a Covid treatment when it was one of the drugs administered to Joe Rogan, a popular US comedian and podcaster. The drug was derided in the mainstream media as a "horse dewormer". This is like calling a T-bone steak just dog food. The media ignored the inconvenient

David with Grandkids on the Trail

Chart 2
Ivermectin Adoption
Source: ivmstatus.com

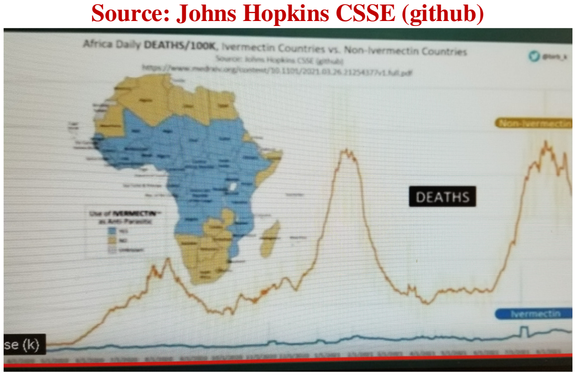


fact that Mr. Rogan recovered in 3 days and tested negative for the presence of the virus afterwards. Coincidence?

Ivermectin has been approved for use as a prophylaxis, outpatient treatment, or in-hospital treatment in Mexico, Peru, India, Zimbabwe, South Africa, Slovakia, Bulgaria, and the Czech Republic, plus other countries. See Chart 2.

One of the mysteries with Covid-19 has been why the disease has less prevalence in Africa than expected. A country-by-country analysis by the WHO has shown (Chart 3) that the countries north and south of the tropics (brown) have "expected" death rates from Covid-19 (brown line in Chart 3), but the sub-Sahara tropical rain forest belt (blue) has virtually no incidence of Covid-19 (blue line in Chart 3). One factor that might be relevant is that river blindness is endemic in the blue countries, and Ivermectin is routinely distributed to the population as a prophylaxis against that disease. Coincidence?

Chart 3
Deaths in African Countries due to Covid-19
Source: Johns Hopkins CSSE (github)



If Ivermectin is so effective against Covid-19, why is it not universally used? What do the public health officials in Mexico, Czech Republic or India know that Canadian officials don't? How are they coping with the Delta variant and the Fourth Wave? Charlie Munger once said, "Show me the incentive and I will show you the outcome." Ivermectin costs roughly $1/day; Merck is developing an oral anti-viral pill that it hopes to sell at $1000 per treatment. Pfizer, Moderna, Astrazeneca et al would lose a *lot* of money if vaccines (hopefully with boosters every couple of months) could be replaced by a $1 pill. A big shot at Pfizer left to join the board of the FDA shortly before the FDA gave approval to Pfizer's vaccine. Possibly just coincidence, but regulatory capture is a problem in any regulated industry.

"Expansions don't die of old age; they are murdered by central bank policy action." Jeremy Warner, London Daily Telegraph, 1May21

United States

I'm going to focus on the actions of the US Federal Reserve, because its interest rate policy will, to a great extent, influence whether the current economic expansion continues or comes to a screeching halt. As Jeremy Warner wrote, in the *London Daily Telegraph*, "Expansions don't die of old age; they are murdered by central bank policy action".

The Fed published a new statement of its longer-run goals and monetary policy strategy a year ago. The Fed is still targeting 2% inflation, but will allow inflation to rise above that number for an unspecified period before acting, if this follows an extended period of below-target inflation. Also, it will not use low unemployment numbers as a forecasting tool for future inflation.

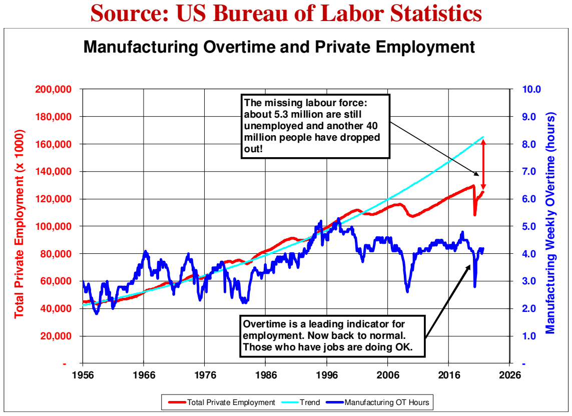
If the Fed follows its stated policy, we can expect interest rates to remain low for a long time, even if there is an uptick in inflation rates, or if unemployment gets back to pre-pandemic lows.

Inflation has certainly upticked recently. The most recent number from the US Bureau of Labor Statistics indicates that inflation for the past 12 months was 5.4%. The Fed expects this number to fall as the 2020 Covid recovery works its way through the system. In a recent speech at the Jackson Hole economics forum, Fed Chairman Powell made it clear that the Fed plans to keep interest rates "lower for longer". The stock market reacted enthusiastically to his speech.

The overall US economy is doing OK, but is not booming. The 2nd quarter real GDP growth was 6.6% on an annualized basis, slightly below the forecast of 6.7%. This follows up on 6.3% annualized growth in the 1st quarter of 2021. These numbers represent recovery from the Covid downturn, and no one expects this kind of growth to continue. The Federal Reserve Open Market Committee expects real growth of 6.5% in 2021, followed by 3.3% growth in 2022 and 2.2% in 2023. So far, the real economy is performing as expected by the Fed's models.

The latest employment numbers were a big surprise on the low side. The August jobs report showed a net gain of just 235,000 jobs; economists had expected around 700,000 new jobs. Around ¾ of the jobs lost during the pandemic a year ago have returned, as shown in Chart 4 (red line). Overtime is a leading indicator for employment. Overtime is steady at around 4 hours per week (dark blue line). This indicates that manufacturing businesses are doing OK, but don't seem to be desperate for additional labour to push more widgets out the door. The semiconductor chip shortage might have something to do with that.

Chart 4
Source: US Bureau of Labor Statistics



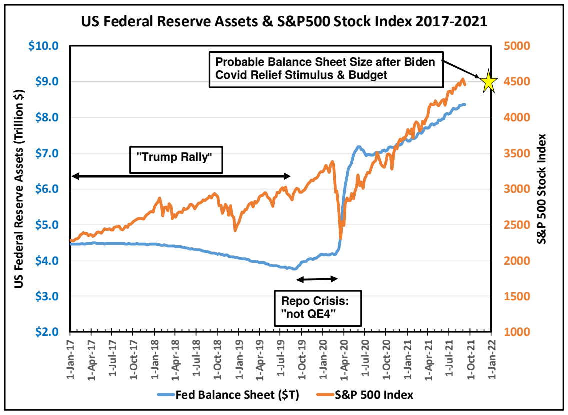
Family at Top of Sulphur Mountain (includes Edgar's sister Maureen)

The Biden administration's 2021-22 budget is proposing spending of $3.5T over the next year. This is on top of the Covid relief package has been passed into law at a cost of $1.9T, and the massive infrastructure plan that is currently budgeted at $2T to be spent over 8 years. Essentially all of this spending will be financed by the Fed, through their purchase of bonds issued by the US Treasury. The administration hopes to recover most of the infrastructure expenditure through increased taxes on corporations and the very wealthy. Good luck with that!

Under normal conditions of supply and demand, such a huge supply of government paper would cause prices to fall and interest rates to rise (interest rates rise/fall as the inverse of bond prices). However, the US Federal Reserve is now the buyer of the excess supply, thereby holding market rates low. This is Modern Monetary Theory in action: the Fed buys the bonds from the Treasury, and pays for the bonds with newly-created currency that then circulates through the economy before landing in the hands of the wealthy who invest it in the stock market.

The Fed keeps threatening to taper off its bond purchases, but this is unlikely to happen as long as the US Congress keeps up its wild spending. Debt levels at the government, corporate, and consumer

Chart 5
Source: US Federal Reserve Bank of St Louis



levels are so high that any significant increase in interest rates could cause massive economic chaos. This is the major economic worry out on the horizon: *will the Fed make a mistake and murder the economy through central bank action?* I watch this closely.

Chart 5 shows the balance sheet of the US Federal Reserve (blue line). Bond purchases through August averaged $25B per week.

The most important stock market maxim is "Don't Fight the Fed". The Fed has been extremely friendly over the entire time of the pandemic. Much of the extra cash that the Fed printed ended up in the stock market. As always, Wall Street ended up with the loot, while Main Street got nothing.

I've put a star on Chart 5 where I think the Fed's balance sheet will be once the Covid relief money has been distributed. I fully expect that most of this money will end up in the US stock market. If so, we can expect the current stock market bull market to continue.

Late Summer on Upper Kananaskis Lake

Lake Louise

In a market totally dominated by new money flowing into stocks, valuations don't currently matter. Prices, earnings and dividends are irrelevant.

Canada

We're into the home stretch of the federal election. All the polls indicate that the Liberals and Conservatives are essentially tied in the popular vote The Liberals are more efficient at turning their votes into seats in the House of Commons, so the outcome depends upon how NDP strength will split the votes in Greater Toronto.

Erin O'Toole won the Conservative leadership by pretending he was a True-Blue Tory, but he has quickly shed that illusion, and to my mind the policies that he is running on make him indistinguishable from a Liberal leader. I'm definitely not a fan of our virtue-signalling PM, so I guess the enemy of my enemy is my friend.

Right now, it looks like there will be a minority government. The Liberals may be wounded, with the Conservatives, NDP, and possibly the Bloc eager to finish them off. We'll likely have yet another election in short order. Oh, good!

Markets usually don't care very much about political power struggles.

The Bank of Canada published its quarterly *Monetary Policy Report* in July. The report emphasized uncertainties arising from the rise of the Delta variant, which hadn't yet affected Canada as the dreaded Fourth Wave. Keeping that in mind, here are some highlights from the report:

- Economic growth in the first half of the year was slower than expected, but the Bank was hopeful that things would improve in the second half;
- Fiscal and monetary policy (ie deficit spending and money-printing) are providing a strong foundation to support the on-going economic recuperation;
- The Bank expects full recovery by the latter half of 2022;
- Inflation is expected to remain high in 2021 before returning to the 2% level in subsequent years;
- The Bank is projecting the CAD/USD exchange rate at 81c, and the WTI oil price at USD70.

The Bank is now forecasting GDP growth of 6.0% for 2021, 4.6% for 2022, and 3.3% for 2023. Inflation is forecast to be 3.0% in 2021, 2.4% in 2022, and 2.2% in 2023. If these numbers prove to be correct, Canada will be in good shape over the next 3 years!

It might be hard for Canada to reach 6% growth this year. We're almost through the 3rd quarter, and the Fourth Wave is making an impact in every province.

Taking labour market data from the *Monetary Policy Report*, the employment rate (in June) was still 1.7% below the rate in February 2020 before the Pandemic. After adjusting for population growth, Canada would need to generate an additional 550,000 jobs just to get back to the Feb 2020 employment level.

Touchdown!

The August labour report from Statistics Canada was quite bullish. According to the report, the country generated 90,200 new jobs, and the unemployment rate fell to 7.1%, compared to 7.5% in July.

With the proviso that the Fourth Wave restrictions could hammer economic growth, it looks as if Canada is in good shape going forward. As I wrote in my May newsletter: *To be fair, if the economic forecast of the Bank of Canada proves to be accurate or even conservative, and if resource prices remain strong, and if the federal and provincial governments keep their budget deficits under control, this country may get this chronic over-spending under control before outside forces require us to hand in the national credit card.*

The Canadian stock market takes its cues from the US market. Last year it lagged badly behind its big cousin to the south. The Canadian market is dominated by mining, energy and financial stocks; the US market is now dominated by Big Tech. The TSX only got into positive numbers last year after the bull market triggered by the Pfizer vaccine announcement caused everything to rise.

Table 1 showed that the TSX is keeping up with the US markets this year. The looney's exchange value is little changed. Most of Canada's largest companies are inter-listed on the US stock exchange, so it is extremely difficult for Canadian stock prices to move independently of US prices. Historically, the Canadian market out-performs the US market only when commodity prices are high and rising, and this is generally due to a stronger Canadian dollar.

Stock markets in Canada and the US are favourable right now and for the forseeable future. The main danger is from the US Federal Reserve. Markets have been propelled forward by a never-ending supply of new cash generated by money-printing at the Fed. Beware if the Fed turns off the spigot. In the meantime, enjoy the ride.