PORTFOLIO REVIEW

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A year ago, we wrote that "the bull market in (nearly) all things is coming to an end. And so it has, with a vengeance, turning into a bear market in (nearly) all things. The year began with the threat of a tariff war, saw the Federal Reserve tightening all year, and ended with a government shutdown, all factors weighing on the market. Many of the erstwhile leaders—such as some of the FAANGs and bitcoin—have tumbled the most amidst the dramatic sell-off in the last few weeks, while some neglected sectors—such as gold and gold shares—have advanced the strongest against the oppressive tide of declining markets. We expect more discrimination in the year ahead, with gold and other laggards coming to the fore.

■ Global markets down, with few exemptions

In both the latest quarter and the full year, all major stock markets were down, and most by double digits. The U.S., with the S&P down a little over 6%, is a winner among major markets. Indeed, scanning a list of all world exchanges, only a disparate group of somewhat obscure markets saw dollar-based gains for the year: Panama, Jamaica, Ukraine, Macedonia, Kuwait, Bahrain, Saudi Arabia and Qatar comprise the entire list of exchanges in the green for the year. No apologies for missing some of them!

Global markets in aggregate are down almost 17% (per MSCI World ex US). The average global stock fund is down nearly 11%, beating the index because of an overweighting in the U.S. (Fund numbers as of 12/27/18.)

Similarly, most sectors fell, with little respite. In the U.S., health and telcom were the only sectors of about 30 to rise for the year. The only other global sub-sectors that were up are Brazilian electrical energy and Japanese real estate, out of hundreds. This shows just how broad-based the devastation was.

In local currency terms, a few other markets and sectors were up, but only a handful. Bosnia, Venezuela anyone? Argentina was up less than 1%, but down over 50% in dollar terms. Boosted by the election of the "Brazilian Trump", the market was up by double digits—a global leader—but the slide in the *real* wiped out all of the gains for a foreign investor. Overall, dollar strength was by no means the main culprit.

■ Nowhere to hide

Against such a headwind, it was difficult to make progress. The increasing volatility towards year end offered opportunities, as well as additional risks. Our global accounts fell just over 10%, better than the indexes and funds, but nonetheless a disappointing and frustrating year.*

We fell because there was no hiding, but outperformed because some of our largest positions in many sectors held up comparatively well; and because of some trading positions, including shorts on U.K. stocks ahead of the so-called Brexit deal, which added incremental gains.

■ Resources down too

Most resources fell during the year: oil, after moving steadily up for most of the year to hit $75/bbl, fell to close at $45, down $12 for the year; while copper fell almost without respite, down 20%. The group was down 13% (basis Bloomberg Commodity Index, though, as we have discussed, all commodity indices have their peculiarities;

natural gas, the second largest weighting in this index, was up for the year, as were some other large weightings such as live cattle.)

■ Gold finished up, beating stocks

Gold, following a strong comeback late in the year, as stock market volatility increased, closed flat on the year. Gold outperformed equities for the quarter and for the year (though you rarely hear the tv pundits proclaim it). The gold stocks, led by seniors, fell further earlier in the year and were late to follow gold, but had a strong rally in the last six weeks, with the senior stocks (basis XAU) up 14% since mid-November. The juniors typically lagged, slammed by year-end tax-loss selling. For the year, the XAU fell 16.4%; precious metals funds (basis Bloomberg index) did worse, falling virtually 20%.

Against this background, our accounts outperformed the indices, with both resource and gold accounts down less than 9%. Our gold accounts, in fact, outperformed meaningfully all but one of the funds in the Bloomberg index. The main reasons for the outperformance were, in the resource accounts, an underweighting in oil stocks (which were weaker even than the commodity) and overweighting gold stocks (a relative leader), while in gold accounts it was mostly stock selection among both senior and junior stocks (with some major exceptions), and tactics (selling of puts, and trading around core holdings).

But all of this is cold comfort when accounts are down. Looking ahead, we are well positioned, other than for a major market collapse, and in particular think gold is going to perform well this year, with the deeply out-of-favor stocks likely to participate.

■ Ten years ago (on a cold, dark night)

It’s ten years on from the credit crisis and the launch of QE, wherein the Federal Reserve took its balance sheet from $882 billion to $4.47 trillion by May of 2017, representing 24% of the entire GDP. And it drove interest rates down to effectively zero in 2015. Like the man behind the curtain in the Wizard of Oz, the Fed was basically experimenting as it went along without any clear idea of the consequences of its actions. I would argue that they did more harm than good, with long-lasting consequences.

Now, the Fed has finally started tightening. It announced the end of QE back in 2015, with a tiny rate hike at the end of the year, and just one more in 2016. This past year saw four rate hikes and more determined talk from the Fed. The unwinding—inelegantly called Quantitative Tightening (QT)—consists of increasing interest rates and reducing the Fed’s bloated balance sheet, both to “normalized” levels.

It was not only the Fed that instituted QE and plans to turn to QT, but also most other central banks around the world, to some extent or another. Some banks went further, with the Bank of Japan taking its balance sheet to 88% of GDP, and the hedge fund known as the Swiss National Bank to 115% of GDP. In many parts of the world, notably Japan and much of Europe, rates fell below zero; in 2017, 40% of all bonds issued around the world were at negative rates, meaning—for emphasis so the absurdity can sink in—that you lend money *guaranteed* to receive back less.

Just as the unprecedented QE had effects on the economy and society—some obvious, some less so, and certainly unintended—so too will QT have ramifications, in some cases the reverse of QE, in other cases more subtle.

■ Did QE work?

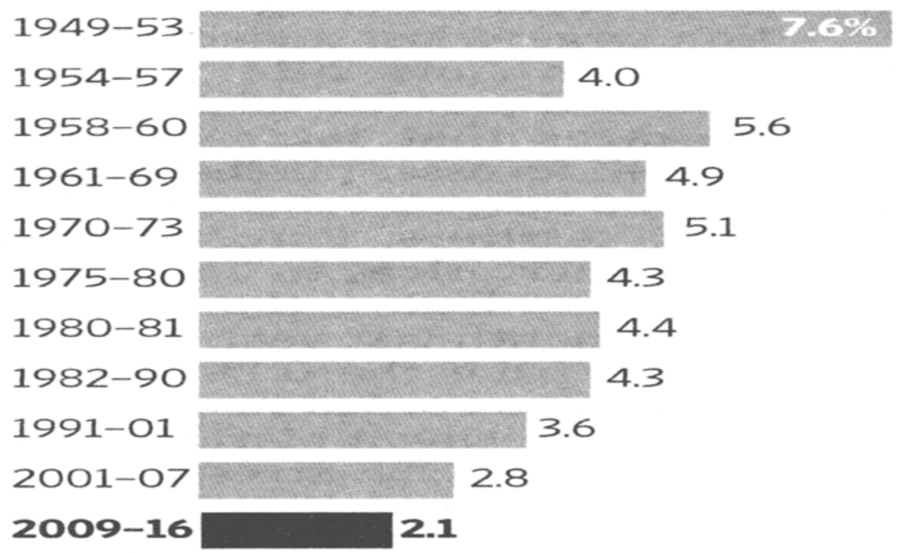
This is not the place for a deep discussion of the impact of the government’s actions in 2008 and subsequent, but I would argue that it would have been better had the Fed stayed out of the way. The recession may well have been deeper, but also far shorter, and without the distortive effects we have suffered over the past decade (*vide* “The Forgotten Depression” of 1921, as James Grant calls it).

Was QE a success on the Fed’s own terms? It was intended to boost GDP, and to increase inflation, which was “worryingly low”—a perverse phrase from a central bank charged with maintaining the value of the currency.

The recovery from 2008 with the massive QE intended to boost GDP was actually the worst of the post-war years, over the last three-quarters of a century. The recovery only started accelerating from late 2016, with the *ending* of QE (and the election of Donald Trump).

Did QE Help?

Until QE Ended, the weakest recovery in 75 years



Note: Figures are adjusted for inflation and seasonality

Average GDP Growth during each expansion, at an annualized rate

Source: The Commerce Department, The Wall Street Journal

International comparisons emphasize this. A look at the U.S. and Canada is illustrative. The two countries are at similar stages of economic development and exposed, very broadly, to similar economic shocks. The Bank of Canada did not engage in QE while the Fed, clearly, did. At the end of 2016, the BoC balance sheet remained at about 5% of GDP. But from 2008 to 2016, Canadian GDP growth was actually stronger than that of the U.S., despite—no, *because* of—the huge difference in QE.

■ The more they did, the less it helped

This is true globally. There is a reasonably close correlation between amount of QE and rate of recovery…but it is an inverse correlation (with some exceptions). Germany and Sweden had the lowest rates of QE and among the strongest recoveries. Japan, Spain, Portugal, Italy and Belgium instituted among the highest QE programs with the lowest rates of recovery of all major world economies. Empirically, the evidence suggests that QE did not work.

Indeed, in a detailed paper reviewing QE from its 10th anniversary, the Federal Reserve Bank of St. Louis’ economist Stephen Williamson concluded that “there appears to be no evidence that QE works either to increase inflation or to increase real GDP.”

As for inflation, a decade after these unprecedented measures, the Fed is still worrying that inflation is too low, and it *doesn’t know why*. An international comparison would show us a lack of correlation between high QE and rising inflation. The Bank of Japan, for example, instituted QE on steroids with a firm objective of increasing inflation. And over the past 10 years, the rate of inflation has fallen dramatically.

Consequences of QE

This is not to say that QE was without consequences, mostly deleterious.

- It kept the stock market rally going, arguably pushing money into passive vehicles, driving up prices of stocks good and bad, and creating bubbles in some sectors (including modern art, wine and classic cars).
- It distorted global markets, driving money into emerging markets.
- It hurt savers, forcing them, often retirees, to take more risk in their investments.
- It encouraged debt and leverage.
- It reinforced deflationary tendencies.
- It increased the role of government (and particularly the Fed) in the economy, which targeted certain sectors for help—housing and Big Banks—ignoring others.
- It encouraged financial engineering, excessive corporate buy backs and go-private deals supported by heavy debt.
- It has kept alive zombie companies.
- By encouraging money center banks to earn risk-free returns by borrowing from the Fed at next to zero and putting those same funds back on deposit with the Fed and earning interest—the policy of paying interest on excess reserves was instituted in 2008—the Fed encouraged banks not to lend.
- Because money flowed from the Fed to Wall Street, but banks did not make it available to Main Street, it widened the wealth gap, *the result of deliberate government policy.*
- By these policies and by elites who continually got it wrong, it damaged confidence in the system, leading to populism, and exaggerating the divisions in society. Most people may not know about the policy on excess reserves or velocity of money, but they know in a very guttural sense, that government policies not only helped the rich, but were actually designed that way. The Fed's research department is beginning to recognize this, but don't expect them to say as much publicly.

And now these same elites, in their victory laps, are proclaiming such idiocy as former Fed chairman Janet Yellen, "I don't believe there will be another financial crisis in our lifetimes", or current Fed chair Jerome Powell, "there's really no reason to think that this cycle can't continue for effectively indefinitely." For the family in the lower 50 percentile who have seen their net worth and their net income decline in the 10 years since the crisis, these are hollow words.

Consequences of tightening

And just as QE had wide-spread consequences, so too will the unwinding. First the good news: as the end of QE was announced in late 2016, the U.S. economy took off. But this will not last forever. As the Fed slowly tightens and stops rolling over all of its maturing debt (even without selling any assets on its balance sheet), it is withdrawing liquidity and pushing borrowing costs up, which will before long hurt the economy. On present course, the Fed is selling $40 billion of Treasuries each month, that's $600 billion over the next year (while no longer buying), while the Treasury must issue $1.3 trillion over the next 12 months, that almost $2 trillion that the market has to absorb in the next year, $2 trillion more than it has been buying, and without the Fed's assistance. This is pushing yields up.

Much corporate debt has to be rolled over in the next few years, and as rates move higher, not only pricing but in some cases the ability to roll over at all becomes an issue. And not only corporate debt: In Europe, the ECB has been a significant buyer of government debt of the weaker members of the European Union. In total, it has purchased the equivalent of seven times the issuance of Euro government bonds, buying up in the secondary market to push down yields. It has purchased virtually all Italian bonds issued in the last couple of years, for example. When the ECB stops buying—it doesn't have to sell any—Italy will have to place its bonds somewhere else, and these buyers, private buyers, will demand much higher yields.

Though the Federal Reserve is out front in tightening, other central banks, while they currently remain easy, have signaled the end of QE. Japan has cut its QE in half, while the European Central Bank has announced the end of QE, confirming at its meeting a few weeks ago that bond purchases were to cease by the end of the year; it is expected to start to raise interest rates sometime this coming year. This comes when GDP growth in the EU has dropped to just over 1%, well under half last year's growth, with many parts in recession. Ending QE means no further injections of liquidity.

Much else is not good, and much cannot be readily undone. The stock market—in the U.S. and abroad—has started to wobble, with some of the high-flying sectors crashing to the ground. This process has by no means ended, as we discuss below. Globally, money has flowed out of speculative corners of global markets as quickly as it flowed in, leaving them worse off than if they had never experienced the initial flow of money.

■ Inflation ahead?

Lastly, the Fed's policies risk unleashing inflation. As the risk-free trade of borrowing from and then lending back to the Fed is no longer so attractive, banks will start to lend into the real economy to earn the returns they need to pay the higher (still low, but higher) interest on deposits. To quantify it: prior to 2008, banks collectively seldom had more than \$2 billion in excess reserves, but today have over \$2 trillion. This will increase the velocity of money, and, as the money created over the past decade moves into the real economy, risk inflation moving up. When the Fed wishes for higher inflation, it's very much a case of be careful what you wish for.

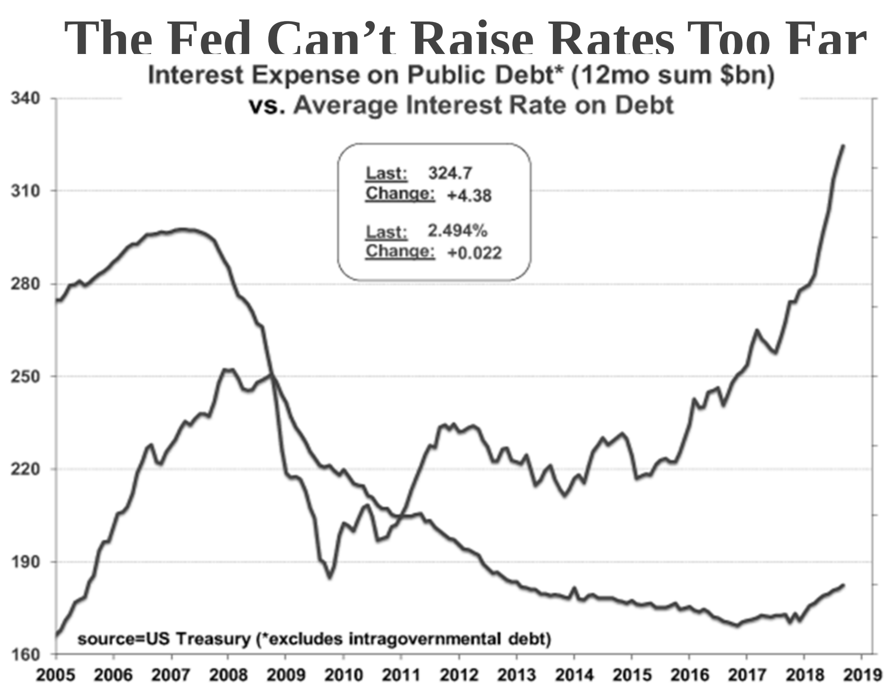
> *Oh, but wait. Ben Bernanke recently said that "we've been very, very clear that we will not allow inflation to rise above 2%" and when asked his degree of confidence, he said "one hundred percent." So, not to worry then. This of course from the Fed which was unable to push inflation <u>up</u> to 2% despite trillions of dollars of effort, and which couldn't understand why. But they are confident they can keep it from moving above 2%. What fatuousness! What arrogance!*

If the Fed thinks that its job is to offer soothing words to calm businesses and the markets, it's time someone whispered in their ears that no-one is listening any more.

■ Boxed into a corner

Now, all this discussion should not lead you to infer that I think the Fed will continue tightening meaningfully. In fact, the period of tightening—which lasted barely two years—is coming to an end. Already, this has been a far slower tightening phase than previous tightening cycles, despite the massive ease to be unwound. The Fed will not be able to increase rates from here significantly, nor shrink its balance sheet in any meaningful way, without risking significant damage, and it knows it.

The interest expense on the Federal government debt jumped from \$190 billion in 2009 to \$330 billion today, despite the sharp decline in rates. (Of course, lower rates encouraged the government, just as it encouraged many others, to take on more debt.) If rates were to continue to rise, it would increase the federal government's debt servicing burden. Indeed, if rates returned to their quarter-century average, the debt expense would amount to over 25% of the budget, a level which becomes unsustainable very quickly.



Source: Meridian Macro

As for Fed's balance sheet, its composition is as important as its size. For example, the Fed currently holds almost 30% of all mortgage-backed securities (the result of a deliberate, if severely misguided policy). It simply could not sell those over any meaningful time frame without significantly affecting those markets.

So as the negative affects of the tightening, however hesitant, that we have already seen begin to be felt on the economy and markets, the Fed will likely halt, and potentially at some point in the not-too-distant future, ease again. Once more, the Fed will come charging to the rescue like the arsonist in the fire brigade who puts out the fire he set.

■ Stocks: further to fall this year

While I am not overly sanguine about the prospects for the broad stock market, it should be noted that tightening cycles are not necessarily bad for stocks, often holding up, if not performing as well as during easing cycles.

This market is overvalued, though not to the same extent as the dotcom or later housing bubbles. But on many metrics, the U.S. market is very overvalued, and on the price-to-sales metric at all-time highs. Not only are valuations stretched, but earnings have been inflated by excessive credit. Without that credit, earnings will drop, other things being equal, while changing sentiment will cut valuation metrics, a double hit.

Another factor that will hurt stocks: 25% of S&P company debt and an astonishing 40% of Russell 2000 (of smaller companies) debt is variable rate (according to Peter Boockvar), and even the increase in rates we have experienced recently will hurt these companies when it comes time to roll over their debt.

Over the past several weeks, as the market volatility stepped up, investors have made large and growing redemptions from mutual funds, culminating in $56 billion pulled out the week before Christmas, the largest outflow since October 2008. This has affected both equity and bond funds, with more coming out of world equity funds than domestic stock funds. These fund redemptions as well as margin calls exacerbated the moves down while algorithmic trading exaggerated moves both up and down. This may not be healthy for the market, but it does present patient and nimble value investors with opportunities.

At the same time, about half the amount withdrawn has flowed into ETFs (more equity than bonds, meaning that much of that withdrawn from equity funds has flowed back into equity ETFs). This may not be the same investors. But it reinforces the emphasis on broad-based passive funds, to the detriment of managed funds. However, as the broad market falls, led by the recent high-flyers, then surely the disadvantages of passive investing and need for stock selection will become more apparent. This year, I suggest, will be the year when many in the passive religion congregation leave the fold. The value disparities are simply too great: some high-flyers are still trading at 90 times earnings despite a recent stock price declines of 35% and some stocks falling back from $1 trillion in valuation, while other stocks trade at the same prices they did in the last century, and some quality companies trade at 25% discounts to their net asset value.

■ Global markets better value

Global markets are relatively less expensive than the U.S. stock markets, particularly after the last few months which saw non-U.S. markets fall further than the U.S. markets. And the valuations in many markets are now reasonable: big cap European stocks are selling at 13 x earnings, and yielding almost 4%. British stocks are trading at 11 times earnings, and yielding almost 5% (though be aware that British stocks historically tend to yield more than most, with the yield not dropping below 3% since mid-2002). Hong Kong less than 10x earnings, and a yield of almost 4% (though again, Hong Kong tends to be a higher yielding market).

These are yields twice that of the U.S. market; price-to-sales half the U.S.; price-to-book also half, and p/es significantly less. The valuation discrepancy is wide.

European stocks usually fall further than the US during market declines, but much of that decline has already taken place. There are serious issues facing Europe, including Brexit and Italian debt, and QE is ending. But many

European companies do not depend on Europe for sales, while for U.K. based companies, particularly those selling globally, fears of the impact of Brexit are exaggerated.

Asian markets would be greatly aided by the easing of trade tensions between the U.S. and China. At present, Asian markets, and emerging markets generally, despite strong fundamentals and some strong companies at good prices, are influenced more by sentiment, flavored by macro concerns such as trade.

In the long run, buying good companies at good prices will win in the end, and increasingly, after market moves, there are more of those overseas.

■ Resources will turn on lack of new mines

Resources have been in a long slump, with the average fund losing 8% annually for the last five years. This year, again, most resources are down facing headwinds of a strong dollar, rising interest rates and concerns about a slowing global economy. Oversupply from new production in the 2011-2013 period continues to weigh on many markets.

But low prices are the solution to low prices. Since the peak, as resource prices fell, there has been a period of severe under-investment in new production. Global spending has dropped each year from almost $150 billion in 2012 to less than $40 billion this year, and spending to bring new mines into production shriveled to almost nothing. At some point, this will lead to lower production which will lead to higher prices.

■ Oil still plentiful

For oil, there is no lack of potential supply, so though we may see prices trend higher, they are likely to continue to be range-bound with spikes on supply concerns driven by geopolitical concerns which tend to be short lived. Much shut-in production can be turned on quickly, so we are unlikely to see significantly higher prices on a sustained basis in the near future.

Oil company shares are depressed, but other than shares in some of the global integrated companies, which sport good yields, we are not buying yet. The major independent E&P companies seem expensive absent higher prices while many of the smaller companies, particularly in Canada, are mired in debt. Because of the severely depressed prices of these and service companies, we continue to look but are not buying yet.

■ Copper: Deficit ahead

Unlike most of the base metals, copper faces a near-term production deficit even without a pick-up in demand (including a boost from electric vehicles). For copper, supply is the critical part of the equation, and the lack of capital on developing new mines suggest the shortfall could be relatively deep and long lasting.

The CEO of Freeport, the world's largest non-government producer of copper, says the current price "is a paradox" with tight supplies and low inventories. Richard Adkerson said the company, like others, is deferring projects. He emphasizes that big copper mines are rare. Despite the supercycle from 2001, no new copper mine has joined the top 10 lists of largest mines (reserves) or top producers. Not only are they rare, but they take time to develop. Apart from mines already in development, Adkerson said it would take a minimum of five to seven years for another mine to commence production from the time the go-ahead was given. Thus we can look with a high degree of certainly on the potential maximum production over the next several years, and the result is that, absent a collapse in demand, there will be shortages soon.

We are accumulating quality copper companies, including producers, which have the balance sheets and low-cost mines to withstand additional short-term weakness.

We are also buying uranium stocks, but somewhat more trigger happy on rallies, given that the current supply constraints are artificial and could be reversed in fairly short order if prices moved up on a sustained basis. Again, we are sticking with the top-quality companies with strong balance sheets.

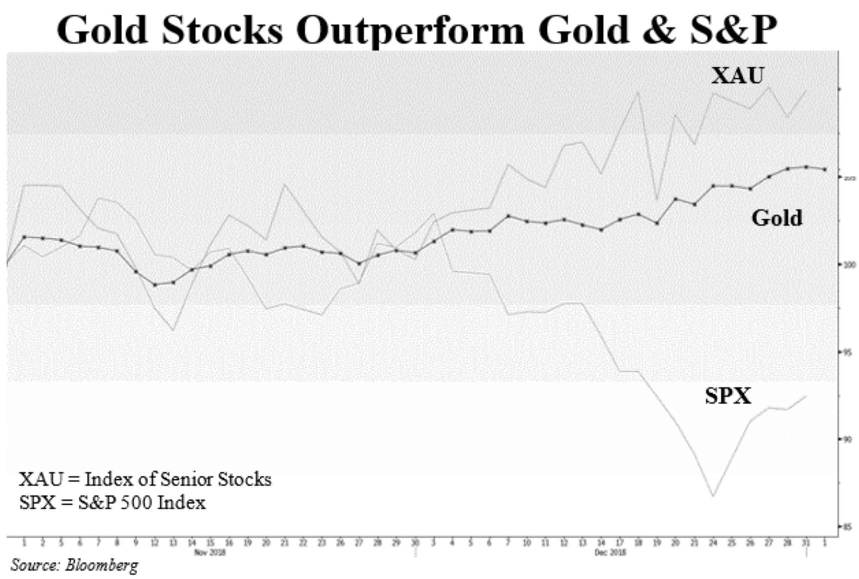
■ Gold is finally turning

The reasons for gold to move up remain, and, as discussed previously, the negatives weighing on gold—strong financial assets, monetary tightening, the strong dollar—are one-by-one reversing. Gold often does perform well when the Federal reserve raises interest rates, certainly at the beginning of a cycle, because rate moves often lag inflation, so *real* rates remain low, as they do now. I do not see a period of aggressive rate moves, which would hurt gold, any time soon. The conditions are not right.

Now, these "theoretical" arguments for gold are being supported by market action. Gold ended the year flat, almost to the penny, having moved up since the low in mid-August, at first somewhat hesitatingly, and then more dramatically as the stock market wobbled. Gold outperformed the S&P this last month, the last quarter and the last year. Gold is outperforming other resources and is up in all major currencies. The tide is clearly turning.

■ Which stocks to buy?

Gold stocks finished the year down more than gold, after a very weak first half, but over the last several weeks, they have started to catch up with gold (outperforming in the last six weeks). The senior producers are more certain to move in the early stage of a bull market but many of those companies have severe anchors: rising costs, troubled mines, lack of pipeline, or debt. After the initial phase, discrimination among the various companies will be important.



Many juniors and explorers are remarkably undervalued, suffering from the GDXJ "rebalancing"—which meant selling most smaller companies—as well as dumping by Vanguard, the erstwhile largest gold mutual fund, which changed its mandate precisely at the bottom of the market. This selling has been aggravated by year-end tax-loss selling, so there are tremendous bargains now and we are topping up accounts.

In sum, we are cautious on global equities, but buying quality companies at depressed prices; we are finding them in Hong Kong, in Europe, and among the Business Development Companies. We are cautious on resources broadly, but aggressively buying gold stocks, and accumulating copper and uranium. We are entering a period when stock selection, in both the broad market and resources, is increasingly important and perhaps also when a little more trading may be called for. We are ready for a recovery in the global laggards, as well as the traditional first-quarter gold rally, but will also look to trim some positions ensuring we have dry powder at all times for opportunities that arise.

Review of Individual Accounts

■ Global accounts

Cash in global accounts increased significantly over the last quarter, from 3.5% to almost 6% of accounts, but this bald figure is a little deceptive of our actions. First, we received significant amounts of cash into accounts through the sale of one large holding being acquired. Second, the majority of the cash is set aside for open orders or against sale of puts, so unencumbered cash has actually declined to just 2.6%.

The decline in cash is because the last several weeks' market volatility has thrown up some tremendous buys and we have been adding to positions across the board. Weighting among U.S., Europe, Asia, income, and gold stocks has moved very little.

We have also made relatively few changes, selling some stocks where the risk appeared higher, including some Asian stocks and some Business Development Companies where the risk of a dividend cut is higher than others.

Some great buys

We added to value stocks, including holding companies selling at significant discounts to assets in the U.S., Europe and Asia. This offset the few sales we made. Again, the huge sell-off in BDCs on misplaced concerns about the impact of higher rates gave us the opportunity to increase holdings of the better quality companies, some at yields over 10% and discounts of over 25%, again more than offsetting the sales of a couple of more risky companies in the sector.

We are comfortable holding these companies for the high dividends, but will also look to trim holdings back on any rallies. But they will remain a significant holding of accounts, particularly the more conservative and income-oriented ones, for the foreseeable future.

Holding for rallies

In Europe and Asia few changes were made. In Europe, the companies we hold are good quality and lower prices only make them better value. In Asia, we hold many very undervalued stocks that will respond well to easing the China-U.S. trade tensions. We would also look for rallies here, which could be dramatic, to trim holdings.

We also hold a full allocation to gold shares, since they can offset declines in the broader markets, as we have seen over the last couple of months. And they hold potential in their own right. We also hold a few short positions (long puts). In these times, following the period of lower prices and increased volatility, we are also increasing the sale of puts where premiums can be quite attractive.

With little unencumbered cash, we are looking for recoveries in different sectors to trim positions and raise cash so we are in a position to take advantage of any renewed market sell off. Again, if we hold good quality companies selling below their intrinsic values, particularly if they paid handsome dividends, we are in no rush to sell. We do, however, expect to end the quarter with higher cash levels.

■ Gold Accounts

Gold accounts remain almost fully invested, though, as with the global accounts, the increase in cash levels, from 2% to over 4.5%, is deceptive. Again, this is due to an influx of cash at the end of the year from the sale of a large position; not all that cash has yet been redeployed. Most of the cash is set aside against buys.

There has been some movement in weightings among sectors, however. The senior stocks, both royalties and producers, have moved up from 27% of accounts to 34%. Most of this is due to relative price moves, but some is due to our adding to positions, since, as discussed, senior stocks tend to be the first to move when gold moves. And so it has been, with senior stocks moving up over the quarter, while juniors and explorers typically ended the quarter at their lowest prices on aggressive tax-loss selling.

Exploration stocks down at year end

Thus, the weighting to exploration stocks reversed that of the seniors, falling from 33% to 27%, particularly hurt by one widely held company which had disappointing exploration results at the end of the year. There were a few sales on stocks which moved up, but it was largely the differences in price movements that account for the changes in weighting.

Allocation to non-gold stocks, both silver and more diversified companies, also fell from 28% to 23%, largely due to price movements.

We are putting cash in accounts to work, so we will be fully invested again shortly. We anticipate a traditional first-quarter rally in gold stocks, and also a stronger near-term rebound in many of the juniors beaten down by tax loss selling. We will take advantage of these anticipated rallies, largely to cut laggards and take profits in some of the end-of-year buying we undertook. But although we expect cash positions to increase into the spring, any selling will be at the margin, and to upgrade the quality of portfolios, as we look forward to the onset of a gold bull market.

■ Resource Accounts

The story is much the same for our resource accounts. We are virtually fully invested, with the increase in cash the result of one company being sold and not all proceeds yet reinvested. The allocation to gold has moved up (from 33% to 42%) while to exploration companies, including several copper explorers, has declined (from 28% to 20%), with the relative changes largely the result of differences in price movements.

As has been true for most of the year, our resource accounts are overweight gold and silver with growing weightings to copper and uranium, and underweight base metals and oil. We have, however, been increasing buying of both copper and silver companies in particular, adding to existing companies whose stock prices have fallen sharply, and initiating some new holdings.

Redeploying cash

The sale of the company being acquired, referred to above, greatly reduced allocation to copper, but we have used the proceeds to add to other copper companies, as well as by aggressive buying of a couple of favorite silver whose stocks had fallen significantly (Vanguard sales drove one down sharply). Despite this buying, the weighting to base metal companies declined, the result of large year-end selloffs in a couple of major holdings.

Looking ahead, we expect to utilize remaining proceeds from the sale of the acquired company in like manner, and over coming months to look for opportunities to trim some holdings and sell some laggards on the first-quarter rallies we anticipate. We expect to continue to accumulate copper companies, as well as increase holdings of uranium companies, although gold and silver will remain dominant for the time being, as these metals look set to move ahead of base metals and other resources. We still do not see any rush to buy oil and gas companies, though this may change as the year progresses.

In sum, the unwinding of the Federal Reserve's prolonged period of excessive easing will cause disruptions in the economy and market as clear as the distortions the easing itself caused. For this reason, and others, we are cautious. As discussed, we expect to be raising cash in global accounts in coming months after adding to positions in the recent market sell off when some values became compelling. We are comfortable holding good quality companies selling at discounts to intrinsic value, though would like cash to take advantage of opportunities in further broad market selloffs. We suspect, however, that the market is moving towards a more discerning approach, where value stocks may finally be the leaders again. We are fully weighted to gold where we are anticipating a good year ahead of us.

Adrian Day, December 31st, 2019