ADRIAN DAY ASSET MANAGEMENT

PORTFOLIO REVIEW

PO Box 9024106, San Juan, PR 00902-4106 • 410.224.2037 First Quarter April 2020

A Black Swan appeared in the form of a virus, slamming the economy and markets, with virtually every asset class and every market down sharply in March and for the quarter. There was no escaping, other than short-term Treasuries, and to some extent gold. Two points need emphasizing. Even before the virus made its appearance, there were some troubling signs, with debt in many areas at extreme levels, the Federal Reserve extremely easy again, and equities grossly overbought. That this was true a quarter ago and the quarter before that makes it no less true. The virus—and the reaction to it—has done severe damage to the economy and markets. To paraphrase Peter Schiff, it's the size of the bubble not the pin that's important. This was a very sharp pin, but it was a huge bubble, a bubble searching for a pin. The second point is that the reaction to the virus—and I refer here largely to the economic and monetary response—will prove more lasting and more damaging than the virus itself. Mid this carnage, however, are once-in-a-generation opportunities for the patient, disciplined and astute investor.

Nowhere to Hide

Among about 100 markets at which I looked, every single one was down this quarter. The S&P was down exactly 20% (the Dow more, the Nasdaq less), while global markets outside the U.S. (per the Morgan Stanley Capital International Index) ended the quarter down almost 24%. Europe was the hardest hit region, with markets down in the upper 20 percent range, while Asia had a broader range, with Australia down over 30%, China and Hong Kong just over 10% (interestingly the best-performing major markets). Not a single market anywhere was up; the least bad include Shenzhen, Bosnia and Herzegovina, and Ghana (each down around 5%). The average global equity mutual fund (per the Bloomberg index) fell over 21%.

Our global accounts did not escape the carnage, falling between 20% (for conservative accounts) to 23.6% (for aggressive accounts), right in line with U.S. and global markets.* These first-quarter declines gave back most of what we gained last year, with accounts up 26% to over 30%. (All numbers are preliminary.) Our relative performance was hurt because we had less exposure to the U.S. market, and particularly Nasdaq stocks, and we have a large exposure to Business Development Companies, which sector was one of the worst hit in the first quarter. (More on that later.) We were aided by higher cash levels, low exposure to Europe, and the selling of puts, generating income. But it was difficult to hide this last quarter, unless one were in gold bullion, Treasury notes or short the market.

Gold the champion among resources

Resources did not fare better. In general, commodity markets were down around 49% (per Bloomberg Commodity Index). Oil, down an astonishing 66% (basis WTI crude) was the worst performer, while base metals were down in the high teens or low twenties, with copper off 22%. Gold, in fact, was the only commodity in the plus column—take that, you gold bashers!—up virtually 4% for the quarter, though down from mid-March when the stock market collapsed (still less than were global markets). But the gold stocks (per XAU) fell over 25%. The average gold mutual fund (per the Bloomberg index) closed down over 21%.

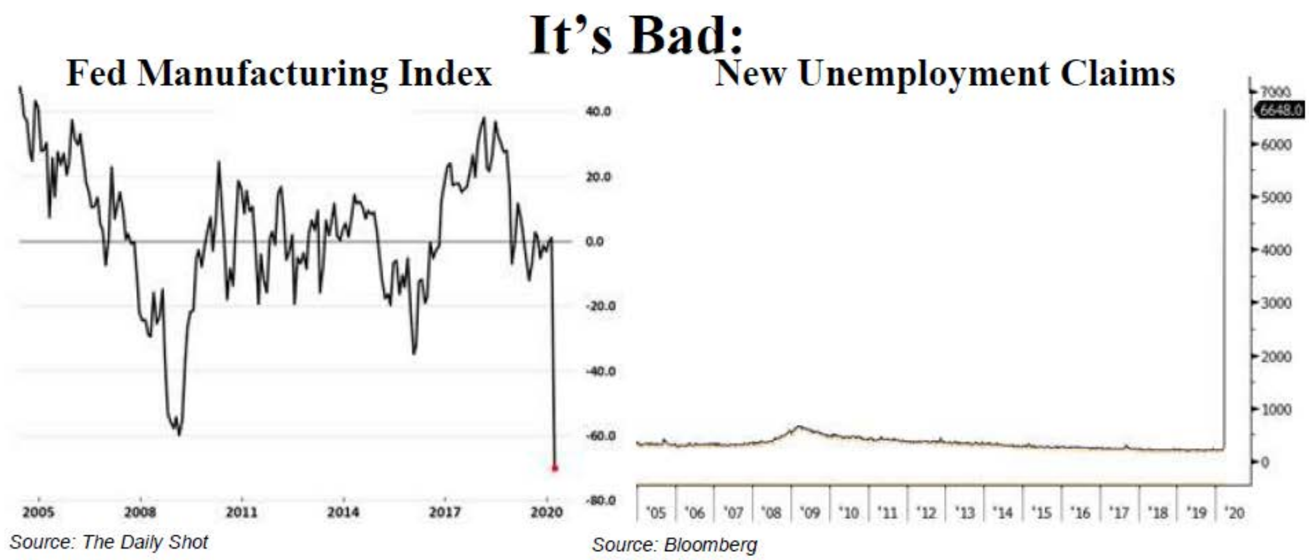
Our gold and resource accounts likewise did not fare well, with resource accounts down over 23% and gold accounts over 28%. As with the global accounts, this took back most of what we gained last year, when resource accounts appreciated 35% and gold accounts 33%.* We were hurt by a handful of stocks that experienced dramatic declines for one reason or another, all, we believe, temporary. Ironically, the more speculative end of the market was not particularly hit, precisely because they are so illiquid. In liquidity driven selling, the big-cap miners, along with gold itself, are sold first.

We are well positioned in our accounts for how we see things playing out. Global accounts tend to have relatively high cash positions, little exposure to broad markets—where I don't think we've seen the worst—high positions in the high-yielding BDCs whose sell offs have been overdone, and exposure to gold which is likely to be the best-performing sector over the near term.

■ How bad will it be?

Most of the economic reports that have been published over the past several weeks are of no value now, since they concern an economy before the virus-induced economic shutdowns around the world. Are they of any value in informing us of what the world may look like when the shutdowns are over and the world gets back to work? Maybe. But as we discuss below, there could well be some fundamental changes in the economic landscape even after this is all over.

What reports have been published to provide a view of the "covid-world" are pretty disastrous, both in the U.S. and in Europe. Nearby, I show graphs on two reports, the well-publicized spike up in unemployment



claims, as well as the fall in manufacturing in the Dallas Fed region. I could have chosen any of a dozen stats that have been published in the last week, and they all paint more-or-less the same picture. Next week's reports, including more towns and states in lockdown, will show a continuation of the trends.

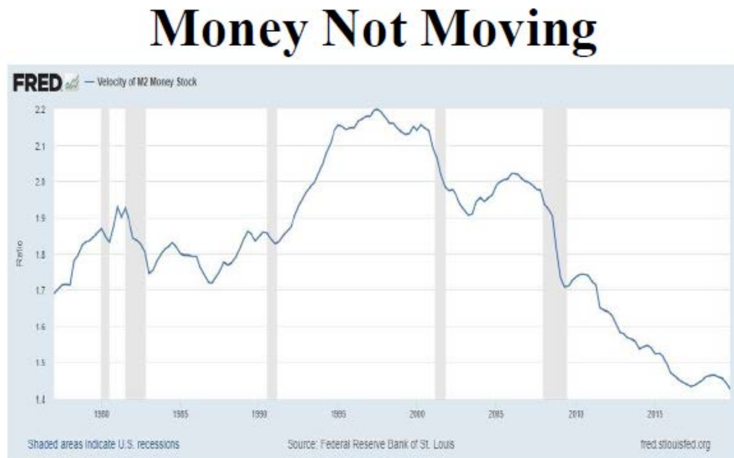
* Please note: **Past performance is no guarantee of future results.** For complete information on our past performance, including factors to be considered in viewing past performance and other disclosures, please contact our office. Specific stocks mentioned herein are intended solely as illustrative of strategies and types of stocks we are buying or selling,and are not intended as indicative of entire portfolios or of any individual client's portfolio. The numbers mentioned represent our composite averages. They represent all accounts that fall within the stated objectives which have the ability to buy and sell options; they exclude accounts under $25,000 and accounts with significant limitations or restrictions that would make them unrepresentative of the account type. Performance figures for composites reflect the deduction of administrative fees, but do not take into account any performance fee that may be charged for the period stated. The performance of any individual stock or stocks does not take into account fees. Performance numbers include dividends; dividends are not reinvested. Commissions charged may vary depending on the brokerage firm at which an individual account is held. All accounts are managed individually and are therefore different, even within the same broad objective. Factors such as an individual's circumstances, the size of the portfolio, and the time the account opened can affect specific buy and sell decisions. Factors such as price movements and security liquidity can affect whether any trade is made for all accounts. Global Strategic Management, an SEC-registered investment advisor, does business as Adrian Day Asset Management.

That these reports were negative came as no surprise, but the extent of the negative was worse than anticipated. In the latest jobless claims reports, for example, the 6.65 million number followed last week's already record 3.3 million. Economists' expectations were for 3.76 for this week; the previous week was twice expectations.

■ Worse lies ahead, before recovery

Some parts of the economy were strong going into the crisis, such as new home starts, employment, new jobs openings, wages, finally starting to increase.

But others were not, and many credit areas were already weak and deteriorating. Auto loan and credit card delinquencies (the latter over 8% of balances) were already moving up, and there is no doubt that they will move up very strongly in the coming weeks. (If banks forego collections during the lockdown, they may not show up fully in reports published, but will eventually.)



So it should come as no surprise that the economy during and immediately after the lockdown will be extremely poor, notwithstanding a few companies doing well. What follows?

■ When will the economy open again?

Much depends on how quickly restrictions are lifted (which only partly depends on the course of virus). There will not be a one day "all-clear" signal, but rather different localities will ease different restrictions over time. Gradually easing restrictions will not only defer the recovery but make it weaker.

Some sectors will bounce back more rapidly, while others will have a catch-up effect, meaning stronger activity than normal initially. But there will be a lag in other areas. Much depends on peoples' attitudes. No doubt, young people will immediately flood to bars and music venues, but will older people want to mix with large numbers in confined spaces (sports, airlines)? The catch-up effect, say in travel—CEOs visiting local sites, families getting together—will be partly offset by those unwilling to fly, for a while at least.

Small businesses will be particularly hard hit and many will not survive. Typically, they have smaller cash reserves and less access to capital. They may close for many reasons, in addition to just going bankrupt. The chap that ran his own restaurants for 40 years may just decide it's time to quit. Some of these businesses will be sold to new owners, and some will not be, not for a while anyway.

Small businesses in general were quicker to lay off workers when the shutdown began; many had no choice when their businesses were shut down. Restaurants that used to employ, say, 30 people, and employed only five during the carry-out and delivery only phase, may reopen with 15, to see how it goes. The barber or hairdresser may re-hire only half his staff until he sees how quickly his customers come back. Many businesses that employ temporary or part-time workers may well try to do with fewer, at least until they see how business recovers.

So I am not expecting a sharp V-shaped recovery; the shutdowns and restrictions have been too severe and now gone on too long—and threaten to continue for far longer. Dallas County, for example, has just extended its shutdown until mid-May.

Expect changes in demand patterns

There will be changes in demand as well as supply. Supply will come back on quickly once regions lift restrictions, and the widget maker whose small business collapsed will be acquired or supplanted by other widget makers. There will be a catch-up phase as well. But demand will lag for a while. Many were unemployed during the shutdown, and need to restore finances before going out spending again. Durable goods purchases may be postponed. In addition, there may be changes in attitudes, as least for a while. People may be more defensive.

There may also be some fundamental shifts in buying patterns. The individual who never dreamed of using a telephone to order groceries on line—but was forced to do so during the lockdown—may well continue to buy that way. Once you have purchased something on Amazon, at an unbeatable price, and had it delivered to your door a day or two later, you may not want to go back to a department store, searching for someone willing to take your cash.

We may see more remote working, perhaps at workers' request and the encouragement of local government to ease traffic congestion. "It worked during the lockdown, why can't I work at home now?" So commercial real estate, both office and retail, could be under more pressure.

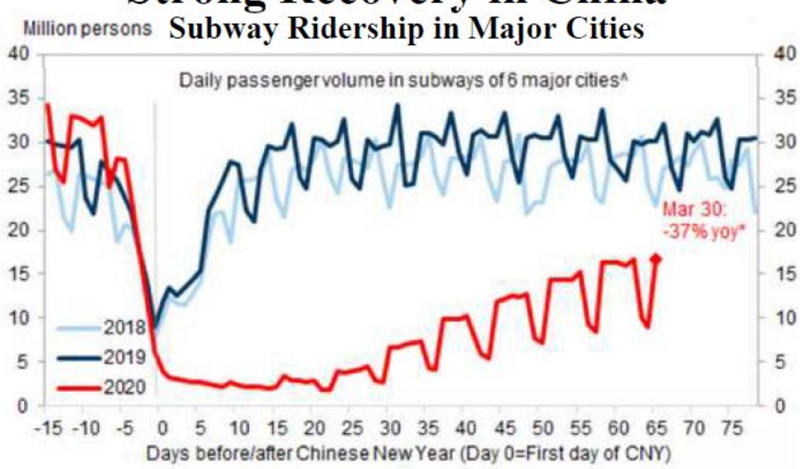
All of this will have effects on various industries and individual companies, good and bad.

Some countries will be far worse, while China rebounds

Overseas, where restrictions on economic activity were imposed, we can expect similar results, with economic activity sharply down in March and beyond. Europe is seeing similar, or even worse, stats than the U.S. Unemployment shot up in many countries. In Spain, unemployment jumped from an already high number, by over 300,000 in one week, 10 times the estimate.

Worst hit perhaps, and for longer, will be underdeveloped countries. In some, the infection rate is likely vastly under-counted. Some of these countries are highly indebted, and do not have the finances to ramp up health-care facilities quickly to the extent needed. Depending on what they produce, global markets may decline. The decline in the oil price is not helping oil-exporters, where oil if often the main foreign-exchange earner. Some poorer Latin American countries, such as Ecuador, with a large (proportional) death date of 79, will also be hard hit. It is not a good sign that the virus is spreading rapidly in countries with warmer climates, including in North Africa.

Strong Recovery in China



Source: Daily Shot Brief, Wind

The one note of optimism is the rebound in China's economy. It was the first economy to experience the impact of the virus lockdown, and the first to start to recover. Many statistics show economic activity now back up again to the levels just prior to the Chinese New Year at the end of January. Though still a long way down from before the virus restrictions started in China, it is nonetheless a positive sign that the rebound has been so strong. Nearby, we show the increase in subway ridership, but other statistics all show similar improvements.

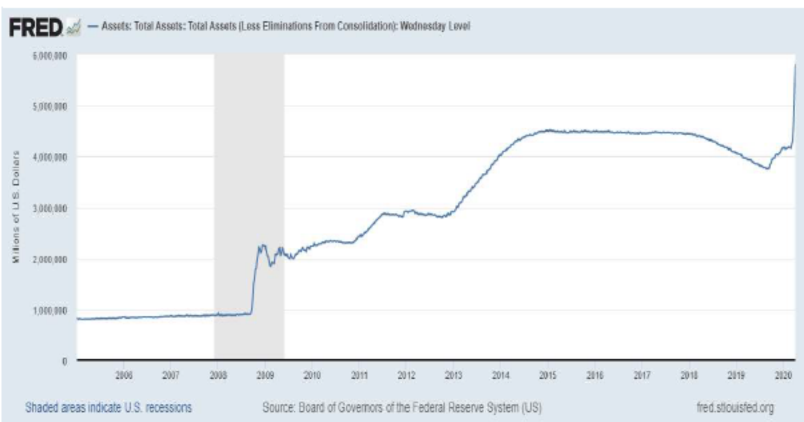
The Fed goes where no bank has gone before

Central banks' response to the shutdown, led by the Federal Reserve, predictable in direction, has been faster and more extreme than one could have imagined only months ago. What the Fed and other central banks are doing will have more long-lasting and damaging effects than the virus or the mandated shutdowns that followed. I won't go through all the measures; they have been widely reported.

The Fed has vowed to do "whatever it takes…to limit the spread of the virus." (Flash pictures of Jerome Powell helping the doctors at the hospital!) One might ask how a similar pledge, from ECB president Mario Draghi, worked for Europe after 2008. The Fed has created multiple facilities and boards to throw money at various segments of the economy and investment world. There is now a Money Market Mutual Fund Liquidity Facility that is essentially back-stopping prime money market funds that have seen liquidations. The CPFF will buy commercial paper. The Primary Market Corporate Credit Facility will buy corporate bonds from the issuer, and can even **lend directly** to companies, while the Secondary Market Corporate Credit Facility will buy corporate bonds **and bond ETFs** in the market. (The Bank of Japan owns 75% of the ETFs in that market, and is now buying more.) The TALF will provide funding for asset-backed securities. Then there is the Temporary Corporate and Small Business Liquidity Facility whereby the Fed gives money to banks to lend on to small businesses. One can bet that there will be less scrutiny with these loans, which banks can immediately sell. And on and on it goes with dozens of these new programs.

Up, Up and Away

"Federal Reserve" Balance Sheet



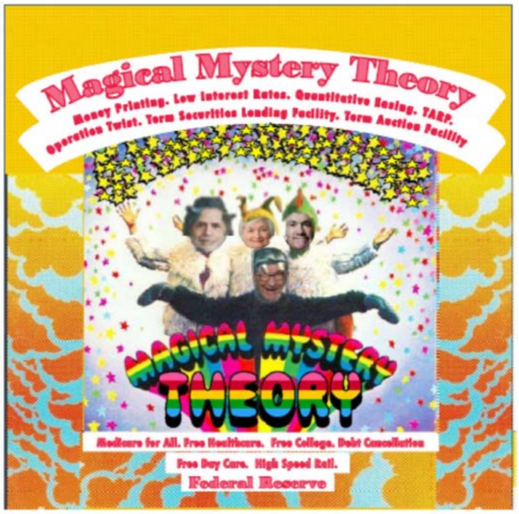
These programs blur the distinction between monetary and fiscal policy, the latter being clearly the Congress's responsibility. It adds substantial risk-taking to the Fed's operations, and increases "moral hazard". Of course, most of this is outside the Fed's legislated mandate, and clearly illegal.

In additon to the Fed's money printing, Congess' hastily put together $2 trillion so-called stimulus measure aims to get money directly to people. Only one member, Rep. Tom Massie, wanted to even discuss the measure, and for that, he has been vilified. Even that is not enough for House Leader Nancy Pelosi, who is now planning a second $2 trillion measure to include the various progressive wish list items that didn't make it into the final version of the first. How can that be clear? To counter, President Trump is proposing a $2 trillion unfunded infrastructure program.

MMT and Helicopter Money have arrived

Essentially, with the powers granted itself under the QE Infinity, the Fed can essentially buy anything. The Fed will no doubt accommodate any new spending, so there is no need for new borrowing or new revenue to pay for it. This is a clear implementation of the perverse Modern Monetary Theory, which essentially says the government can give us anything it wants, so long as the central bank creates the money to pay for it. I call it Magical Mystery Theory.

The Fed has also embarked on Ben Bernanke's infamous "helicopter money", which advocates giving newly created money directly to people. The results—which the Fed has not thought about—will be long-lasting and severely damaging.



Former FedHead Ben Bernanke said "in theory at least, helicopter money could prove a valuable tool." Note his cautious inclusion of "in theory" and "could". Yes, TARP and QE in theory could produce a strong economy, but they did not.

Suffice to say that the Fed has no idea how all this will end. Just as with QE and TARP back in 2008 and 2009, there has been no study of the consequences of these measures before embarking on what was then and is now essentially an experiment. In 2011, JPMorgan's CEO Jamie Dimon asked Bernanke, "has anyone bothered to study the cumulative effect of all these things?" Bernanke replied in a moment of candour that they had not. "It's just too complicated. We don't really have the quantitative tools to do that."

Let us not forget that even before the epidemic, the Fed was extremely loose. It had clearly ended its short-lived promise to tighten and return policy to "normality". Indeed, asset purchases since September, when the Fed jumped into the overnight repo market, through January had been the largest since 2008 (i.e., greater than QE1, QE2 and QE3). That increase now fades into insignificance with QE Infinity.

■ This time, inflation lies ahead

One of the consequences will be inflation. There are reasons that the massive creation of money after 2008 did not lead to inflation. We have touched on this before, and I have discussed it in various speeches, most recently at **New Orleans, last November** (or visit **our website** for recent interviews on this and other subjects). Previous Fed policies were designed—not deliberately—to stop money circulating, which prevented money getting into the real economy and inflation to take root.

Now, the Fed is injecting what economists call "high-powered money" which will indeed lead to higher inflation. Last September, it started buying Treasury bills again to ease illiquidity in the repo market, and now it is buying Treasuries at a rapid rate. This will increase the circulation of money, typically six to nine months after the Fed's money creation, with a further lag potentially for the relatively short-term deflationary impact of the virus shut down. An unfunded $2 trillion infrastructure spend will add to the inflationary impulse.

And crucially the Fed is allowing the big banks to take on more leverage, to expand their balance sheets and reduce reserves. This did not receive an awful lot of publicity, but it could be very important, not only increasing banks' profits (!) but in getting the Fed's money into the real economy and thereby boosting inflation.

■ The same everywhere, except China

As inflation starts to take root, the world's central banks are completely unprepared to fight it. At least 26 central banks around the world cut their interest rates in the first quarter, from already low levels. And many have added to their own asset purchase programs. The European Central Bank announced a €750 billion bond buying program, both governments and corporates. The Bank of Japan bought a record one-day amount of local ETFs.

In contrast to the extreme easing everywhere, the Peoples Bank of China held rates unchanged. They were the first economy to suffer a virus collapse, so are the first to see a recovery. Their policy direction is significant. The Bank wants to avoid a general leveraging in the economy, but rather, as they have done for the last few years, provide aid in a much more targeted manner.

The dollar will fall after the crisis is over

The U.S. dollar has been strong during the pandemic, as a safe-haven asset. It is easy to forget that the dollar had been falling on foreign exchange markets earlier in the year, before the virus panic, after two years of strength. The dollar will likely remain relatively strong as long as the crisis lasts, and even during the deflationary period that follows. But after that, we expect the dollar to begin a multi-year decline, if not dramatic—because of the paucity of strong alternatives—but perceptible and steady.

There are three main reasons: U.S. government finances are a shambles; inflation is coming; and foreign investors are shunning the dollar.

Foreign governments and central banks sold more than $100 billion of Treasuries in the three weeks to March 25, the latest figures, putting March on course for the largest monthly selling on record! This follows selling by China and before that Russia. Some governments with a reliance on oil exports were among the sellers, as were emerging markets with U.S. debts. To put this number in context: Japan, the second-largest holder after the Federal Reserve (a perversion in itself) has $1.2 trillion in Treasuries.

The Fed doesn't like the fact that all this selling makes prices lower—funny how that works—so now the Fed is supporting Treasuries and helping foreign governments get better prices by offering to buy their bills directly, rather than have sales in the market. This is another part of its program to "fight the virus".

Stocks down, but have we seen the bottom?

U.S. stocks had their fastest ever fall into a bear market, just 19 days in mid-February, before the great panic. The second-fastest was in 1987, which took exactly twice as long.

In 1987, it was two months after the crash before stocks bottomed, and other than the rebound off the low, the next 12 months was pretty mediocre in terms of performance. When the dot-com bubble burst in 2000, it was 18 months before the broad market reached bottom (followed by a V-shaped recovery). The credit crisis crash of 2008 also bottomed in a V-shape, but that bottom was 17 months after stocks began to slide.

All these examples, however different each one is, suggest that there is no rush to buy stocks, certainly not broadly and aggressively. It is always possible that we have seen the lows, but a meaningful rally—other than temporary relief rallies—could still be some time off.

Some bubble, some pin

Don't think the stimulus measures of Congress and the Fed will bail out the stock market in the near term. In 2008, the market fell another 40% after TARP.

Remember also that stocks were overvalued ahead of the crisis. We should not expect a quick recovery to new highs. Again, the coronavirus was the pin, but it could have been something else that ended the long bull market. In this case, to paraphrase Winston Churchill, we might say, "some bubble, some pin."

No more buybacks, with dividends at premium

Looking ahead there will be winners and losers as the economy crawls out of the shutdown recession. I suspect we will see fewer stock buybacks. Companies with strong balance sheets, such as Nestle or Loews, may well continue their strategic buyback programs, but the companies that borrow money and then buy back stock (money is fungible remember), or buy back stock and then issue new equity at prices below that, these days are probably gone for a while. Since share buybacks have been a major support of the U.S. stock market for a couple of years, this will be a negative on prices, at least in the near term.

Expect also dividend cuts and fewer increases in the period ahead. Some of these will be from necessity and some because companies simply want to strengthen their balance sheets. In addition, many companies that accept government aid will be required to forgo dividend payouts until a year after the loans have been repaid. (They will also be required to stop all share repurchases.) So companies with solid dividends will carry an even greater premium than they do today.

Inflation need not necessarily be bad for equity investments, certainly not on a nominal basis. Inflation tends to see more economic activity, so this can be good for stocks. That's ahead. For now, this is a time to be disciplined and certainly in no rush for aggressive stock buying.

The tide is turning for resources, slowly

Resources were generally holding their own, just, over the past year, before falling over 50% amid the market panic. They may recover fairly well, given that both supply and demand have been hit in this crisis, and some supply will take longer to come back on stream than will demand.

Generally, we see no great urgency to pile into resources, though we are accumulating quality companies in selected sectors. We are getting more interested in oil stocks. Following the collapse in the oil price on the Russia-Saudi spat, which came amid the broad market panic, the oil stocks were taken out back and shot. Even solid companies like Royal Dutch Shell fell to where it was yielding almost 15%! Solid mid-tiers collapsed up to 80% in two weeks.

Oil and uranium beginning to look attractive

This is overdone. First, we do not think the global oil market—post virus shutdown—has as much excess supply as the price would indicate, outside Russia and Saudi Arabia. The growth in U.S. shale, which had done so much over the past few years to contribute to global oversupply, was already slowing. Drill permits issued in December, a good indication of future activity, were the lowest since 2008.

Second, the stocks are trading at large discounts to oil itself. The key is to focus on companies with strong balance sheets; there is tremendous balance sheet pressure among exploration stocks and the service companies. But this is a time to be slowly accumulating quality oil companies.

Uranium is another commodity that is slowly—emphasis on slowly—making a bottom. Yellow cake is now in deficit. In early 2018, Cameco shuttered its McArthur River, one of the largest uranium mines in the world, removing at one go 10% of the world's supply, in an effort to fight the supply glut. Others following, including Kazakhstan. Now demand is firming as supply remains steady. Cameco is now buying in the spot market to meets its own contract obligations. Many end customers are looking for longer-term contracts. And demand could grow over the next several years as China's reactors come on stream. Again, we are beginning to slowly accumulate uranium companies.

Gold fell amid liquidity panic; no problem

The star resource of late has unquestionably been gold, the only commodity to appreciate in the first quarter. Its initial decline amid the liquidity-driven panic market crash is neither unprecedented nor perverse, nor is it a cause for concern. In a liquidity panic, people look for liquid assets to sell, and there is no more liquid asset than gold. So, the selling of gold amid a liquidity panic actually shows that gold performed its primary function well.

We saw the same thing in 1987, in 2000 and in 2008. No surprise, and in each case, gold was the first asset to recover. (Sometimes the gold stocks lead bullion, sometime the other way around, but gold in all cases has been the first asset to recover.)

Gold of course was already in a new bull market ahead of the market crash and the stimulus that followed. It was up in terms of every currency in the world in 2019 and so far this year. But the unrestrained abandon with which the Fed and other central banks have promised to create new currency will see gold significantly higher. It is the one clear beneficiary of this new environment. It will gain, not because of the virus and people's suffering, but because of the monetary response to this crisis.

Gold has strong tailwinds, not only the stimulus programs instituted around the world, but also ultra-low and declining again interest rates; huge deficits at the government level in the U.S., Japan and many emerging countries; debt burdens among households particularly in the U.S.; a short deflationary period followed by rising inflation; and a volatile equity market.

Gold stocks first to recover

Again, not unexpectedly and as per historical precedent, the gold stocks fell in the market panic. But if history is a guide, they may well be the first to recover. In the 2008 credit crisis, the senior gold stocks collapsed 70% in the three months from the collapse of Bear to the collapse of Lehman. But from the bottom in October, they rallied 120% in the next five months, even as the broad stock market continued to decline. Gold bottomed a month after the gold stocks, and it was up 40% before the broad market bottomed.

Some mines have suspended operations during the covid-19 pandemic, either because of local government regulations or because of concern for the workforce after virus activity onsite. We expect these suspensions to be short term, and for mining operations to resume fully, shortly after restrictions are lifted. In some cases, mines have stockpiles which are still being processed even as mining activities are shuttered, meaning no, or minimal, loss to production. But even where that is not the case, we expect operations and production to ramp back up quickly after operations resume.

Though we fully expect additional volatility in the gold stocks, we are buying gold and silver stocks more actively than we are the broad market. First, the gold stocks are very undervalued, on valuation metrics, on historical prices, and against bullion. Second, they are typically first to recover after market meltdowns. We are not buying indiscriminately, but again buying the best on dips, and again, even trimming positions on strong rallies. Patience is the watchword here too.

In sum, we expect a deep economic contraction, with deflationary pressures. But we also expect this to be short lived, as the economy will come back sharply after restrictions are lifted. The effect of the stimulus measure will be long lasting, including a resurgence in inflation. We are being very cautious on the broad stock market, believing we have time to buy even if there is not another big decline ahead. For the most part, valuations in the broad market are still not at bargain levels. Gold stocks, however, look far more attractive, and we are buying them actively. Outside gold accounts, we continue to build up cash from already high levels. But this will stand us in good stead when the time comes to take our shopping list to the market.

Review of Individual Accounts

■ Global accounts

We entered the year with high cash levels, over 12% across accounts, and low exposure to traditional equity markets: just over 11% of accounts, with only 2% of that in the U.S. market. We held another 10% in high-income Business Development Companies. Other holdings included over 3% in the VIX volatility index, some shorts, and an income fund. We also held a large allocation to gold and gold stocks. Overall, therefore, we were reasonably well positioned for a market decline, though of course never enough.

Added to BDCs, gold and energy on drop

Over the course of the quarter, we reduced further exposure to broad markets, now less than 9%. Other allocations fell somewhat, though we added to the BDCs, to energy stocks and to gold stocks on the major declines. Prices are down so the percentage allocations fell even though we bought more. Cash levels fell slightly to 9%.

Per the discussion above, we are in no hurry to rush back into the broad market, though perhaps by the end of this quarter we will have added to some positions, and perhaps also had a rally to allow us to trim back on some of the BDCs and gold stocks to which we added. We want to keep high cash levels for buying opportunities.

We sold where we could

We sold many individual stocks in the first two months, both in Asia and in Europe, as we predicted in the last *Portfolio Review*. This was out of a general concern that markets were overbought and vulnerable, not because we could see the devastation that would be caused by the virus gathering strength in China.

We see no need to rush back into the broad market. We are creating a list of great companies, with good balance sheets, that should do well in an economic recovery, and looking at price targets to buy. If we buy and see a quick rally, we will trim those positions to reduce our cost basis and add cash back to accounts. For some companies, we are selling puts where premiums are high, and we have seen premiums of over 10% on one-month, below-market puts in recent days. Above all, we are being very disciplined and methodical in buying the broad market.

Looking ahead, we expect to add to positions in the broad market, but slowly and methodically, often by selling puts, as discussed. We may see opportunities to cut back on some of the recent additions we have made, in the BDC sector, energy and gold. BDCs and gold will remain high allocations, while we aim to maintain high cash levels so we are ready to buy when the time is right.

■ Gold accounts

We entered the year fully invested—just 1.5% cash across gold accounts—and have remained that way. During the quarter, we did what we reasonably could to raise cash and with it mostly added to a handful of seniors and intermediates.

Allocation of seniors in our accounts rose from 26% to 32%, partly because of this buying, but also because of relative price movements. This was mostly at the expense of exploration stocks, which fell from 38% to 34%, despite virtually no selling. We also bought intermediate producers as much as cash allowed, but that allocation did not change much, around 11%, because of relative price movements.

During the quarter we sold three stocks, all exploration. Two of these were on the grounds of valuation, while the third was because of excessive delays in obtaining a crucial drill permit. The funds raised were immediately put back to work, mostly in senior producers however.

Going forward, we will be on constant lookout to raise cash, perhaps by trimming positions in some stocks we have just bought; for the most part these were add-on positions, so we can afford to sell some and still retain a holding. We will also sell the laggards so we have cash to put into some of the many quality companies, large and small, selling at oversold levels.

■ Resource accounts

Resource accounts were also fully invested heading into the year, with major gold companies still the largest exposure at 34% of accounts. We also held large positions in silver and copper stocks, but little in energy and other resources.

Relative price movements saw exposure to senior gold stocks jump to 40%. Though we held our silver and copper stocks, buying more of the former in fact, strong price declines saw that allocation decline, as did energy, despite adding to positions.

Selling to upgrade portfolios

As with gold, we sold little, though took whatever opportunities we could to put some cash in accounts, cash which immediately went out to buy other, stronger companies at compelling prices.

We expect to remain fully invested, but as the quarter develops we expect to add to copper, energy and uranium stocks. This will, of necessity, come at the expense of gold. Decisions will be made on the basis of relative value and potential. We will be looking for opportunities to trim holdings while we can maintain our very high exposure, and also let some laggards go to move into more beaten-up or higher-potential areas.

In sum, we see the possibility of a sharp economic contraction, if only short term. We remain cautious on aggressive buying of the broad market; any buying will be very selective and highly disciplined. We remain patient. The time will come, however, we want to buy great companies selling at great prices, and we have already seen some of that if only for short periods. We are more positive on gold and silver stocks, because of valuations and because they are often the first to recover after a market meltdown. We expect to retain reasonably high cash levels in global accounts, as we wait for opportunities.

Adrian Day, April 5th, 2020