ADRIAN DAY ASSET MANAGEMENT

PORTFOLIO REVIEW

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It was a difficult quarter, with political chaos, covid still a concern—from a new curfew and restrictions in Britain and Spain to the illness of President and Mrs Trump as reminders—an economic recovery in the U.S., one of the strongest quarters ever (though of course following the worst quarter since the Great Depression), but an outlook more uncertain than usual, and with stocks and many other assets very overvalued. For all that, the investment results were acceptable. Though the outlook is not clear, two things are reasonably certain: the environment will remain volatile; and the Federal Reserve will remain extremely loose. This is positive for gold, and the latter supportive of stocks, which remain risky nonetheless. But overall, apart from gold, we are cautious given divergent trends, an unstable environment, the unclear outlook, and high prices driven by excessive speculation and excessive liquidity.

Strong stock rallies around the world

Global stock markets continued their post-March rallies in the third quarter, largely on optimism on economic prospects (until the end of the quarter) and central bank liquidity; they remain down for the year. The U.S. and Chinese markets have been leaders, while other better performers were a relatively disparate group. In Europe, only Sweden and Switzerland among the major markets up on the year. In Asia, the difficult-to-invest-in South Korea and Taiwan markets are in the black year to date, but most other markets around the world are down, and some significantly. Among larger markets, Brazil is still down over 42% (in dollar terms), Mexico 26%, Spain 26% and Singapore 24%. Though a handful of small markets are up, most are down by double digits.

The S&P rallied 8% in the quarter, and world markets (per MSCI World Ex-U.S. Index) nearly 6%, more than the total year-to-date performance. The S&P is still up for the year (5.6%) while world markets are still in the red, by over 7%. Global funds (per Bloomberg Global Equity Funds Index) beat the indices, as usual, up over 8% for the quarter, just 4% for the year to date.

Gold holdings have helped

Our global accounts mostly lagged in the third quarter, but remain ahead for the year to date, with our mid-risk "growth" accounts up 4.7% for the quarter, and 11.6% for the year.* (Numbers for our accounts are preliminary.) The more aggressive accounts have been stronger (8% for the quarter, 15.7% YTD), conservative accounts more modest returns.

Where we outperformed—double the S&P for the year and an 18 percentage point advantage over global markets—has been due largely to our high exposure to gold stocks, and our low exposure to global markets rather than to any more narrow factors.

Resources had a strong, if mixed, quarter

Resources had a strong quarter, up 9%, though still down for the year so far, over 13% (per Bloomberg Commodity Index). As usual, individual commodities were mixed: oil remains down 35% (WTI) despite a feeble rally in the spring and early summer, while gold, despite the recent pullback, is up over 24% for the first three quarter, silver over 30%.

Although gold and silver hit their highs back in early August, and have declined since, they remain among the strongest performers this year. The gold stocks exhibited leverage on the way up, and arguably have not declined as much as one might have thought, given the almost $200 drop in bullion over the past six weeks. The XAU was up 11% for the quarter (35% for the year to date), although there has been quite a bit of volatility recently. Once again, as per recent quarters, the gold funds (per Bloomberg Precious Metals Funds Index) largely lagged the un-investable index, up 9% for the quarter and 30% YTD.

Our resource and gold accounts outperformed. Resource accounts beat the index, though as we have discussed before, any resource or commodity index is an unsuitable comparison. Our accounts were up 10% for the quarter, over 22% for the year so far. The weighting among various resources is responsible for the outperformance, with high exposure to gold and silver, some to copper, and very little to oil.

Gold accounts outperformed in the quarter and the year so far, though less dramatically, up 11.25% for the quarter, almost 33% YTD. This beats the average gold fund for both the quarter the year to date. A few individual stocks were up more than the market, but so too were a handful of individual stocks down significantly in the quarter, though for the most part, the underperformers have given superior returns for the previous periods. We have more exposure to exploration stocks than the index, and these typically provide more varied returns than the index. On balance though, the outperformers were greater than the underperformers.

■ Fast recovery follows plunge

One of the deepest recessions ever (GDP down at a 31.7% rate) may also be the shortest (applying the technical definition of “recession”; we shall know when the National Bureau of Economic Research pontificates in coming weeks). Last quarter may have seen the sharpest recovery since the end of World War II. To state that this past quarter saw sharp economic growth, though accurate, is based on a very narrow view. The economy is still well below levels of the beginning of the year.

Nor should we expect the growth rate to continue. The closed businesses that reopened, even at reduced capacity or output, still saw a huge percentage increase that will not be repeated. One of the shortest recessions, perhaps, but there will be sluggish growth after this initial spurt for some time, while there will also be long-lasting damage to many sectors, as disparate as restaurants and office real estate.

Employment will also suffer lasting damage. The “long-term unemployed” has risen, but most serious in the long term is the sharp drop in the labor participation rate, to just 62%. This is the percentage of

* 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.

people in the 25 to 65 year-old age bracket looking for a job. If you remove yourself from the job pool, you do not count as unemployed. Of this 38%, some are at school; some voluntarily quit work to take care of children and so forth. But how many simply quit looking because they were getting nowhere?

There is pent-up demand in many areas as well, and demand may come back faster than supply. Delayed visits to grandma, inspections of far-flung factories, and more; all will return when feasible. Low rates, a weakening dollar, a low oil price, and abundant liquidity are all positive for demand, but also for supply, and therefore the economy. But if demand comes back sooner and stronger than supply, that could drive up inflation. With a Federal Reserve that perversely wants to increase inflation, and will be in no hurry to suppress it—with its new "average-inflation" targeting policy—inflation could take root. That is not imminent, but when inflation does take hold, it could rise more rapidly than currently imagined.

Is there a risk of inflation ahead?

The Fed remains excessively easy with monetary policy. Rates remain floating just above zero, with no current thought as to when or if to increase them, while Fed credit has resumed its growth. Up 87% in the last year, the growth paused over the last three months, but now, over each of the last several weeks, it has risen again. Because rates are so low, the Fed's rate-setting Open Market Committee now judges that the *downward* risks to employment and inflation have increased. They say they stand ready to use their "full range of tools", Fed-speak for remain easy and experiment with more intervention.

Both so-called Modern Monetary Theory, which posits that the Fed can and should support the government's wildest unfunded spending without economic consequences (summary exposition), and Universal Basic Income, which says that the government should pay everyone a minimum income and which is gaining traction in certain sectors, are both inflationary. Unlike with the massive bailouts after the 2008 credit crisis, with current policies and more so with MMT and UBI, more money goes directly to individuals, and individuals receiving unexpected checks in the mail are more likely to spend them. (Some will pay off debt but few will save or invest.) When we see inflation we should not congratulate the Fed for achieving its perverse goal; rather, we should blame them and Congress for causing it!

Why there was no inflation before

There is no great mystery to inflation. The Econ 101 definition of "too much money chasing too few goods" is clear. To have (consumer) inflation, three things must happen: the government, in the U.S.'s case, the Fed, needs to create more credit and increase the money supply; that credit needs to get to the banks; and the banks need to lend that money, or it otherwise needs to get into the real economy. For the past 12 years, since the credit crisis, the first two conditions have been met, but until very recently, the money was not getting into the real economy.

That is now changing (and implementation of full-on MMT and any form of UBI will exacerbate it). Recall, as Milton Friedman reminded us, there is a lag between money creation and consumer inflation, usually nine to 12 months, but with the economy shut down, in whole or in part, money velocity has collapsed and this lag is being stretched.

This is not to say that there are not deflationary trends in the economy. The shutdowns have hurt household finances and it will take time for them to repair. The trade dispute with China, and any trade dispute, is deflationary. It is possible that supply—commodity production, businesses reopening and so on—may come back faster than demand. All this, however, points to a delay in inflation; the seeds have been sown, and the Fed is watering them.

On balance, we expect aggregate economic growth to continue, though with large pockets of weakness and even deterioration. Growth will be uneven and it will be some time because GDP is back at at pre-covid shutdown levels.

Global growth recovers but concerns continue

Growth around the world has also been relatively strong in the third quarter, following opening of economies. Low rates, dollar and energy prices are all positive for global growth, but concerns about covid lingering, or even resurging, are holding it back.

In Europe, growth has been very uneven, with half of the recent gain across the continent due to Germany, while Austria and Ireland have slipped into contraction, as have the usual suspects. Several countries have seen an increase in covid cases, causing not only general concern but also in many countries, measures which restrict economic activity. If the cases continue to increase in Europe, we can be sure that the monetary response will be further stimulus.

China bucking the trend

China's economy, first out of covid, is gaining steam, even as the rest of the world demonstrates an uncertain recovery. China also had no large, broad-based QE. Now, Chinese interest rates are above those in the U.S., leading to capital inflows. Inflation is down. Forward-looking economic reports, such as business confidence surveys, are positive, though ahead of actual activity, which remains well below levels of a year ago. China's economic recovery now appears self-sustaining, not dependent on central bank stimulus.

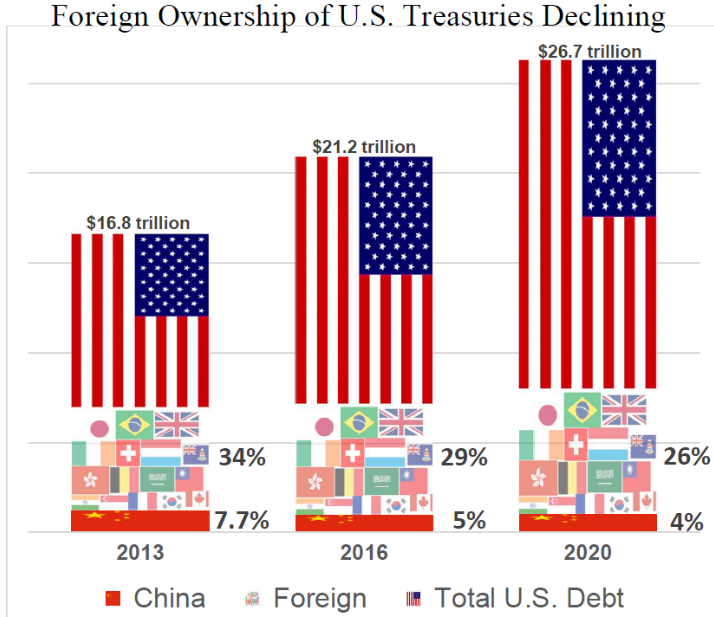
So things appear reasonably positive for China's economy, though increased tension with the U.S. on a range of issues from technology to Hong Kong, and disputes with many other countries from Australia to India, in many cases unnecessary, will be a drag on recovery.

The dollar is vulnerable

It is not only against the Chinese yuan that the dollar has lost its competitive advantage. The spread against German bunds has collapsed, and the dollar is no longer viewed as "high yield" against most major currencies. In addition, with an increasing war of words, China is slowing moving away from the dollar. This is clearly a negative for the dollar, as well as positive for gold even if the country does not increase its gold holdings.

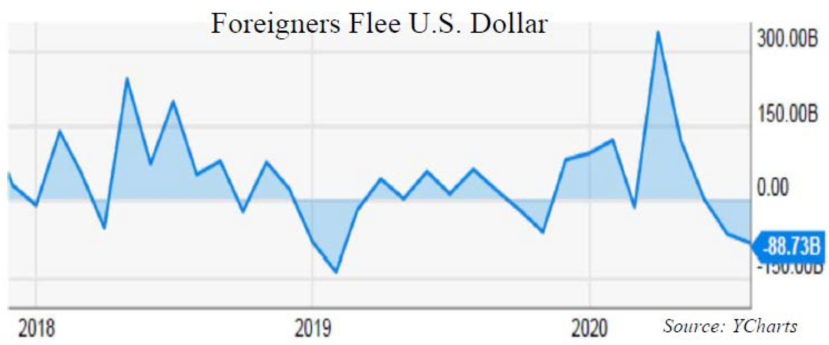
Given both declines in China's holdings and the huge increase in issuance over the past decade, China's holdings now represent about 4% of the total U.S bond market, barely one half the percentage a decade ago. Though significant, it is no longer of a size that China needs to be afraid of selling. It is also no longer the largest foreign holding of Treasuries. That dubious honour goes to Japan, who holds $1.26 trillion to China's $1.074 trillion.

Foreign Ownership of U.S. Treasuries Declining



Source: various, including U.S. Treasury

It is not only China, but foreign holdings of dollars have declined across the board since March, quite sharply after a spike early in the year. How much of this will return after economies return to "normal" is difficult to say, but it is unlikely—given U.S. political chaos and increasing wariness around the world—that it all will.



The dollar has seen a rally, and this may continue for the near term, given the overwhelmingly lopsided speculative interest against the dollar. That's the way markets work. I don't expect it to last long nor to see the dollar back at annual highs. Rather, I expect the dollar to continue to lose value, particularly against *assets* if not so much against other currencies.

A declining dollar is not necessarily negative for U.S. stocks—it makes them cheaper for foreign buyers—but is assuredly positive for gold.

■ Stock rally runs out of steam

Following a strong and reasonably steady increase since the March drop, stocks in the U.S. and much of the world declined in September in volatile action. The U.S. moved far ahead of world markets and spiked at the end of August, but then fell more, whereas world markets for the most had minor pullbacks. The tech-heavy Nasdaq moved far ahead of other markets, but also declined more; up 75% from the March lows, it fell 10% in three trading days, the fastest-ever correction. It remains far and away the leading exchange this year (up over 23%).

In the U.S., markets had become quite overheated, and investors were concerned at the lack of *fiscal* stimulus (government spending, as opposed to monetary stimulus), as well as the increases in covid cases being reported both in the U.S. and elsewhere and associated economic restrictions. In particular, risk assets fell sharply (vide the Nasdaq), while the dollar rallied, but both stock declines and dollar strength are temporary. We certainly have confidence in Republicans and Democrats to eventually come together and agree to spend more, if nothing else, and we have equal confidence in the willingness of central banks to increase money supplies and depreciate currencies.

Though on the surface, the broad U.S. market has recovered from the March sell-off, it has been a very diverse market. About half the S&P 500 components are down for the year. Many of the leaders, including the so-called FAANG stock as well as the "stay-at-home" stocks such as Etsy, have sky-high multiples (Etsy 107 x earnings, Netflix 80 times and so on). But that does not mean that without these high-flyers, the market is inexpensive. The price-to-earnings multiple of the S&P minus the FAANG stocks, stands at 17, not extreme especially in a low-interest rate environment, but still above historical norms.

■ Many reasons for pessimism

Despite most of the market not being at extremes and notwithstanding the pullbacks we have already seen, the market remains vulnerable to a sharper correction. What we have experienced so far, is the market simply working off a previous surge. There are known risks—the chaotic political situation (with the President's covid diagnosis adding another element), the threat of post-election violence, concern about a covid resurgence, deadlock in Congress, and the loss of momentum in the economic recovery (and corporate earnings), all offset by continued Fed easy policy. So we expect continued volatility. Excess liquidity by definition is liquidity in excess of the needs of the economy, and it must go somewhere. For the past six months and more, it has been flowing mostly into equities. There could well be pullbacks in the market and in individual sectors of some severity, but we are not expecting the bull market to end. Usually, asset bubbles are pricked by tightening, and that is not on the cards for the foreseeable future.

There are also market dynamics that should give pause for concern, in addition to the extreme bad breadth in the market. Margin levels are near highs, as is insider selling, while short selling is at a 15-year low. In addition, there is extreme speculation in the purchase of call options, with smaller trades dominating, and 75% of the volume now on calls with less than two weeks before expiry. Buying a call with less than two weeks, unless you *know* something, is rank guesswork.

■ Will the election change markets?

A Biden presidency, should that transpire—particularly if accompanied by a sweep of Congress—would threaten higher taxes, more regulation, and massive government spending (not that the current administration or Senate are paragons of fiscal rectitude), increasing the odds of a weakening dollar and higher inflation.

But the election result may not make much of a difference to the stock market over the next 12 months or so either way—the Fed will continue its loose policy, which has been the primary pillar of support for the market over the past 10 years—though the sectors that would out- and underperform would change. Should Biden gain the presidency, resource companies, for example, with projects in the U.S. will have a more difficult time getting permits (just as Trump eased the process), particularly for certain energy projects. Overall, the next 12 months is likely to be difficult and volatile; it usually is in the first year of a new presidential term, Republican or Democrat.

With large cap growth is in a bubble, the spread between value and growth has widened dramatically in the last several years and today is an historical anomaly. We could well see rotation out of the rapid growth stories trading at high multiples, often based on possible profits well into the future, into more staid cyclicals and value stocks. But if the market leaders sell of significantly, then the entire market will likely decline, some sectors simply holding up better than others.

As always, our role is not to predict future prices, but to look at risk and reward, and assess the odds. On that basis, we remain cautious on the broad U.S. equity market.

■ World markets lagging, and less expensive

Markets outside the U.S., as mentioned, remain negative for the year, with the post-March recovery lagging the U.S. even though the recent correction has been more mild. Valuations for the most part are also more reasonable. Nearly everywhere—in Europe, in Japan, and in smaller markets—stocks are less expensive that in the U.S.

European stocks have declined sharply as concern rises about a second wave of covid cases, and with it possible shutdowns across the economy. British stocks too have declined.

Despite lower prices, given the possibility of a resurgence in covid and with that renewed restrictions on economic activity, given the uncertainty around the U.S. election, and risk in some markets not apparent in the U.S. (such as the looming Brexit deadline for Britain), we are in no rush to be aggressive, particularly given valuations, that while better than in the U.S. are hardly at bargain levels.

For Japanese stocks, for example, which Warren Buffet recently bought, some metrics represent reasonable value but others distinctly do not. The forward p/e (per Nikkei 225) is estimated at over 23 times, and that's on optimistic growth expectations. The government is making efforts to reduce regulation and liberalize the market, but old habits are well entrenched. The market has already risen 30% since March in yen terms, and the dominant buyer of Japanese stocks over the past few years has been the Bank of Japan itself, through ETFs. So one could present an argument for Japanese stocks over the long term, as foreign buyers return based on market liberalization, it is not compelling in the short term.

Overall, we are continuing to search global markets for quality at a good price, and occasionally buying, but we are in no rush for broad aggressive purchases, and keeping much powder dry in global accounts.

■ Resources are very undervalued

Resources generally have declined this year and are at their lowest levels ever relative to the S&P. That is true even if one reduces the weighting for oil, which has been particularly weak and represents a large weighting in most commodity indices. Renowned commodity analysts Goehring & Rozencwajg say the sector is as "radically undervalued" as it has ever been. Interest in the sector is at extreme lows, with resources representing only about 2.5% of the S&P, while Exxon was recently ignominiously expelled from the Dow Industrials.

In fact, the sector bottomed at the beginning of 2016 and had increased steadily—oil got as high as $70 in late 2018—until March when the shutdowns of economies in North America and Europe slashed demand.

As discussed, there has been, as always, divergence among various resources this year, but broadly, following a recovery based on lower supply given various covid-related mine suspensions, base metal prices have fallen on concerns about new covid cases and therefore a slower recovery just as mines are reopening and ramping up output.

On the other hand, we think the market is not paying sufficient attention to the resumption of growth in China, focusing instead on the political issues. Inventories generally are low—though copper's London inventories have increased recently—so any further mine suspensions or pick-up in economic growth, would see higher prices. It's a mixed picture and one with many conflicting influences in coming months.

We continue to be cautious on oil and all the more so given the possibility of a Biden clampdown on fracking, pipelines and other infrastructure, and favorably inclined towards copper and nickel, based on future shortages in mine supply, especially if electric cars gain growing acceptance.

■ Gold: A minor correction met with new buyers

As with the broad stock market, gold has been working off the previous surge, digesting gains with weak hands selling, while new buyers wait for the correction to end. Interestingly, over the past couple of weeks, gold has been inching up, with each sharp drop in one market—Asia, Europe or North America—followed by a sharp rally in another. Technically, the correction does not appear over; the strongest support would be in the low to mid-$1,700s, but there does appear strong buying support on the sidelines for each decline. Investors generally, despite the massive inflows into bullion ETFs we have seen this year, remain very underweight gold. So-called family investment offices for example have less than 1% of assets in precious metals, that less than in REITs or agriculture, for example. There is a lot of room for new buyers. Gold ETFs saw their largest single-day inflows this year on September 21st, after the first break of support, again suggesting buyers on the sidelines.

The recent pullback—$200 from top to bottom (so far), just under 10%—is normal market action. Gold bull markets from 1976 to 1980, or 2002 to 2008, or 2009 to 2011 each saw similar pullbacks along the way. Given the extreme rally from mid-July, well above trend, a significant correction was not unexpected. (It eventually came later than I thought.) Gold is now the most oversold, on a relative strength basis, since the beginning of 2019.

Central banks are supporting gold

The fundamentals for gold remain positive, again primarily loose monetary policy from the Fed and central banks around the world. The Bank of England is openly raising the possibility of negative rates, while the European Central Bank is looking at a new stimulus package in response to new covid cases in parts of Europe, and the Bank of Canada is clear that it will not end stimulus any time soon.

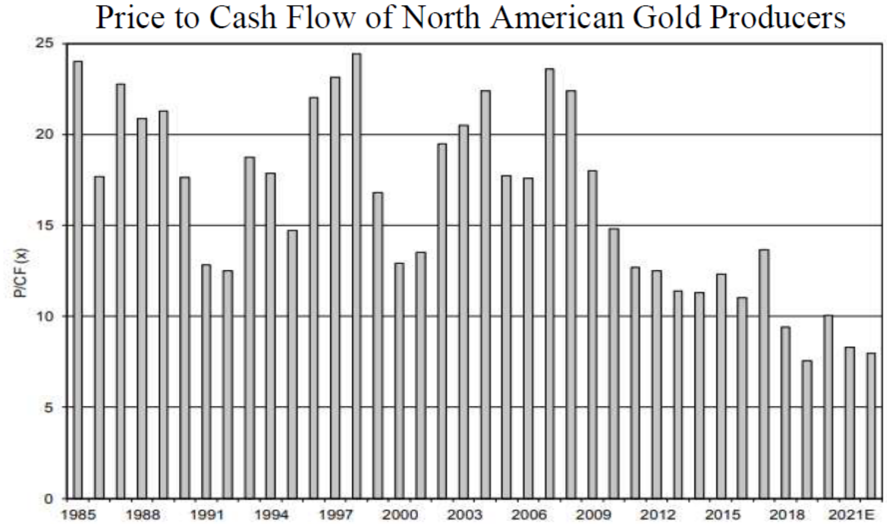
Following the Fed's forecast that real rates in the U.S. will go from a negative 1.1% to a negative 1.9% in 2023, analyst David Rosenberg commented, "if that isn't an advertisement to buy gold, I don't know what is."

Gold stocks hold up, remain undervalued

The gold stocks, generally, fell less than one might have expected on a 10% decline in bullion, and again, significant drops in particular stocks were often met very soon with renewed buying. For the most part, there has been little follow through on the downside. Of course, were gold to fall another $100+, then we should expect the stocks to fall considerably, but I do not think investors who are underweight gold stocks should wait for that.

The major and intermediate miners in North America, are trading at historically low valuations—the price-to-cash flow multiple for the sector, other than the last quarter of 2018, has never been lower. With gold at $1,900, and the sector in a far better shape than at the highs in 2011—better capital discipline, lower costs and higher margins, better balance sheets, and fewer forward sales—there is no logic in that.

Price to Cash Flow of North American Gold Producers



Source: company reports, Scotiabank GBM Estimates

In dedicated gold accounts, we are fully invested, while global accounts have a full allocation to gold stocks. We continue to undertake some trimming or outright selling of stocks that are ahead of themselves, or have more risk, to raise funds to buy individual stocks that drop significantly for what we see as temporary reasons, often market related rather than related to the business itself (a large equity raise or a warrant issue due to expire). We expect to remain fully invested for the period ahead.

In sum, we are cautious on global equity markets, notwithstanding the massive doses of liquidity that are driving the markets. Valuations for the most part are not compelling and there is no shortage of factors that could see the market drop, some partly discounted, some not (in our view). We remain positive on gold however and are fully allocated across accounts.

Review of Individual Accounts

Global accounts

There were relatively few changes in accounts over the third quarter, with exposure to the broad equity market remaining static and low, while also trimming exposure to Business Development Companies.

Cash fell from 12% to 7%, with most of our buying being recent purchases of volatility ETFs. Looking a month and two ahead—that is, over the election and its aftermath—there is a premium on volatility, both in the futures and options markets. But that is not the case in the cash market, so we can buy the ETFs or sell near-term puts without paying that premium.

We do not know what will transpire in the aftermath of the election, but the volatility ETF is a hedge on a market correction for which we are not paying much.

This is not a long-term position, so we would expect our cash holdings to increase again this coming quarter, absent a sharp market sell-off which would see us buyers again.

Selling is mostly over

We trimmed holdings in BDCs again, after adding aggressively to holdings in the immediate aftermath of the March market drop. We still hold about 6% of accounts in this sector, more in conservative accounts, maintaining positions in those with well-covered dividends and deemed less vulnerable. Absent a change in the economic environment, we are not expecting a further reduction in this sector.

There was little other selling, apart from trimming a few positions for specific clients. We bought little in the broad markets, adding to a couple of China-related and Singapore stocks that remain good value, plus a couple of special situations.

Looking ahead, we expect to increase cash as we exit or reduce our market hedges post-election, but are not expecting meaningful additional selling in the broad market, whether in the U.S. or globally. Nor are we expecting meaningful buying, absent significant declines in markets that bring stocks back to good levels. We continue to look for good opportunities, however, and expect to do some buying in specific markets that are undervalued or special situations. And we expect to continue to hold our gold stocks, as the sector that represents the best risk-reward right now.

Gold Accounts

We remain fully invested in gold accounts, with just 2.7% in cash, and while allocations among sectors changed, it was largely the result of market changes rather than any major management decisions. Certainly, we undertook little wholesale selling.

However, the allocation to majors, including both the big-cap miners and large royalty companies, fell meaningfully from around 30% at the beginning of the quarter to just under a quarter at the end, despite increasing, marginally, dollars invested. This was largely due to declines in stock prices of a couple of the largest gold royalty companies, which we continue to hold, however, as low-risk foundations to gold portfolios.

Offsetting that, allocation to both the second-tier companies as well as the exploration and junior stocks increased (the latter now 40% of portfolios), the result of both additional buying and relative price changes.

Some opportunistic buying and selling

As always, we did some trimming of various stocks and added to existing positions which were particularly inexpensive or fell for what we take to be temporary reasons. These were as often as not market rather than business reasons, such as a large equity raise or a secondary offering becoming free trading.

There has been a mass of secondary offerings as companies have rushed to take advantage of higher prices and greater interest, but this of course has increased the overall supply of gold equities and is partly responsible for the recent declines in stock prices among the junior stocks. As often as not, if an investor buys a secondary issue ("private placement"), he raises the necessary cash by selling something else.

We have been buyers of new royalty companies

In general, though, we did little in the way of broad or aggressive selling. Other than adding to existing favorites, however, we were buyers of some new junior royalty companies that have come to market in recent months.

In most cases, we know the managements well and are confident in their abilities to build their businesses, leading to higher multiples as they expand and diversify their revenue streams.

At the same time, we have been cutting back on oversized positions in some of our long-term favorite senior royalties. We are not exiting these companies, seeing them as low-risk foundations for gold portfolios. But there are fewer deals as the higher gold price makes alternate sources of capital, such as equity raises, relatively more attractive, while the expectation of large deals with base metal companies has faded due to higher copper prices. Lastly, valuations, always high, have moved to the high end of the historical range.

Looking ahead, we remain fundamentally very bullish on gold and with it the gold equities, so we expect to remain fully invested in the sector. As always, we will trade gold accounts a little more than global accounts, though often this is simply cutting positions on stocks that move ahead and adding to stocks that drop. Given the volatility inherent in this sector, it is good to lock in some profits occasionally. We are not, however, expecting any broad changes in the quarter ahead.

■ Resource accounts

Exposure to different resources remains much the same as at the end of last quarter, though that belies not-a-little activity. We entered the quarter with cash of almost 5% and ended with less than half a percent, but that is also a little misleading. At the beginning of the quarter we had several new accounts that were not yet fully invested, while we ended with large holdings in gold and silver bullion ETFs as cash substitutes for some accounts. For most clients, we remain nearly fully invested.

Senior and intermediate gold miners and royalty companies remain by far our largest weighting, though allocation dropped a little, to 37% of accounts for reasons discuss above. Silver stocks remain our second largest sector, at 11%, up a tad, followed by copper, with diversified companies, uranium and energy far behind.

We are not holders of the large global diversified producers, which, in my mind, are not inexpensive, and have unfavorable production weightings.

New buys

This past quarter, we bought a large nickel company, liking the outlook for this resource as electric vehicles increase their market share, and also the valuation of this producer. We also added to our low oil and gas holdings, including one large, high-quality E&P company, though it would appear prematurely; we continue to be cautious of oil and gas.

Looking ahead, I expect to remain fully invested with gold and silver remaining our highest allocations. We will continue to build positions in copper and nickel, with other resources continuing to be small positions. So long as the global economic outlook remains uncertain and central banks continue to pursue an excessively easy policy, gold will remain our largest weighting.

In sum, we think that the global economy could continue to recover but at a far slower pace than it did in the quarter just ended. The broad market continues to be overvalued and vulnerable, so, notwithstanding ongoing monetary stimulus which supports equity prices, we remain cautious, though always looking for good values in markets that have declined, or special situations. But absent a broad and sharp decline in markets, we do not expect to significantly increase our exposure to global equities in coming months. We are unlikely, on the other hand, to see any significant decline in equity exposure from current low levels, though there may well be some specific sells offset by some buying elsewhere. We expect to continue to be fully exposed to gold, representing the asset with the best risk-reward profile right now.

Adrian Day, October 3rd, 2020