Adrian Day
ADRIAN DAY ASSET MANAGEMENT

PORTFOLIO REVIEW

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It is an upside-down world, where the government pays people not to work; borrowers guarantee to return less than you lent; and the wildest speculations shoot to the moon. All this is enabled, of course, by extreme monetary ease which has continued so long now that the authorities are finding it difficult—nay, almost impossible—to pull back. The broad market, trading at valuations by some measures last seen just before the 1929 crash, is fed by excess credit creation, and we see no sign of meaningful tightening any time soon. This does not mean there cannot be significant market corrections along the way, nor sharp declines in specific securities or sectors. Indeed, the warning signs are flashing brighter and more often, as we discuss below.

■ Markets drinking from Fed's punch bowl

Most markets and sectors continued to move up in the second quarter, the most notable exception being gold. Global stock markets were up, most by double digits for the year to date. For the last quarter, the U.S. market rose over 8% (per S&P) while global markets ex-U.S. were up a little under 5%. Japan and Hong Kong both declined in the last quarter, alone among major markets.

Our global accounts had mixed returns, with conservative accounts up a respectable 6.6%, aggressive accounts up 5.6% but mid-risk growth accounts up just 3.6%*. Conservative accounts have a higher exposure to the better-performing U.S. markets, to U.S. income stocks in particular. All accounts have a high weighting to gold, more so in more aggressive accounts, and gold and gold equities lagged this past quarter.

■ Gold lagged other commodities

Though gold was a laggard, up just over 2% this past quarter, with the gold stocks (basis HUI) up just over 1%, other commodities had strong returns. The complex (basis Bloomberg Commodity Index) rose over 13%, lead by natural gas (up over 80% on the ICE) and oil (up almost 20% for WTI), as well as many agriculture commodities. Different commodity indices, with lower weighting to agriculturals, had more moderated returns. The CRB raw industrials index was up a little over 7%. Although every major commodity was up, the stocks of producers did not necessarily do as well.

Our resource accounts lagged, with gold accounts up just under 1% and broader resource accounts up 6.6%. In the resource accounts, we were underweight both oil and agriculture, while in our gold accounts, the high exposure to exploration hurt as this sector finally fell after holding up for most of the past six months, and we lacked any standout performer this quarter.

In general, there may be significant risks in the broad market, but if they are unrealized, then the market will outperform a more prudent approach that attempts to minimize the risk. Just because a bad incident has not occurred, does not mean that there was not—nor is not—the risk of it happening. The cautious Dutch investors of the late 1630s did indeed underperform his more adventurous friends until the Tulip Mania ended dramatically. As one of the best value investors of the last half century put it, musing on lagging during speculative periods such as the dot-com bubble, "sometimes, you have a bad decade."

That long-term, risk-averse approach does not sit well in today's 280-character message world. Looking ahead, we believe we are positioned to avoid most of the risk in the broad stock market, while our gold accounts, holding the better-quality major producers and royalty companies as well as high-potential juniors, stand to respond to higher gold prices.

■ Just how transitory will inflation be?

The major shift in the economy over the last quarter has been the growing awareness of inflation, and the Federal Reserve's reaction to it. The inflation itself is not new; the Consumer Price Index numbers had been inching up for many months prior to April and May's big numbers. Initially, Federal Reserve spokesmen, as well as the administration, dismissed this as "transitory", all the result of the "base effect" of last April's low number, as well as the bottlenecks in reopening the economy. (Interestingly, administration apologists somehow thought the base effect applied only to inflation and not to the economic growth or employment numbers, which apparently were the result of the "Biden Economic Plan".) Though both arguments have some theoretical validity, when the May number came out, the tune was changed and FedHead Jerome Powell and others had to admit that inflation looked as though it would be stronger and more persistent than they previously believed.

At the same time, in mid-June, the Fed indicated that it might raise rates in 2023, and the markets reacted strongly to this hint, with the dollar up, stocks and particularly gold down. In my view, the market erred sorely, focusing on only one aspect of the Fed's comments. To me, given the strength in the economy, the takeaway should have been: "Fed won't raise rates for next two and a half years." Same thing, just presented a different way and the market reaction would have been different.

However, after the stock market fell 3% following the fed's comments on raising rates, Fed spokesmen began to walk them back, soothing the market. It is clear that the Fed will be very much behind in fighting inflation, afraid of spooking the market. The odds of any significant tightening in the near term are vanishingly small.

■ How did we get here?

The Fed is in a dilemma of its own creation. It made monetary policy too loose and kept it so for too long, and has repeatedly demonstrated an unwillingness to fight the market, even before 2008. The longer this goes on, the more difficult it will be when they eventually must tighten or allow inflation to run away. So they have to downplay inflation and say that they want it to run a little hot for a while to average out the years of low inflation. That is playing with fire indeed.

Inflation, we know, is a monetary phenomenon and there has been no shortage of excess liquidity. As prices continue to move up, consumers' and businesses' inflation expectations increase, and buying is brought forward, thus reinforcing the rise in price.

* 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.

■ This is why the printing presses are running overtime

This Fed of course has a partner in crime in an administration with the most profligate spending plans in history. Recent administrations and congresses have hardly been paragons of fiscal rectitude, but this one exceeds them all with its unfunded spending plans. The Fed, too weak and too slow to say "no", now accommodates any and all spending with more "money" creation.

Though the Fed has recently cut back on some of its more perverse program instituted a year ago—what business had the Fed buying bonds of Berkshire Hathaway, anyway?—and we suspect we may see some curtailment of other aggressive bond buying, such as mortgage-backed securities—does the Fed really need to be juicing the overheated housing market?—we will likely see only modest easing of overall balance sheet increases and no increase in interest rates at least for the next year or two.

Fed says it can control inflation though it has nothing to do with creating it

The Cleveland Federal Reserve has wasted public money creating a series of three unbelievable inane cartoon videos with Lego-like people and Dumbo music explaining inflation. They manage to get through the first, "What is Inflation?", without once mentioning money printing, or the Fed's role. In fact, the only time the Fed is mentioned is when the video mentions the danger of runaway inflation, which "some countries have (and) is bad". "Enter the Federal Reserve" which will stop it happening here. *Who are these videos made for?* No self-respecting child would watch it (but rather throw it out of the crib along with Meghan Markle's preachy bench story). And anyone who knows anything about economics will learn nothing except the Fed's blindness to its own role.

It is worth noting that the three-month increase in Fed credit exceeds the prior three and six-month rates, meaning the rate of credit creation is increasing even as the economy recovers. The Fed's balance sheet exceeded $8 trillion, for the first time, in mid June, up from less than $1 trillion prior to the 2008 credit crisis. The money creation, it is plain to see, is not to boost the economy but to accommodate the government's wild spending, the very definition of so-called Modern Monetary Theory.

The economy has been strong on the reopening after covid restrictions, and this is one reason the Fed and others are suggesting that inflation will be only "transitory", even if the definition of "transitory" has stretched a little in recent weeks. In truth, though the manufacturing sector has bounced back, the depressed service sector has still not recovered to pre-covid levels. One reason is the difficulty of finding workers to fill slots in the service sector, with about nine million job openings currently advertised.

We all know the reasons. If the government pays people not to work, most will not work. Not only are people laid off during covid-shutdowns slow to return to work, but a record of almost 4 million people quit jobs in April. They think they are better off sitting at home. Consumer confidence indicators are up strongly, though this may change when the covid relief payments expire. This will be followed by expanded childcare credits equivalent to over 75% of unemployment benefits.

■ Inflation no problem as economy slows?

The bond market's reaction to all this has been interesting. Initially, bonds fell (yields rose) after the Fed's comments mid June, in line with other markets, then quickly yields fell back. Interestingly, however, yields at the short end have increased even as longer term yields have declined. So the yield curve has flattened, though not by the Fed's actions. The bond market, in effect, is saying that not only is inflation not a significant longer-term problem, but that the economy could be slowing ahead. We can

expect the red-hot "reopening" numbers to moderate, but the bond market seems to be suggesting more. A quite likely outcome is the dreaded worst-of-both worlds stagflation, such as we saw in the 1970s.

To me, the key part of Powell's comments was when he said that "we are in uncharted waters and we have no models to predict outcomes." I translate this as "we are in a mess of our own making, and we have not the foggiest idea what to do."

Global economies recovery with lower inflation

Economies around the world are bouncing back after the covid-restrictions ease, though Europe's recovery is a little less vibrant than elsewhere. Nonetheless, we see business confidence increase in Germany and France, and many indicators, again particularly in manufacturing, moving up, often above estimates, though still at low levels.

China's economy has been the stand-out performer, with its GDP up over 18% in the 12 months ending March 31st. Ironically, much of this has been due to the U.S. government handouts, allowing American workers to sit at home and buy Chinese-made trinkets online. No doubt, the pace of the rebound will have slowed when the next quarter's GDP numbers are published, but they will likely remain higher than most of the world.

Inflation is more subdued in many countries outside the U.S., with Japan in deflation again, and China barely above zero, though China's inflation rate has been heading down over the past few years. In the Eurozone, however, headline CPI has been running at a 5% annualized rate, so competing with the U.S., though the European Central Bank continues to be excessively dovish in its comments as well as its actions.

Several banks already raising rates

Unlike the Federal Reserve, many banks around the world are tightening. Several smaller countries have raised rates, including Mexico, Brazil, the Czech Republic and Hungary, while Norway and Korea have laid plans for higher rates in coming months. China has also been tightening, particularly putting the brakes on credit growth, concerned with private debt levels. The rate of increase in the money supply has been falling significantly, starting as far back as the middle of last year.

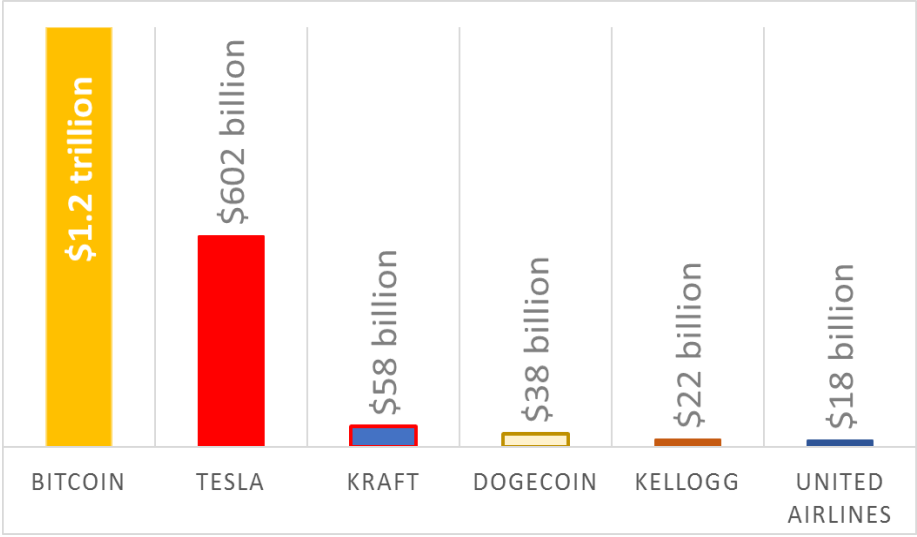
The result is a decline in business investment, which is negative for commodities. These moves are all part of a major shift in emphasis under President Xi from economic growth to stability.

The debate on the ongoing need for easy money, especially in a period of rising inflation, is playing out in the U.K. with the Bank of England officially warning against tightening too soon so as not to harm economic recovery, while the Bank's departing long-time chief economist Andy Haldane warned against complacency over inflation and said there had developed "a dependency culture around cheap money." How true, and like any dependency, the longer the delay in fighting it, the more difficult it eventually becomes.

Despite the softness in China's manufacturing, the strong appetite for goods in the U.S. saw the U.S. trade deficit rise again, just shy of another record high. This is another negative factor for the dollar. But U.S. Treasuries have the highest yield of any major economy's bonds and with the Fed at least talking about future hikes while most other major economies are not slows any decline in the dollar, even as buying of dollar assets by foreign central banks continues to fall. We are very bearish long term, but the decline may be tempered by rate differentials for the time being.

Stocks: Are we in a bubble?

As U.S. stocks move to new high after new high, they are fully discounting and recovery from the covid-shutdowns. Valuations have moved to at least one standard deviation above long-term averages, and by some metrics are at highs not seen since the eve of the great crash in 1929. Global markets, which have lagged the U.S. for some years now, are not at such extreme valuations, but are close to valuations last seen at the height (depth?) of the dot-com mania.



These valuations have led to discussion as to whether the markets, particularly in the U.S., are in a bubble. Former FedHead Alan Greenspan famously said that one does not know a market was in a bubble until after it has burst. I do not agree. Like Supreme Court Justice Potter Stewart's comment on pornography, you know it when you see it. Although there is no precise definition of a bubble, there certainly are common criteria.

- Excessive money creation. Tick.
- Extreme valuations. Tick.

  Sometimes it can be useful to compare one value against another. 1n 1637, a single tulip bulb cost more than a house in town. Extreme? Yes. A bubble indeed. Today, the market value of Bitcoin is more than that of every single public company in Switzerland, which include such valuable entities as Nestle and Novartis. Rational? Tesla's market value exceeded that of the next 14 largest car companies in the world (most of which are also working on electric vehicles that do not self-combust). Does that make sense?
- Sharp, often exponential moves in a short period of time. Tick.

  TSLA—again—moved from a split-adjusted $80 a year at the beginning of last year to almost $900 by year end. Or look at Gamestop and AMC.
- Signs of exuberance, both internal to the market and external. Tick.

  These include the use of leverage (40% of all investors say that they have borrowed money, including use of margin, to invest; among so-called GenZ people that figure is an astonishing 80%); lopsided sentiment (the AAII counts fewer than 20% of investors as bearish, an extreme number); and high stock turnover (as in 1637 Amsterdam, when tulip bulbs were bought and sold as many as eight times a day, U.S. trading volume is running 25% above its norm).
- Anecdotal evidence. Tick.

  When, like Joseph Kennedy's famous shoe-shine boy, the barista or uber driver is handing out stock tips, that's a warning sign. People quit jobs because "it's so easy", and dinner party discussion revolves around certain investments, that's a danger sign. We saw this in 2000 during the dot-com mania, and again in 2006-2007 ahead of the housing crash, and we are seeing it again.

There are parts of the market that tick every box. There is always a good story as to why certain prices are justified. This was true for Dutch tulip bulbs—so rare, so beautiful, with growing demand around the world—and true for Japanese stocks at the end of the 1980s when Japanese management techniques were considered the way of the future and the Japanese were buying up golf courses across America! So too today is there a story with Tesla and a story with Bitcoin.

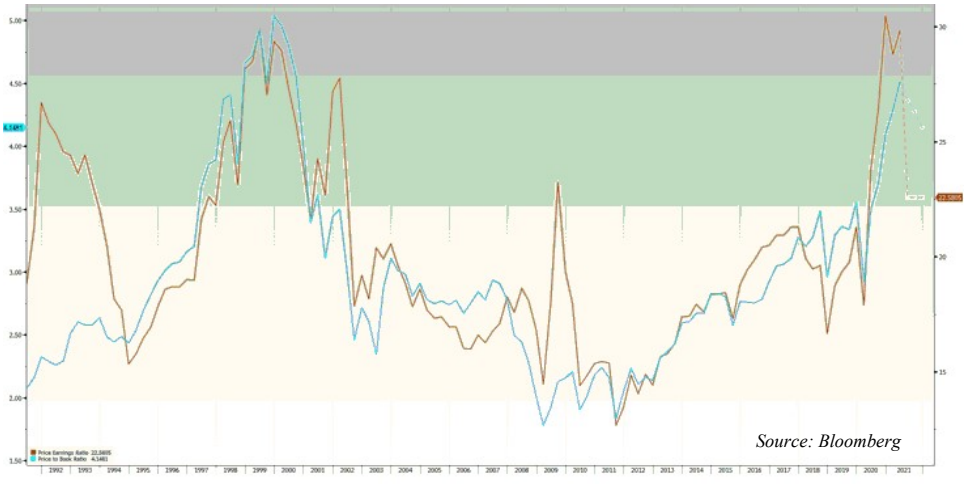
Bubbles bring with them a perverse view of value. A president of a regional Federal Reserve Bank (Esther George) was quoted as calling German 10-year yields of negative 0.12% "lofty". Only one who has drunk the Kool-Aid of negative yields could possibly use that word to describe Germany's current bond yields.

One thing to note about bubbles is that after the short, sharp rally, prices invariably return to the point of take-off, though the decline may take longer, giving investors repeated hopes of a return to highs. In a bubble, most investors lose money. Within a few years, tulip bulbs were priced exactly where they were a year or so before the bubble. The Japanese stock market by the mid-1990s was back where it started, and even today—more than 30 years later—the market is still significantly below where it was at the height of the mania.

■ Overvalued and risky, but not a bubble

Is the U.S. stock market a bubble? I do not think the entire market is a bubble. Dispersion in the S&P is very high, with wide divergence in valuations. So saying the entire U.S. market is not a bubble does not mean that there will not be corrections, and certainly does not mean that some sectors or individual stocks cannot fall sharply. It does not mean that some sectors are not bubbles.

U.S. Market Valuations at Highs



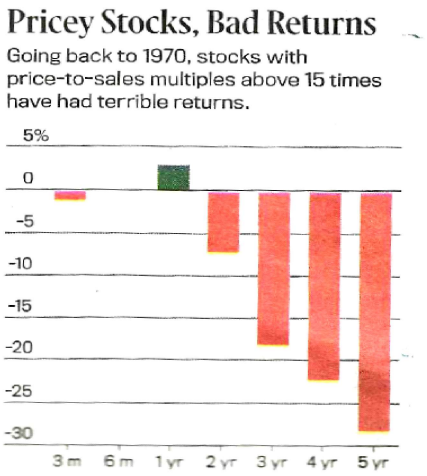
Valuation alone does not tell you when market will turn. But valuation does tell you two very important things: the risk in market, as well as the expected returns. The loftier the valuations, the more markets or sectors can fall. And starting from higher valuations indicates lower returns over multiple years. An expensive market can continue to be expensive for a long time, particularly when the central banks are creating abundant excess liquidity. But the higher markets go, the greater the risk. Normally, markets turn when liquidity dries up, and there is no indication that that is imminent. But an individual stock, sector or market can top and reverse, normally because that particular story runs out of new buyers.

■ Global markets also are overvalued

If the U.S. market continues to respond to easy money and optimism on the economy reopening, so too do global markets. For the most part, they too have discounted recovery and are certainly not good value, even if they are not as overvalued as the U.S. We see reasonable values in the U.K. market,

whose economy has struggled with reopening and where the stock valuations still carry a Brexit discount. We also find some values in the larger markets of Asia, as well as recovery plays in Europe.

In most cases, we emphasize stocks with good dividends. Global dividends are expected to increase over the balance of this year, by 12% according to Jefferies Financial; U.S. yields, already low, will increase only 3%, while in Europe and emerging markets, they are expected to increase by over 20%. "Topping the list" in Jefferies' study is Taiwan Semiconductor, yielding 1.6%. I think we can do better than that, recognizing of course that higher yields often carry higher risks.



We are also looking opportunistically at markets, sectors or individual stocks that experience sharp declines for what we feel are misunderstood or temporary reasons. By their nature, these opportunities come and go and there are no grand themes, but as examples, buying British stocks after the referendum to leave the E.U., or solid businesses particularly hurt by economic lockdown after their inevitable weak earnings reports have proven good bets. Recently, some large-cap names were slammed by margin liquidation from an overleveraged fund. By their nature, we do not know where the next such opportunities will be found, but we are continually on the lookout.

■ Commodities telling different stories

Most commodities are up for the quarter, with the broad indices up over 10%. There was some divergence in performance of individual commodities, with oil and natural gas leading the pack. Others, including many of the base metals, notably copper, have declined in the last two months, though remain up for the quarter and year.

■ Oil supply lagging jump in demand

Oil prices have moved dramatically this year, up over 50%, crossing the $75/bbl hurdle at quarter end. This follows very weak performance last year. OPEC and particularly Saudi Arabia held the line on production in the face of lower prices, setting up the recovery as demand came back from the economic restrictions of last year. U.S. producers have been slower to boost drilling than other parts of the world, primarily because of new restrictions from the Biden administration. From a net exporter, the U.S. has once again become an importer of oil.

Natural gas prices have been even stronger, as demand has stepped up in the face of the heat wave across the western United States.

The energy stocks have continued to move up, though many of the major integrated companies have only held steady. The larger companies are facing more pressure from environmentalists and large investors pandering to these groups.

Certainly, prices moved faster than we expected but they are unlikely to maintain the rate of demand increases and certainly not without meaningful supply increases. There is now the highest spare capacity in OPEC ever. We are not expecting an extreme collapse, but moderate further upside in the near term, at best. We have little exposure to oil, having exited our positions in pure plays over the quarter.

Copper will resume move up on supply and demand

Copper, at a two-month low, had moved ahead of itself. As often happens, higher prices lead end-users to lock in supplies for longer, and speculators to buy. China, which accounts for about half of global demand, expressed displeasure at high prices, leading to unwinding of some long positions, and a building of stocks at the London Metals Exchange again, to annual highs.

The demand for copper comes from three broad areas: "traditional" sources, construction and pipelines; new infrastructure building; and electrification. It is well known that electric vehicles use four to five times as much copper as internal combustion cars, and so-called "clean-energy" sources use more copper than traditional sources. Wind turbines, for example use typically four times as much copper per megawatt of electricity, even more if the turbines are offshore.

China, like the U.S. and elsewhere, wants to continue its infrastructure build and electrification of the economy, and that means that end-demand will continue. Price movements of the last couple of months are a normal part of the ebb and flow of long-term bull markets, when new demand pauses after markets have moved too far, too fast.

Supply is constrained as well

At the same time, cooper also has a very compelling supply story, with very few large-scale projects in development; world-class copper mines are rare beasts. Latin America, where most of the world's largest copper producers can be found, carries particular risks, with yet another of the periodic swings to the political left underway.

One major risk is from Chile, the world's largest producer of copper. Most of its production is from very old mines—over 100 and up to 150 years old—which are more vulnerable to interruption. A draconian royalty bill (tax) has passed the lower house and though one would expect the upper chamber to water it down, recent election results against the ruling conservative party, mean that resistance may be less robust than otherwise. In any event, significantly higher taxes are ahead in Chile, and likely in Peru too once the presidential election results there are finalized.

Following the sell off on the back of China's comments on metals prices followed by the Federal Reserve's comments mid last month on raising rates, we started buying leading copper names again.

Gold's sell-off is overdone

Gold had its biggest weekly decline in 15 months following the Federal Reserve's hint that it may perhaps start to raise rates in another two-and-a-half years. As discussed, I think gold's reaction was significantly overdone, if not plain wrong. The Fed admitted that inflation would be "stronger and more persistent" than earlier thought; that's gold bullish. The Fed said it would keep rates ridiculously low until at least the end of 2023; that's gold bullish. And the Fed admitted, though not in so many words, that it did not have the foggiest idea of how to get out of the mess it had created; that's wildly gold bullish. Inflation is positive for gold, but a central bank that does not acknowledge it and will not fight it is even more so.

The fact that gold had moved up for over three months with no correction—not more than two consecutive down days, and with largest peak-to-trough decline of just 1.3%—means it was primed for a significant fall on a trigger. That it came at the onset of a typical weak season for gold helps explain how sharp the decline was.

Although the summer is often a period of weakness for demand reasons, this is anything but a typical year. When gold and gold stocks defy the season pattern, they are often particularly strong. That is the "risk" right now, in my view.

The fundamentals are certainly positive, with high and growing debt, high and growing trade deficits, rising inflation, ultra-low interest rates, and ongoing excess credit creation: all these are strongly bullish factors. The one major factor working against gold is the dollar. The dollar rally from mid-May, which recovered some 80% of the prior decline, is likely over, but as explained above, we do not think the dollar will see extreme weakness in the near term.

■ Gold stock valuations are compelling levels

Gold and silver stocks fell with the metals, and are now at extremely attractive valuations. On all important metrics, the major and intermediate producers are trading in the lower half of historical valuations, and on many in the lowest 25th percentile. Stocks have barely traded at lower price-to-free-cash-flow multiples over the past 30 plus years.

Given gold's price, even after the recent pullback; given the macro outlook; and given the improvement in most companies from five, 10 and 20 years ago, these valuations levels simply do not make sense,

Here comes Basel: How important for Gold?

There has been a lot of discussion recently on the new Basel III rules and their impact on gold. The rules, which came into effect at the end of June for European and U.S. banks (and January 1st for U.K. banks), change which assets are included in both the asset and liability side of the ledger. Physical gold moves to a Tier 1 asset, counted at 100% of value in calculating reserves. Paper gold, as well as unallocated gold, now have a zero value, meaning that they cannot be used as a source of bank funding. In and of itself, that would be a positive since banks could hold gold without a disadvantage over Treasuries and other assets.

Thus, the difference in valuation for physical and paper gold has been widened substantially, giving banks an incentive to buy physical. (Moving unallocated gold to allocated does not help the banks, since allocated gold is not a bank asset.)

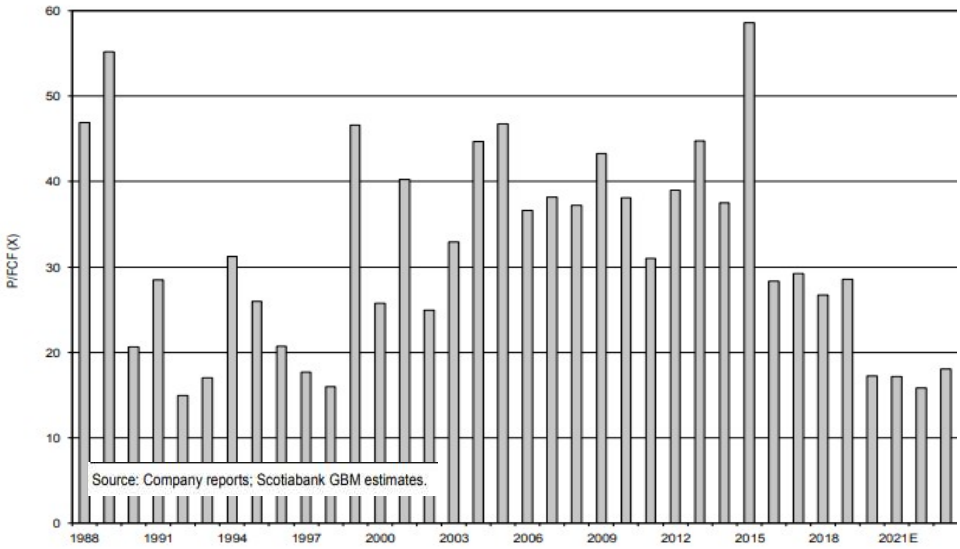
The implementation of these rules is bullish for gold, though many commentators have, in my view, wildly exaggerated the potential impact. Banks will have other ways to come into compliance than converting all their paper gold to physical and besides most banks have excess liquidity in any event. Any buying would in all likelihood already have taken place.

London's bullion forwards market is at risk

The changes have a particular impact of the forwards market, particularly the banks that are members of the London Bullion Market Association (LBMA). Producers, refiners and jewelry manufacturers, who want to hedge positions, are also members of the LBMA. It is unrealistic for bullion banks to buy physical to cover their contracts, which would be the practical effect of the rule change. The rules would drastically shrink the market, including the swaps done with the COMEX futures market. The LBMA is seeking to be excluded from the new requirements.

While the new rules are a positive for physical buying of gold, the impact (other than on the LBMA) is probably minor.

Price to Free Cash Flow Multiples near Historical Lows



and present investors with a compelling, once in a decade (if not generation) buying opportunity.

One explanation for the low valuations of gold stocks is the almost complete absence of generalist investors from the sector. They have been burned before—in 2010 and 2011, and again, for many, a year ago.

When the price of gold moves up significantly, they will return and they will buy the big-cap names. We can buy now at compelling values, before the herd returns. When the majors are so inexpensive, we are focusing on this group rather than the juniors and exploration companies. The major are the first to move and more certain to do so; there will be time enough to move "down the food chain" and buy the juniors.

Overall, we remain cautious on the global monetary situation and on most markets, but believe that so long as central banks continue creating excess liquidity, then markets are likely to continue to do well, notwithstanding rotation and some pullbacks. So we continue to have exposure to global markets and continue to look for buying opportunities, particularly solid dividend payers which experience temporary price declines. We are also ever conscious of minimizing the risk of a market or sector decline. At the same time, we are holding a high exposure to gold, as well as to other resources, for the above-average uncorrelated returns they offer.

Review of Individual Accounts

■ Global Accounts

The main variation in accounts over the quarter was an increase in cash, more than doubling to over 4% as we took profits in some U.S. equities. Other than that, we had no new buys and relatively little buying, even of existing positions.

We sold a couple of large-cap U.S. stocks on valuation grounds, while also selling a couple that had been purchased as short-term trades.

In addition, we continued to trim, on a client-specific basis, Business Development Companies as they continued to move up, with valuations for some now significantly above NAVs, an unusual occurrence for these stocks. We continue to have high exposure to this sector, however, over 10% for conservative accounts.

Similarly, we cut back marginally on some global equities and had no new global buys this past quarter.

Looking ahead, we expect to continue to hold most of our global equities, which should continue to do well so long as current monetary conditions prevail. We continue to look opportunistically for oversold quality stocks, particularly those paying solid dividends, but such

opportunities come and go. Lastly, our global accounts continue to have high exposure to gold and also other resources for their high, uncorrelated potential.

■ Gold Accounts

Cash levels in gold accounts fell to just over 0.5%, as close to fully invested as possible, as we added to positions following gold's drop in mid-June.

Allocations among sectors were broadly in line with where they stood at the beginning of the quarter. Senior miners and royalty companies inched up to 27% from just under 25%, mostly on new buying, while silver and other resources inched down, from 27% to 25%, mostly on declines in some stocks.

Added to positions on declines

The quarter saw no new stocks in the portfolio, other than i-80 Gold, received as a spin-off when Equinox acquired our holding Premier Gold. We added meaningfully to one senior producer whose stock was slammed after a mine-site fire that threatens some production for the rest of the year; we think the sell off is overdone.

Other than that, we added to a couple of exploration stocks that were particularly cheap; as always that group of companies saw some selling on rallies, some adding on pullbacks, but overall allocation remains much the same.

Going forward, we expect to remain fully invested, continuing to trade particularly the smaller stocks. We will look for opportunities to raise some cash, but that likely won't come until a significant recovery in the gold price, maybe towards the end of the quarter.

■ Resource Accounts

Our resource accounts ended the quarter with almost 3% cash, up from less than 1% at the beginning of the quarter, but that is not a sign of any strategic move, rather just the timing of particular buys and sell. Allocation to gold and, particularly, silver, though they remain our highest weightings, both fell on relative stock price movements. Silver fell from 11% of accounts to 8%, even as we added to positions.

Exited oil and bought copper

As we sold virtually all our oil and gas holdings, keeping only one particularly undervalued Russian company, and trimmed some other holdings, we used the cash primarily to buy back into copper after the recent decline. We have also started buying uranium stocks, though gingerly.

We expect, going forward, to remain fully invested and expect to add to both copper and uranium when we have opportunities. But we also expect gold to remain our highest allocation, given it remains the best risk/reward profile. Many of the gold stocks also have exposure to other resources, including copper (Barrick) and oil (Franco). We do not anticipate much broad selling in the near term.

In sum, so long as the Federal Reserve and other major global central banks continue to create excess liquidity, stock markets will likely continue to move up, albeit with rotation among sectors. We attempt to minimize risk by avoiding the egregiously overvalued and focusing on better valued, quality companies with solid dividends. We also continue to hold high allocations to gold, which serves as a high-potential, non-correlated hedge.

Adrian Day, July 2nd, 2021

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