

October 12, 2022

Dear Investor,

Pain in all asset classes has reverberated across the globe as central banks have tightened monetary conditions by raising interest rates to bring the inflation rate back to 2%. Quantitative easing provided investors and speculators with ample opportunities to earn a rate of return above the riskless rate of return offered by the full faith and backing of the United States Government. When interest rates charged to banks started the year at 0.25%, many businesses and entrepreneurs could earn a sufficient rate of return above this historically low interest rate. Now that the Federal Reserve has hiked interest rates to 3.00%-3.25%, investors and borrowers have seen credit conditions tighten and the economy slow, with GDP contracting 0.6% in the second quarter. This tightening of credit conditions will cause a deterioration in housing prices, with new potential buyers relegated to the sidelines and the only option to rent. Investors who hold these properties for rent are seeing their net margin compress as a higher allocation of each month's rent check is directed to paying interest expenses. As these rental properties will generate a lower rate of return or a negative rate of return, some owners could become forced sellers. Unfortunately for real estate investors in the housing market, this is likely only the start of a wave of selling from owners who face higher interest costs.

The general economy has held up well so far in 2022 despite high inflation and tightening credit conditions, however, we will be watching consumer confidence numbers and how much the housing market corrects to fully comprehend economic developments. We suspect that it will not be long until loan loss provisions rise on banks balance sheets as some homeowners start the foreclosure process. This outcome will be a hard landing for those living paycheck to paycheck and a double whammy for this group of society in that they will face layoffs in the industry in which they are employed. As economic activity slows, the movement of goods and services will drop, requiring companies to right size their labour force. Any excess capacity in the workplace will be released, raising the unemployment rate. The Federal Reserve has made it clear that priority number one is to reduce the inflation rate to the target rate of 2%, compared to August's CPI reading of 8.3% in America on a year-over-year basis and 7.0% in Canada during the same period. With the unemployment rate at just 3.7% in America, unemployment will have to rise to reduce the demand for goods and services, which should help lower inflation. It is not an exciting outlook for investors and is certainly concerning if you are not providing direct value to your employer, as your job will be at risk.

Investors who have access to cash will be well served at this moment to identify sectors and areas of the economy that will perform better in a recessionary environment. The high-flying tech names with promises of profits in the distant future have seen their share prices

decimated. With access to capital drying up, many will have to take drastic measures to ensure they continue as a going concern. Companies that have been able to build a cash reserve are well positioned to buy back their shares at a discount to where they were trading at the start of the year. Many companies in the Standard Wealth strategy have implemented share buyback programs which help create a share shortage, increasing earnings per share and sending return on equity soaring. On share buybacks, Charlie Munger once told famed investor Mohnish Pabrai, "Pay attention to the cannibals." Mohnish elaborated: "What he meant by 'look at the cannibals' is look carefully at the businesses that are buying back huge amounts of their stock."

Companies in the Standard Wealth strategy have performed well in 2022, despite their depreciated share price. A cornerstone of the portfolio is Phillips 66, which is predicted to earn \$16 a share this year due to very high 3-2-1 crack spreads that were prevalent for most of the summer. With the stock trading at \$94, it would take you around five years to recoup your investment through the earnings of the company and with a 5% dividend yield, you are paid to wait until market sentiment improves, and the market pays more for the future earnings.

"You can't guess the bottom. But a bargain is a bargain"

Kevin O'Leary

Energy companies are trading at a historically meager price to earnings ratios which is why they are part of the Standard Wealth portfolio. Crescent Point is on track to earn \$2.94 per share in 2022, and with the stock trading at \$9.50, it is incredibly cheap. Earnings will be retained by the company as Crescent Point has over \$9 billion in tax pools they can utilize before they become taxable. This tax deferral can be a major advantage for investors as it will allow the company to grow stockholders' equity rapidly without the drag of paying taxes. With the board of directors signalling that they will pay out 50% of free cash flow to investors through the increased dividend and share buyback program, the share price should trend higher if energy prices stay robust. With capital programs across the energy sector well below historical averages in relation to cash flow, we suspect supply will stay restrained, helping keep energy prices profitable for almost all energy companies.

"Buy cheap and sell dear."

Benjamin Graham

The strong US dollar has maintained its safe haven status during a year of heightened volatility, assisted by other economies, such as the Bank of England raising short term rates and buying longer duration government bonds. This shaky monetary policy would be similar to driving with one foot on the gas and the other on the brake. As a result of these competing actions and increased government borrowing, a loss of confidence has transpired regarding the British Pound as it now trades near its lowest levels ever against the U.S. dollar. In addition, serious questions are being raised around the economic competency of the new U.K. government. In a time of turmoil, the American economy has stayed resilient and performed better than other

nations, which has boosted the US greenback against all other major currencies and we expect this trend to continue.

“The year 2022 will go down as the year of whoever can lose the least”

Bo Brister

We continue to deploy capital at opportune times into companies that are able to maintain competitive moats and advantages that help keep them profitable during all market cycles. Although share prices have trended downward in 2022, the earnings of the companies with the Standard Wealth portfolio continue to increase and trend upward. As a result, patient investors may be rewarded when market sentiment swings from depression to euphoria.

As of September 30, 2022, the Standard Wealth strategy has a dividend yield of 3.9%, with a current portfolio price to earnings ratio of 11.2. In addition, the strategy has a trailing twelve-month return of -8.4%.

Wishing all investors the best of luck in the last quarter of a challenging year.

Best Regards,

Fred Mannix

Fund Performance

TTM Return -8.4%, Dividend Yield of 3.9% and P/E of 11.2

| Standard Wealth Returns (from Feb 29, 2020) | | |
|--|---------------|------------|
| 2020 (Feb 29 - Dec 31) | 16.1% | holding pd |
| 2021 | 41.2% | holding pd |
| 2022 YTD | -15.8% | holding pd |
| 1 Yr | -8.4% | holding pd |
| 3 Yr | n/a | annualized |
| 5 Yr | n/a | annualized |
| Since Inception Feb 29, 2020 | 12.2% | annualized |

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