VALUE CONTRARIAN
ASSET MANAGEMENT

2020 Third Quarter
Value Contrarian Equity Fund

Dear Partners,

The Fed has created a "borrower's paradise" and a "fixed-income investors hell," by holding interest rates down.

Mark Grant
Fixed Income Strategist
B. Riley Financial

Fooling yourself into thinking that you can find absolute safety in any asset yielding more than 1% is a terrible idea. We live in a 1%, if not a sub-1%, world right now.

Jason Zweig
Wall Street Journal
October 9, 2020

In the end, low interest rates are a double-edged sword. We don't yet know which edge will be sharper.

Gregory Mankiw
Harvard Professor of Economics
December 6, 2020

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After a brief panic in March, stock markets in 2020 have come roaring back. The rocket fuel has been a steep fall in rates to near zero. (along with numerous federal government support programs and monetary stimulus).

The craziness of the stock markets good fortunate, is that it has occurred in a pandemic environment, where thousands of people have been killed, millions put out of work, and shuttered or bankrupted businesses across the country. Remember, the stock market does not represent the real economy, especially "Mom-&-pop" small businesses.

To put today's ultra-low interest rates into historical perspective, one has to go back to September 1981 when the 10-year Treasury note yielded over 15%. In March 2020, at its bottom, treasuries yielded 0.50%! During the same period (1981-2020) the federal funds rate has fallen to nearly zero from about 16%. While the rate on 30-year U.S. mortgages has dropped below 3% from over 18% in 1981.

Some of the negative implications of low interest rates are already clear:

A) Underfunded public and private pension plans

B) Today's low interest rates may reflect future low economic growth. Without strong economic growth, the path to reducing the mountain of new government debt (as was the case after the second World War boom) becomes much harder.

C) With yields so low, investors in riskier fixed-income products are not getting paid for credit risk.

D) Record low home-mortgage rates have lit a fire under home prices. That means housing affordability has worsened for prospective buyers.

E) Finally, today's high flying IPO mania, replete with dot-com valuations, are pointing to "irrational exuberance" in the equity markets. Ultra-low rates create the conditions for an "over-heated" stock market and asset bubble.

As we've pointed out numerous times in the past, high equity valuations (like today) are not the direct cause of stock market corrections/ crashes. Rather, it's the collateral damage inflicted by high valuations once the tide turns down.

In conclusion, with the unlikely ability of interest rates to fall much further from here, the risk is that rates start to rise, catching investors and the markets by surprise.
Warning!! Governments can change course unexpectedly, despite past promises on interest rates.

Falling interest rates since 1981 have been a tailwind to the back of equities for 40 years. With interest rates close to zero, that benefit is now gone. Thus, the returns for equities over the coming ten years will be much lower than in the previous 10-year period. (sorry for that reality check!)

A happy & healthy new year to all our partners.

Third Quarter Performance

Your Fund ended the September third quarter with a net asset value of $3,406.15 per unit, an increase of $176.59 from the December 31, 2019 net asset value of $3,229.56 per unit (after distributions). This represents a year-to-date return: +5.5% (TSX: -3.09%).

Respectfully yours, **

Benjamin D. Horwood
Portfolio Manager
December 30, 2020

Value Contrarian Equity Fund
Next Fund purchase date: January 31, 2021
Call today: 514 – 398-0808

P.S. Do visit us at our **NEW** web site: **www.valuecontrarian.com**

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.

Overall, long-term shareholders in the V/C Fund benefit from a sinking stock market, the same as a regular grocery shopper benefits from declining food prices. So when stock markets plummet – as they will from time to time – "neither panic nor mourn". It's good buying news for your Fund.