VALUE CONTRARIAN
ASSET MANAGEMENT

<u>New New New</u>
VCAM Tech/Crypto Corner

Dear Partners,

I am proud to announce, starting in our September 30, 2023 quarterly investment letter, a new section:
<u>VCAM Tech/Crypto Corner</u>

<u>Domenico Marti</u> – Our VCAM Gen Z tech whiz will be quarterbacking this new section!

These insights will appear 4x per year attached to each quarterly investment letter.

We hope you find our commentary both educational and informative in the Value Contrarian style.

Your comments & suggestions are always welcome.

Ben Horwood
October 11, 2023

Bank of Commerce Centre
1155 boul. René Lévesque W., Suite 2500
Montréal, Québec
H3B 2K4, Canada

Tél. : +1.514.398.0808
Fax : +1.514.398.9602
info@valuecontrarian.com
www.valuecontrarian.com

VALUE CONTRARIAN
ASSET MANAGEMENT

2023
Full Disclosure

Over the coming years we want to advise investors that the Value Contrarian Fund may be more volatile than has been the case in the past. Here is our reasoning:

1) When your Fund is fully invested, we are subject to the full volatility of the financial markets. As we don't short stocks, cash is often the simplest, risk-free instrument to blunt stock market volatility.

2) Berkshire Hathaway, Warren Buffett's investment vehicle, represents approximately 25% of your fund's assets. We view this as a strong investment in all market conditions. Nonetheless, there will be years (like 2019 & 2020) where Berkshire underperforms the market and will impede your Fund's returns.

3) In general, a rising Canadian dollar and a weakening US dollar will also affect your Funds results, due to our significant U.S. holdings. Presently, the Canadian dollar is approximately 74¢. However, if over the coming years it rose to 85¢ or 89¢, this would add a stiff headwind to your fund's net results.

Predicting currency moves is about as easy as predicting the weather this time next year. Good Luck!

Benjamin Horwood

Bank of Commerce Centre
1155 boul. René Lévesque W., Suite 2500
Montréal, Québec
H3B 2K4, Canada

Tél. : +1.514.398.0808
Fax : +1.514.398.9602
info@valuecontrarian.com
www.valuecontrarian.com

2023 Third Quarter
Value Contrarian Equity Fund

Dear Partners,

> **… In equities, if you can <u>avoid losers</u> (and losing years), <u>the winners will take care of themselves</u>… The best foundation for above-average long-term performance is an absence of disasters.**
>
> **Howard Marks**
> **Oaktree Capital Management**
> **September 2023 Letter**

> **Almost no one under 40 has invested in an environment that wasn't characterized by zero-interest rate policy… Now there are plenty of alternatives.**
>
> **Doug Peta**
> **Chief Investment Strategist**
> **BCA Research**

> **<u>Deposits are the "fuel" for the banking industry</u>. And as fuel prices go up, banks are going to have to adjust. For many years… Banks enjoyed the benefit of using very <u>cheap deposits</u>…**
>
> **When banks weren't paying much to get funding, they didn't have to work that hard to make money with your money… But as interest rates rise, the equation is changing. For depositors, alternatives like money-market funds or short-term Treasury bills offer significant yields. That means banks will have to compete to keep attracting money.**
>
> **Greg Ip**
> **Wall St Journal**
> **September 1, 2023**

Second Quarter Performance

> **When investors think things are flawless, optimism rides high and good buys can be hard to find. But when psychology swings in the direction of hopelessness, … bargain hunters and providers of capital will be holding the better cards and will have opportunities for better returns.**
>
> **Howard Marks**
> **Oaktree Capital Markets**
> **April 2023**

Your Fund ended the third quarter with net asset value of **$4,073.41** per unit, an increase of **$40.77** from the December 31, 2022 net asset value of **$4,032.64** per unit [after distributions]. Year-to-date, September 30th, your fund returned: **1.01%**.

Rising interest rates can certainly dampen stock market returns in two basic ways. Firstly, mountains of money can easily move out of stocks and into fixed-income investments. Secondly, the other threat comes from higher borrowing costs which erode consumer spending power and corporate earnings.

Volatility likely lies ahead, as the economic cost of the battle against inflation and government spending "gone wild" is only really beginning to kick in. The present (August to October) stock market correction is not a surprise given the outsized gains of this past year in a rising rate environment. The good news is that once the correction is over, it's onwards & upwards.

The not so good longer-term news? In our opinion, we are presently in a long-term "Phoney Bull Market". Translation? Any future record stock market highs over the next year or two (as we predict), will be temporary & illusionary.

Thus, there is the possibility that the October 2022 bear lows will eventually be broken and new bear lows will be made at the bottom of the next bear market (future date unknown). Hence, we describe the present stock market cycle as a "Phoney" bull market.

Does that mean we should stop buying equities? No. Instead, we are buying "look see" positions – averaging down. As is the norm, the Value Contrarian Fund is always a price-sensitive buyer. And yes, we are presently adding new ideas to the Fund… as certain stocks are being slaughtered from previous unrealistic hype valuations.

Why not take a full position today? Because 30-plus years of market experience have taught us that late in the business cycle, today's "bargains" often become much bigger bargains in the next bear market!

Best to slowly roll into a new position and average down. This is a prudent strategy, especially in today's generously priced markets and the cycle of rising rates.

This quarter, your Fund's 15% cash position worked to our advantage, with all four major indexes (S&P 500, Dow, Nasdaq, TSX) in negative territory for the quarter. The present market correction over the summer seems to have paralleled the rise in long-term bond yields from 3.8% to 4.8%.

A slowing economy and the end of the Covid sales tailwind caused a dominant online retailer's share price to crater over 50% from its summer highs. This situation gave your manager the opportunity to initiate an opening position in a high-quality recession-resistant business.

Specifically, this company's sales growth projections were drastically reduced from the high teens, to mid-single digit growth rates. Nonetheless, this company operates in a very attractive market segment known for its growth and the enduring loyalty of its end users.

Stay tuned to learn more in our year-end partners letter.

The present conflict between Israel and Hamas (so far), has not affected the global financial markets. **However, should the fighting escalate to include Iran or even America – all bets are off, including our predictions.**

After the recent horrific terrorist attacks, and hostage-taking in Southern Israel, the need to set "deterrence" leads to the possibility that the U.S. and/or Israel will lash out at Iran. Target #1 – Iran's nuclear installations.

Outlook

> **There are two kinds of forecasters: those who don't know, and those who don't know they don't know [Ben's favorite quote].**
>
> **John Kenneth Galbraith**

> **So those rate hikes [on long-term bond yields] are probably going to tip us into recession.**
>
> **Paul Tudor Jones – Hedge Fund Manager**
> **Tudor Investments**
> **October 11, 2023**

> **One potential near-term OMG event – An Israeli surprise attack on Iran's nuclear facilities as retribution for the recent Hamas attack on Israel. This has the potential of dragging Lebanon, Iran, and the Gulf states into a wider Middle East war.**
>
> **Ben Horwood**
> **Value Contrarian Asset Management**
> **October 10, 2023**

Our Galbraith Mea Culpa: Yes, we often "don't know", but it's certainly intellectually stimulating trying to predict the unpredictable. However, long term historical patterns, both psychological and economic do often reoccur. "Greed & Fear" never seem to be in short supply or in danger of disappearing.

Investing requires supreme patience. There are long periods that can best be described as exciting as watching corn grow, combined with short bursts of stomach churning bungee free falls (while holding a sharp knife).

In the event inflationary pressures remain stubbornly resistant to higher rates, the danger remains that global central bankers might not be able to cut interest rates as per the "Fed put" of previous cycles. If that were the case, the stock markets would be on their own, with little Fed "downside" insurance support. This would certainly be a "surprise" from the present-day expectations of rate cuts in 2024.

Short to medium term:
Within the next 24 months, record highs on the stock indexes punctuated by corrections & volatility. However, read the below.

Long term:
We are not really in a new bull market – rather, we call it a "**Phoney**" bull market (despite our above predictions of future record highs).

Simply stated, we believe the bear bottom of October 2022 did not usher in a new economic or stock market cycle with new stock market leadership.

The continued same old/same old leadership of tech stocks since the recent bear bottom in 2022 is a significant sign that we have not yet entered into a new stock market cycle, nor hit the true bottom of this economic cycle.

Conclusions:

a) The cleansing process of the 2009-2021 cycle will take many years to play out. **"Phoney" bull markets** can last for years. Bad investing habits don't die easily, while "generous" stock valuations take time to deflate.

b) It is also possible, despite the Fed having likely completed its rate hike cycle, that long-term bond yields continue to rise in 2024. (Remember, the invisible market dictates long-term bond yields). Obviously, higher long bond yields would represent a further headwind to both consumers and the economy in the coming year.

c) Our one caveat as always: A surprise "Oh My God – OMG" geopolitical or financial crisis could throw all of our above market predictions out the window. For example, as discussed previously, should fighting in the Middle East escalate to include Iran or even America – all bets are off.
However, it is our opinion that an OMG crisis could create the conditions for a true bear market bottom and in-turn, the start of a new business cycle.

Respectfully yours,

Benjamin D. Horwood
Portfolio Manager
October 11, 2023

VCAM TECH/CRYPTO CORNER

What the Heck is AI? …… Is It Even Investable? **

Much excitement has been expressed by the media & investors regarding "Generative Artificial Intelligence", or simply AI. This new technology brought to the mainstream by the rollout of ChatGPT in late 2022, is little understood by most people. Today, we will break it down in layman's terms!

Most of us use AI daily (your phone completing/correcting words when typing, voice assistants like Apple's "Siri"). First generation AI is basically unable to create anything. Instead, it uses existing data to learn from patterns to predict future patterns that might occur.

The new "Generative" AI is a significant upgrade to the existing technology. Whereas "Traditional" AI completes certain tasks using a set of rules based on the data it is trained to follow, "Generative" AI is meant to create completely new things that are near impossible to differentiate from human-created content.

Uses?

AI can be used to write code when creating a company website or mobile application. Computer programmers may no longer be needed! Simply ask a Generative AI program to write the needed code. Once created, AI will, for example, modify certain aspects of a website and make adjustments to match your vision (on its own)!

AI is very much a productivity tool more than a specific investment opportunity. This view was also expressed by Citadel CEO Ken Griffin. The prospect of actual AI-generated profits flowing to the average company's bottom line is many years down the road - if ever.

Although this is a much-welcomed productivity boost companies can use, we do not see this as a direct investment opportunity, as the market is currently suggesting.

Investment exposure?

The only viable way for real investment exposure is through mega-cap tech companies designing the chips required in the use of Generative AI (like Nvidia) or by consumer products with AI capabilities (Microsoft through ChatGPT). The rest of the hype around AI is just that – dreams of $$$ riches from a new technology. Wonderful "game-changing" technology hype is nothing new to the financial markets or momentum investors! "Get Me In – FOMO!" (Fear of Missing Out) .

Domenico Marti – Contributing Editor
Ben Horwood
October 11, 2023

**Investors who desire broad-based tech exposure may consider two low-cost U.S. index fund ETFs: QQQ/XLK
(As always, past performance does not guarantee future returns)

Value Contrarian Equity Fund

Next Fund purchase

Date: October 20, 2023

Call today: 514–398-0808

P.S. Do visit us at our 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.