VALUE CONTRARIAN
ASSET MANAGEMENT

2021
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 a significant chunk of your fund's assets. We view this as a strong anchor investment. Nonetheless, market volatility also means your Fund and Berkshire could be down 50% in a severe bear market.

3) Due to our significant U.S. holdings, a rising Canadian dollar and a weakening US dollar will also affect your Fund results. The Canadian dollar closed 2020 at 0.785¢ (presently at .81¢). However, if over the coming years the Cdn$ rose to .85¢ - .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

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2021 First Quarter
Value Contrarian Equity Fund

Dear Partners,

"In order to crack a bubble of financial speculative excesses, <u>you need a catalyst</u>. History shows that "<u>expensive" stocks/markets</u> <u>don't qualify as a "catalyst".</u> One must also realize that financial excesses always go further, and <u>last longer than one thinks</u>."

Benjamin Horwood
Portfolio Manager,
Value Contrarian Fund
April 21st, 2021

"Part of the genius of public markets is that they harness <u>the human desire to gamble</u>… The unwanted side effect is that the gambling often sets the price, in the form of <u>bubbles</u> and stock momentum taking prices far away from the real value of the business."

James Mackintosh
Streetwise – Wallstreet Journal
April 2021

First Quarter Performance

Your Fund ended the first quarter with a net asset value of $4,055.92 per unit, an increase of $302.31 from the December 31st, 2020 net asset value of $3,753.61 per unit (after distributions). **Year to date, your Fund returned: + 8.1%.**

We certainly have been experiencing "frothy" markets during the first quarter of 2021. Markets for everything from homebuilding, to bitcoin, SPACS and commodities are soaring, stirring up fears that global markets are in a bubble. Even sleepy Quebec lumber distributor Goodfellow, has almost tripled off the march bottom, with lumber prices soaring to record levels. Global stock indexes are also climbing to fresh highs.

This frenzy has extended far beyond conventional financial assets. Thus, crypto currencies such as bitcoin have recently spiked above $60,000, while Dogecoin briefly jumped to record levels.

As we have often explained to our investors, bubbles and speculative markets aren't defined only by excessively high valuations. It is important to understand that "bubbles", are fed by investors willingness to believe stock or other assets can only go up, ignoring fundamentals such as whether a company will ever be able to generate enough profits to justify its sticker price.

Moreover, history (i.e; nifty fifty growth stock period of 1968-1972) has shown that expensive stock valuations are not the "catalyst" to lower stock prices or market crashes. Rather, historically high stock valuations, are more an indication that down the road, future gains will likely be much more subdued.

Ultra low interest rates and government stimulus programs have certainly fueled the economic recovery and served to reflate price earnings multiples on stocks.

The key unknown – will rates rise prior to 2023, despite the Fed not wanting to tighten monetary policy anytime soon. Investors must realize that low interest rates are a key "prop" supporting rich asset valuations. Conversely, higher rates would bring asset values lower.

Positive Fund results during the first quarter were powered by our significant position in Berkshire Hathaway. As of April 30th, Berkshire stock advanced by 19.7% on a rebound in the industrial sector. In addition to the $25 billion stock buyback in 2020, Buffet bought back an additional $6.6 billion of Berkshire stock during the first quarter. As these buybacks are done close to book value, they enhance intrinsic value for shareholders and still leave ample cash ($145 billion) for future opportunities.

Other positive contributors to first quarter results include, SNC (+23.8%), TD bank (+15.0%), and Goodfellow Lumber (+29%).

In particular, Goodfellow Lumber has tripled off the March 2020 bottom. Easily outpacing even Shopify! As markets for homebuilders, remodellers and construction have soared, lumber prices have skyrocketed from US$310 per thousand board feet in April 2020, to a recent record high of US$1,334. Goodfellow trades at $10.75, yet its year-end book value will be well above $15.

Lumber has been one of the best performing commodities in 2020. Go figure that the consequences of a pandemic has been a home building boom!

OUTLOOK

> **“The glaring risk is that the market loses confidence in the Fed's handling of inflation (and rates unexpectantly rise)."**

Eric Mintz
Eagle Asset Management
April 26th, 2021

We continue to see similar conditions to that of last May. At that time we wrote, “ultra low interest rates and the “Don’t fight the Fed” mantra allows us to anticipate the next few years bringing positive stock returns. Under the pressure of ultra low rates, investors will by default, be pulled into the orbit of T.I.N.A (there is no alternative to stocks).”

For reference, the S&P 500 currently trades at a price/earnings ratio of approximately 22 times its projected earnings over the next 12 months.

At the end of the day, no one knows if the peak in North American stocks will bring a price earnings ratio of 30-40 or 50+. As a reference point, in 1972 many of the Nifty Fifty growth stocks were trading at 35X, 48X, and even even 65X earnings. While Polaroid, a high-tech camera company reported a P/E multiple of 90X. In 1972, the yield on 10-yr U.S. treasury bonds was above 6%, not today's 1.6%. As you can see from history, "crazy times" can last longer than expected.

Interestingly, this period of stretched valuations, from 1968 until 1972, lasted for years. In other words, stocks can remain expensive for many many years before they crack under the weight of a bear market.

In conclusion, as valuations have risen significantly over the past year, going forward, expect 5%-15% corrections and added volatility in the equity markets. And please, don't confuse "corrections", with "bear" markets.

Respectfully yours, **

Benjamin D. Horwood
Portfolio Manager
May 1st, 2021

Value Contrarian Equity Fund
Next Fund purchase
date: May 15th, 2021
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.