QUARTERLY LETTER | Q4.2021

What has Claret been doing during 2021?

January, 2022

We have been extremely busy investing in our company and our systems and processes to better serve our clients.

At this point we wish to thank our employees for all the sacrifices and efforts they made to make sure our service level never wavered during the last two years – they have all been working harder than ever to meet our clients' and our expectations.

The "Next-Gen" spent a great deal of time creating our library of educational videos since our January full team 2021 kick off video – topics such as bonds and preferred shares, compound interest, speculative bubbles, ESG investing and many more. For the complete list, please visit our website, claret.ca. We also have new videos that will be added in the first several months of 2022 including "Stock Market Volatility: Risk or Opportunity?" and "How Short-Term Thinking Hurts Your Long-Term Investing Success."

Our biggest undertaking in 2021 was a conversion of our technology platform from a local area network within our office to having our proprietary network all in the "cloud." We have chosen Microsoft and their Azure system as our partner, as we feel they are the best positioned to service our network, which includes Microsoft 365 Office, their data facilities all in Quebec and Ontario and as they learn the products in depth, we feel they are best able to defend each endpoint against any cyber attacks that may create havoc for us and for our clients. We want to protect your privacy and ours, and offer you a seamless and confidential information environment. Additionally, the IT engineering firm we use to ensure 24/7 coverage of our system and the operation of the equipment to optimize our service levels and the integrity of our reporting and data protection. In 2021, we completed our client reporting migration to Croesus and we now have client portals for each client and relationship – if you haven't signed in yet, please do so as all your documents and quarterly reports can be made available for you to view at your convenience in the "privacy" of your own personal devices whether desktop or mobile. You are able to store these documents in a secure environment, eliminating the need to keep "paper" copies if you prefer.

We have improved client documentation by consolidating all the data and risk and objectives into two documents and e-signature through DocuSign, using multi-factor identification for cyber security, will be available in 2022.

For those who prefer online contact, all professional staff are able to serve you using Zoom, Microsoft Teams and Google Meet – and for those of you who prefer to meet in person we are open and happy to receive you in our office at your convenience.

2022 will bring more improvements and changes as we will grow our professional staff to ensure continued service improvements for you, our clients.

Many have not been as lucky as we have in 2021, but we sincerely hope that 2022 will be much better for all of you and those you love and support.

We feel privileged to have you among our clients and friends.

Thanks again,

Alain Chung, Chief Investment Officer for the Claret Team

2021 in Review

Firstly, we would like to wish all of our clients, colleagues and friends all the best in 2022 and hope you all benefited from the holiday break by spending time with loved ones, family and friends, and relaxing doing things that you enjoy.

2021 was another amazing year that few would have predicted and surprised everyone far more positively than expected. It seems the Coronavirus – COVID 19 – and its many variants, are here to stay but the successful development of vaccines has allowed life to return to some form of normalcy more quickly than many anticipated.

Governments, however, no doubt anticipating economic collapse, have continued printing money long after the original threat abated. The markets are awash in capital at very low interest rates which create an environment where the "free cash" chases "returns" in various asset classes – equities, bonds, real estate, crypto, luxury goods, etc. As money chases "scarce" goods prices go up… Very likely until money becomes more expensive when interest rates rise to slow the uncontrolled price increases – the perceived high prices will continue.

The 11 plus one "Interesting" or "Surprising" things about 2021

1. Governments never let up on giving free money. Between the Reconciliation Bill that the US government is trying to pass and Bill C2 that the Canadian Government is pushing through, billions and trillions of cash will keep flowing to the people. If you want to know where the money comes from, putting the politics aside, check out this YouTube video.

2. Inflation has reached a high of 6.8% as of October 2021, a rate not seen since 1982 in the US. Yet, interest rates did not rise… for now. The FED has been very clear that rates will not go up until late 2022…unless inflation does not abate. The pandemic induced inflation (caused by disruption in labor markets and supply logistics) is difficult to forecast. We will only know more when our governments stop giving out free money…

3. Tesla stock reached a high of $1,243, a 74% increase from its Dec 31st, 2020 price where it was already trading at over 900 times its then earnings. Today, at $960 or so, it is still trading at over 300 times its much-improved earnings. To top it all off, Elon Musk is named Time Magazine's "Person of the Year" for 2021. By the way, Jeff Bezos from Amazon was "Person of the year" in 1999, just as the stock price peaked at $113 during the Internet Bubble…. Subsequently, Amazon stock price plunged to a low of $5.51 in 2001, a whopping decline of 95%!

4. Robinhood went public at $38 a share at the end of July of this year. After a one-day decline of 8%, it proceeded to rise to a peak of $85 in a matter of 4 days before settling down around $40 in September. Then, we found out that the company does not appear to understand the margin rules that apply to their client's trades… and got fined by the Securities Exchange Commission. As of today, it is trading below $20, at 57 times earnings, approximately half of its IPO price. Caveat emptor… Buyer beware.

5. Rivian has delivered only about 150 electric pickup trucks and is trading at a market cap of $100+ billion… Lucid has sold slightly over 500 electric cars and is valued at over $65 billion… Closer to home, Lion Electric has delivered 390 all-electric heavy-duty vehicles in the last 10 years and its market cap is close to $1.9 billion, a shadow of the peak of $6.7 billion reached only a year ago… on a side note, it is extremely interesting to go through the list of defunct automobile manufacturers in the US alone. Look it up yourself with this link. You will notice that most of them went bust between 1900 and 1925, the golden age of automobiles…

6. Crypto has gained some mainstream following as regulations have given it some credibility – But it is worthy of note that "digital" currencies in the form of credit and debit cards have been with us for some time… Moreover, crypto derivatives are contributing to large price swings as does limited liquidity since most of them are held by "diamond hands", i.e., long-term holders despite volatility and risks.

7. Cathie Wood who manages the ARK Innovation ETF in the US among others, is steadfast in her zeal regarding "tech" stocks and oblivious to valuations at "nosebleed" levels… and investors don't seem to care!

8. Despite a 5% growth in its economy, a number advanced countries can only dream of most of the time, Chinese stocks have had a pretty bad year. The MSCI China Index is down more than 36% since the beginning of the year. Several companies are contemplating delisting in New York Stock Exchange to relist in Hong Kong because of political, security and regulatory reasons. Let us remind most readers of this letter that many years ago, we did write about the fact that most Chinese stocks in the US are shares of entities that are only indirectly related to the real companies in China. They are in fact mere promissory notes that allow participation in dividend distribution if any but have no voting right in the real companies. Alibaba, Tencent, Didi and many more are such examples.

9. Gold, the inflation hedge by excellence for the last 100 years, is down 6-7% despite surging inflation numbers… rumour has it that it is being replaced by Bitcoins… It is only an "off the cuff" comment since our knowledge on both is definitely limited…

10. Lots has been written regarding the Environment, Social and Governance (ESG) debate and most countries have accepted the COP26 as a blueprint to tackle Climate Change. Still, it is a bit of a pipe dream if we cannot convince India, China and other big polluters to conform to the same set of regulations… we seem to forget – since we already passed that stage of growth - most economic growth is polluting and poorer countries want to grow out of their poverty.

11. Apart from the pandemic pause, this bull market is in its 12th year of existence. Yet, interest rates have stayed relatively low, meaning there is no overheating in the economy… until now. THE most worrisome fact is that major governments around the world are loaded with debt… It does give new meaning to the Wall Street saying regarding markets: Bull markets do climb a wall of worries…

Plus one

The stock market is sometimes a pricing mechanism, sometimes a valuation mechanism and the greatest influence on the price of assets is still demand and supply. The only "unsurprising" thing in 2021 and beyond is we, at Claret, will continue to invest as we always have, focusing mostly on well-managed companies, with revenues, free cash flow and a forward-looking future in industries that have a long tailwind in growth.

Happy New Year!

The Claret Team