Accelerate
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Dear Investor,

That is a wrap on what would be considered an exceptional year for equity markets, as the world learns to live with Covid and the accompanying supply chain disruptions. The S&P 500 index posted a gain of 27% and finished the year at 4,766.18, resulting in a forward price-to-earnings ratio of 21.3. Inflation that was once called “transitory” by the Federal Reserve is here to stay for the foreseeable future. The dual mandate of the Federal Reserve Chairman, is to balance full employment along with a targeting 2.0% inflation. As a result, the Fed has pivoted its focus from maximum employment to concentrating efforts on reducing inflation to the targeted range. Full employment appears to be achieved with an unemployment rate of 4.2% and a labour participation rate edging up to 61.8% in November. These healthy employment numbers should provide confidence to investors that the US economy is close to maximum employment and most likely poised for prosperity. The re-appointment of Fed Chair, Jay Powell, also removed any policy uncertainty in the future, which has helped equity markets trend higher in Q4 given his dovish stance during his tenure.

Inflation is still a significant concern for investors because it decreases one’s purchasing power. Although inflation is undesirable for consumers and savers, it is welcomed by governments that have borrowed heavily at meagre interest rates and have principal payments coming due. The ability to rollover these large debt obligations at attractive interest rates has allowed the Fed to make it easier to pay back pre-existing debts and keep the expansionary environment intact. However, savers and bond investors have seen their capital lose purchasing power and continue to do so as the current CPI is 6.8% at the end of November 2021. For investors, the would-be risk-free rate of return offered by the central banks of the world is now being replaced with a minimum investment hurdle rate. This rate is derived by taking the current inflation rate for the baseline as any investment return below this is guaranteed to lose money on a real return basis before factoring in taxes and fees. In this environment, investors are finding it extremely difficult to allocate capital to investments with a positive real rate of return since the minimum return hurdle is so high.

“The one thing I will tell you is the worst investment you can have is cash. Everybody is talking about cash being king and all that sort of thing. Cash is going to become worthless over time. But good businesses are going to become worth more over time.”

-Warren Buffett

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Energy prices rose considerably in 2021, benefiting the bottom line of the value creation chain for the petroleum industry. Capital expenditures for new oil and gas discoveries have been kept in check by company management and boards of directors that have been well disciplined with newfound larger cash flows. Raising dividends, paying back debt and reducing the shares outstanding have been higher on the priority list for energy companies, which has helped keep supply in check from outpacing demand. This delicate economic balance has kept inflation from creeping in the double digits that would surely cause demand destruction across North America. Names within the Standard Wealth portfolio that will directly benefit from higher pricing for their commodities are Crescent Point Energy and Cenovus Energy.

Fear of missing out is creating bubbles in meme stocks, crypto currencies and NFT's. Very seldom in the history of humankind has so much money been made so quickly in these alternative asset classes. It might all end in tears when the Fed raises rates, squeezing speculators that have bought on margin and forcing consolidation of investment into higher quality assets and companies. The fourth quarter of 2021 saw plenty of high-flying tech share prices come back to earth as the Fed repeatedly signaled rate hikes for 2022. This marginal increase in interest rates for speculators buying stocks on margin has made them reconsider investments in tech darlings like Tesla, with a price-to-earnings ratio of 346, and Peloton, where its share price plummeted 76% in 2021. Generally, over time, companies with sky-high valuations will normalize, with either earnings rising or more likely a share price declining. Investors must remember that great companies can have terrible valuations and caution should be warranted.

"Buy not on optimism, but on arithmetic."

-Ben Graham

The Standard Wealth portfolio is well positioned for 2022 as we are forecasting three rate hikes from the Federal Reserve, which should elevate the yield on the US 10 treasury to around 2.50% by the end of 2022. The financial companies within the Standard Wealth portfolio may see their net interest income (NII) portion of the income statement expand, which will benefit a core holding in the portfolio such as JPMorgan. This NII revenue source for JPMorgan will generate just under 45% income in a typical year. The measure of the difference between the interest banks earns on their assets and the interest they pay out to depositors and other creditors will allow banks such as JPM to earn a larger net interest margin and drive higher profit expectations for most financial institutions going forward. JPMorgan earned 13.1 billion from NII in the third quarter when they reported earnings on October 13, 2021. We expect this profit center to grow considerably in 2022 as we enter a rising interest rate environment.

Other banks in the Standard Wealth strategy that will benefit from this increasing rate environment include Royal Bank of Canada, Canadian Imperial Bank of Commerce and Bank of Nova Scotia.

Accelerate enjoyed a great 2021 as we achieved quite a few milestones by adding talented people to our already top-notch team. Greg McRae joined as Vice President of Investment Solutions, to lead our sales efforts for our five ETFs in the market that trade daily on the TSX. We were also fortunate enough to bring on Damon Streuber, who is our Finance and Compliance Associate along with Homayoun Gerami who is our Full Stack Developer to further bolster our team.

Since the launch of our Accelerate Carbon-Negative Bitcoin ETF at the end of the third quarter of 2021, our investors' participation in the ETF has resulted in the planting of 5,000 trees, that is expected to sequester over 1,500 tons of CO_2. Our Accelerate Arbitrage ETF finished the year up 7.4% along with HDGE up 30.0%, ATSX up 27.9% and ONEC 12.6%.

As of December 31, 2021, the Standard Wealth strategy has a dividend yield of 3.80%, with a current portfolio price to earnings ratio of 14.1. The strategy has a trailing twelve month return of 41.2%.

Wishing all investors a prosperous 2022 and I am looking forward to stewarding the Standard Wealth strategy forward with the white glove service and respect it deserves.

Best Regards,

Fred H Mannix

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Fund Performance

Standard Wealth Returns (from Feb 29, 2020)		
2020 (Feb 29 - Dec 31)	16.1%	holding pd
2021	41.2%	holding pd
1 Yr	41.2%	holding pd
3 Yr	n/a	annualized
5 Yr	n/a	annualized
Since Inception Feb 29, 2020	29.1%	annualized

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