Accelerate
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July 11, 2024

Dear Investor,

A calm and still cloak has blanketed the equity markets with volatility sitting at a historic low. Investors have seemingly shrugged off geopolitical, economic and political shocks, as the 10-year treasury yield has dropped from 5% in October of 2023 to 4.35% today. Will bond vigilantes sound the alarm on Americas' 6% GDP deficit and raise borrowing costs for the wealthiest and most powerful nation on the planet? It's tough to say, however, what is known is that China is selling U.S. Treasuries at a record pace, and the petrodollar agreement from 1974, between Saudia Arabia and the United States, is no longer in effect. The Middle East oil producing states are shifting payments away from using the U.S. dollar which could have long term reverberations across the globe. Today, the alternatives to the U.S. dollar are not palatable, although nothing in this world is static, and at one time, Rome was thought to be invincible.

The demise of the richest and most powerful nation on the planet is not imminent, and I doubt that in the next 20 years we will see the USA cease to be the most important economy in the world, but the slow boil of 6% deficits year over year is unsustainable.

"The problem will be caused by the market and then you will be forced to deal with it and probably in a far more uncomfortable way than if you dealt with it to start."

Jaime Dimon

The U.S. government continues to spend public funds like a drunken sailor. When the bond vigilantes start paying more attention, treasury yields may spike. The last 10-year treasury auction on June 11 had a coverage rate of 2.67, times but watchout if the coverage rate drops below the long-term average. Interest rates are likely to spike higher to entice investors to lend their hard-earned dollars to the U.S. government to fund operations. Once started, this negative feedback loop will be hard to stop. Imagine funding the trillion-dollar deficit at 6%-7%. Borrowers will see interest costs soar and devastate American businesses through higher funding costs. Small and medium sized businesses will either be refused credit from banks or offered intolerably high interest rates and unreasonable debt covenants. Credit will dry up and private credit lenders might not be able to fill the demand.

"A billion here, a billion there, sooner or later it adds up to real money."

Everett Dirksen

The flip side of all this worry and angst is that $6 trillion in money market funds will mature in the next twelve months. Most of these assets will be looking for attractive opportunities to earn a higher return than what is offered by the risk-free rate of the Federal Reserve. Some of this cash will continue to make its way toward gold allocations, with the shiny metal

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appreciating by 12.76% in 2024. A good portion of these money market assets have made their way into equity markets, with the S&P 500 up 15.46% and the TSX 60 up 4.38%. It has been a good year so far to be putting money to work in stocks.

What are investors to do at this point?

As always, we recommend remaining fully invested. However, we have taken a cautious stance in Standard Wealth. We have trimmed some big winners to keep them from disproportionally affecting performance going forward and only allocated to one security this quarter, the Accelerate Diversified Credit Income Fund. This diversified credit strategy allocates towards 21 of the best private credit managers through their listed private credit vehicles on the NYSE or Nasdaq. These managers, including KKR, Goldman Sachs, Blue Owl among others, build portfolios of loans based on floating rate exposures of SOFR +500-700 basis points. The strategy currently pays an annualized 10% yield. Since this strategy has floating rate exposure, we do not take any duration risk, and it can perform well in a high or rising rate environment. We are also comforted by the fact that these large U.S. credit managers are required by the SEC to publicize their loan portfolio's every ninety days, where we will review the loan terms, who is borrowing the funds, along with which loans are performing. With that type of transparency, the market can tell you on a minute-by-minute basis of price discovery, what your investments are worth. The Accelerate team is constantly evaluating these loan portfolios so that our investors are allocated towards the best private credit managers and loan portfolios available to the market on a risk adjusted basis.

"The biggest risk is not taking any risk. In a world that's changing really quickly, the only strategy that is guaranteed to fail is not taking risks."

Mark Zuckerberg

Artificial intelligence continues to be the headline driver of enthusiasm for investors and Nvidia is the poster child for this exuberance. If you have not seen the 3-year performance chart, I recommend you take a quick look, as it is breathtaking. Sadly, we have not participated in this incredible run of performance as the entry point for a value investor has not presented itself. Staying true to our North Star of being a devout value investor disqualifies us from allocating towards companies currently trading at 71x to earnings and at a price to free cashflow ratio of 78x. Even though we do not have Nvidia in our diversified portfolio, we are watching earnings reports and analysis ratings on this bellwether company as any stumble in operational performance might cause the price of this stock to tumble back down to reality. After the recent 10-1 stock split, retail investors have poured into the stock as chief strategist at Interactive Brokers, Steve Sosnick, noted that the GraniteShares 2x long NVDA Daily ETF NVDL was the 11th-most actively traded ticker on the Interactive Brokers platform at the end of June. When retail speculators pile into the double-levered single-stock ETF casino, we conduct ourselves with extra caution.

Standard Wealth investors have seen our prudent use of leverage be paired down to 1.16x, with the entire position in Phillips 66 liquidated and positions in JPMorgan, Blackstone, Alphabet and CIBC trimmed back this year. Taking profits and waiting for markets to offer us better investing opportunities has been our mantra for 2024 as Standard Wealth continues to grind higher, up 12.98% YTD. If and when we experience a market correction, we will be ready to allocate to our favourite securities that have recently seen their share price deteriorate. Bristol Meyers Squibb is a key candidate to add to our position as bad news through the loss of exclusivity in 2026, related to its two block-buster drugs, has depressed the share price. The pipeline of new drugs in development is robust and although top line revenue is projected to shrink modestly in the next couple of years, the future is bright for long term investors in this pharmaceutical giant, and we get paid to wait with a current dividend yield of 5.8%.

Investing in companies that are out of favour and lack the excitement of the newest breaking news headlines has served our clients well. We aim to help our families stay wealthy through our fundamental analysis of the large cap North American equity universe and then seek to build a diversified portfolio of market leading companies that are protected through regulation or scale. What we have constructed in the Standard Wealth portfolio is a diversified income stream that helps reduce the volatility of normal market gyrations and helps compound wealth year over year. Complementing our dividend yield within Standard Wealth is our allocations to uncorrelated strategies. One of the few positive investment strategies during March 2020 and the whole annualized year of 2022, was the Accelerate Absolute Return Fund, which has had strong performance this year, up 15% YTD. We expect this strategy to help protect the portfolio during market turbulence. Since it has intraday liquidity, we can sell at anytime the market is open to reinvest into the companies that we know and love.

As of June 30, 2024, the Standard Wealth strategy has a dividend yield of 3.20%, with a current portfolio price to earnings ratio of 18.4. In addition, the strategy has a trailing twelve-month return of 28.10%.

Wishing great performance to all investors as we continue to help our families stay wealthy.

Best Regards,

Fred Mannix

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Fund Performance

1 Year Return 28.1%, Net Dividend Yield 3.2% and P/E of 18.4

Standard Wealth Returns*	
2020*	16.1%
2021	41.2%
2022	-9.6%
2023	20.4%
YTD	12.8%
1 Yr	28.1%
3 Yr	8.8%
4 Yr	20.4%
Since Inception	16.8%
S&P 500 Index CAD	15.7%
S&P TSX 60 Index	10.6%
S&P 500 / TSX 60 Blended Index	13.2%

* Inception Date: Feb 29, 2020
- all returns are annualized

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