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Editor and Publisher: Gordon Pape
Associate Publisher: Richard N. Croft

WEALTH *builder*

WE STILL NEED GAS



By Gordon Pape, Editor and Publisher

I know there are many readers who wish the oil and gas industry would magically disappear. They see it as the prime contributor to climate change and feel that if we could quickly switch to renewable energy, we could slow down and perhaps even reverse global warming. Most, but not all, climate scientists agree.

Every time I write anything about fossil fuels, I receive several critical e-mails, most of them filled with statistics about the impact the industry is having on climate change.

I'm not a climate-denier. The science is well established. But the reality is that oil and gas are going to be the main sources of supply for our power grid for many years yet.

According to a report from the US Environmental Protection Agency, transportation (cars, trucks, ships, trains, planes) was the number one source for

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**Next issue:
October 4**

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greenhouse gas emissions in that country in 2019, at 29%. That's followed by electricity production (25%), industry (23%), commercial and residential (13%), land use and forestry (12%), and agriculture (10%).

The EPA report suggested several ways in which greenhouse gas emissions could be reduced. Obviously, many of them relate to the use of renewable energy, such as hydroelectricity. But several recommendations involved the use of a fossil fuel: natural gas.

For example, the report recommended converting a coal-fired boiler to use natural gas or co-firing natural gas as a means of reducing emissions from electrical production. In the transportation sector, one of the suggestions is to using public buses that are fueled by compressed natural gas rather than gasoline or diesel.

Of course, natural gas emits greenhouse gases but less so than other fossil fuel alternatives. It means we will be living with it for a while yet.

After years in the doldrums, the price has spiked in 2021. Natural gas opened the year at about \$3.50 per MMBtu. It's now trading at about \$5.00 (prices in US currency), according to Trading Economics.

The largest natural gas producer in Canada is Calgary-based Tourmaline Oil (TSX: TOU, OTC: TRMLF), which ironically does not use the word "gas" in its name. (The leader used to be Encana

but that company changed its name to Ovintiv and moved to the United States.)

Tourmaline is a relatively new company, founded in 2008 with an experienced managerial team, several of whom had been involved in the founding and operation of Duvernay Oil and Berkley Petroleum. Thanks to several strategic acquisitions, it has assembled an extensive undeveloped land position with a large, multi-year drilling inventory and operating control of important natural gas processing and transportation infrastructure in three core long-term growth areas – the Alberta Deep Basin, the Northeast British Columbia (NEBC) Montney complex and the Peace River Triassic Oil complex.

The company is enjoying a highly successful year. Second quarter free cash flow (FCF) set a record at \$343.9 million. Average production was 410,339 boepd (barrels of oil equivalent per day), a 37% increase over the same period last year.

Cash flow was \$570.2 million (\$1.89 per diluted share) compared to \$225.2 million (\$0.83 per share) in the same period last year. Net earnings were \$420.8 million (\$1.40 per share) compared to \$20.1 million (\$0.07 per share) in second quarter of 2020.

Last week, Tourmaline announced a special cash dividend of \$0.75 a share payable on Oct. 7 to shareholders of record on Oct. 1. It also announced an increase of a penny in the regular quarterly dividend, to \$0.18 (\$0.72 a year), effective Dec. 31.

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The company says it intends to return the vast majority of FCF to shareholders on a go-forward basis. This will be achieved through “modest, sustainable” base dividend increases, special dividends when appropriate, and tactical share buybacks.

It also said its recently approved 2022 capital budget of \$1.125 billion is expected to deliver average production of 500,000-510,000 boepd and \$3.7 billion of cash flow.

This is all fine from a production/financial perspective but it’s still a dirty business from global warming perspective. However, Tourmaline’s mission

statement “is to provide the world with the cleanest and lowest-emission natural gas”. Its 2020 sustainability report said the company has achieved a 31% decline in CO2 emissions intensity since 2013.

The share price reflects the company’s success. The shares finished 2020 at \$17.16. They closed on Friday at C\$43.83 (US\$34.59), a year-to-date gain of 155%. We continue to rate them a Buy for investors who aren’t averse to holding fossil fuel stocks.

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DELTA WOES



**By Richard N. Croft,
Associate Publisher**

As Gordon wrote a few weeks ago, conventional wisdom tells us that

healthy bull markets climb a wall of worry. They ascend to new heights by scaling an abundance of negative factors that are seen as temporary stumbling blocks rather than permanent impediments.

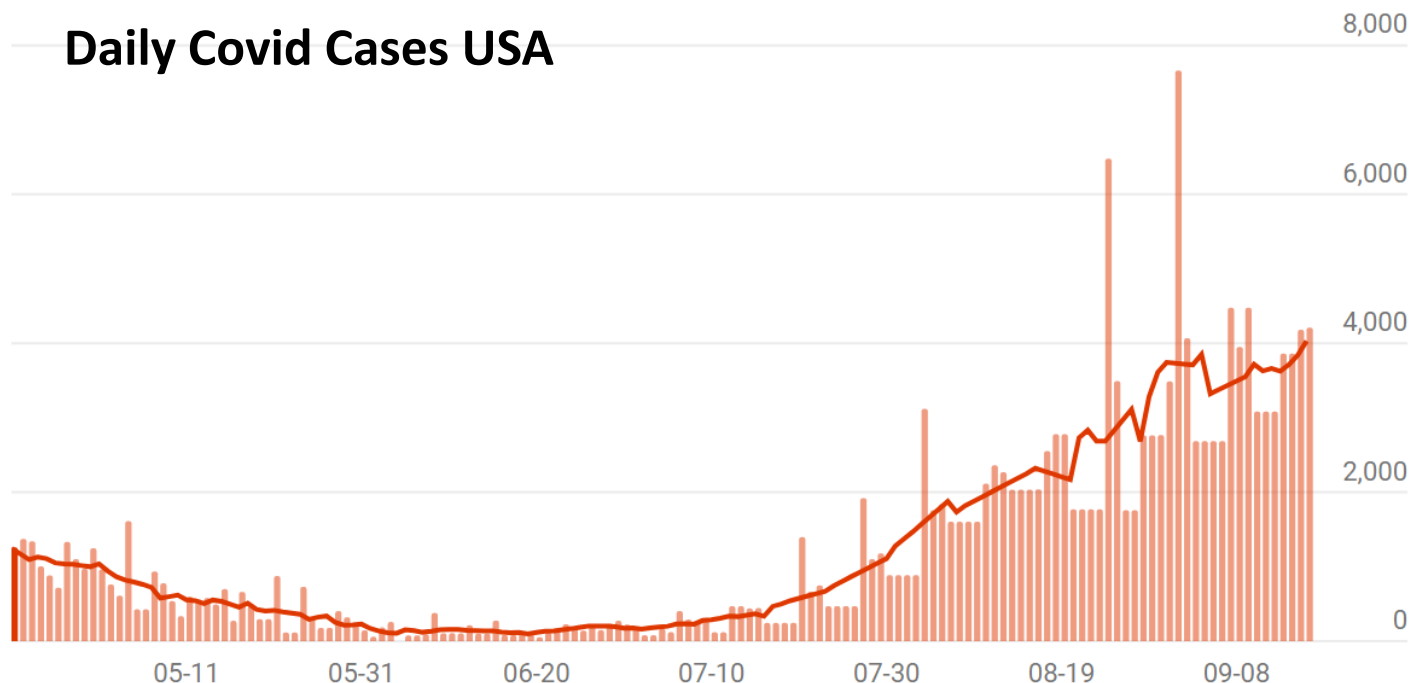
In the current environment, there are plenty of “temporary” stumbling blocks for

the bull to scale: the taper timeline, direction of interest rates, elevated valuations, irrational exuberance in sectors (meme stocks), COVID trends, vaccine uptake, inflation, supply chain disruptions, labor shortages, government debt...and the list goes on.

Viewed as a package, the list is problematic. But dig deeper and the one risk that could galvanize bears is the Delta variant. It is the great unknown and has become the scourge of the unvaccinated.

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Daily Covid Cases USA



Source: NY Times

Delta—continued from page 3...

According to the US Center for Disease Control and Prevention (CDC), 99% of COVID related hospitalizations and deaths occurred among the unvaccinated. As of Aug. 30, over 1.6 million Americans had been hospitalized with COVID-19. Only 0.65% of that total, or 10,471 patients, were fully vaccinated.

It is the perfect storm for the highly contagious Delta variant. The daily case count ebbs and flows, with unexplained spikes and sharp pullbacks. Daily confirmed cases in the US recently topped 300,000 in August. The current seven-day average is around 133,000. In total, more than 42.3 million Americans have been infected by COVID with 676,747 deaths (as of Sept. 21).

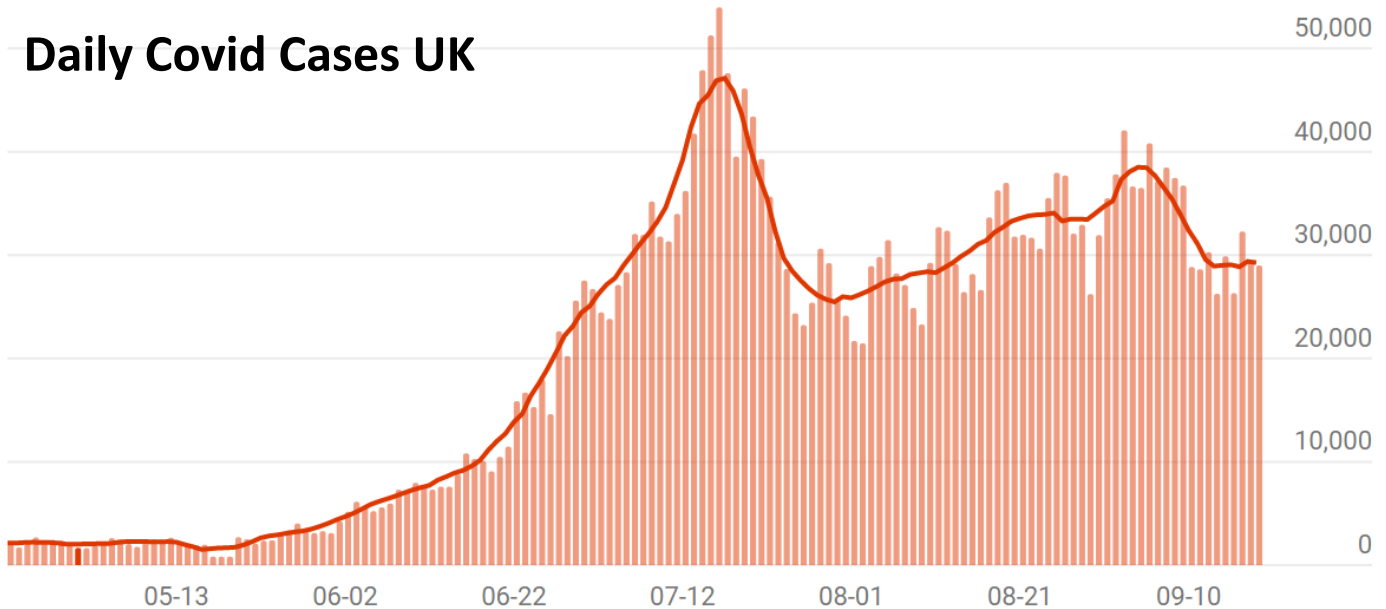
Delta has emerged as the most virulent strain, but as with any virus, further mutations could challenge its veracity. Already, we have already seen eight COVID variants since September 2020.

What makes Delta different is that it is highly transmissible. In effect, a person infected with Delta can spread it to a greater number of people than previous strains. People can also be infected with a shorter period of exposure, which leads to a bigger viral load among infected individuals, particularly among the unvaccinated.

The other concern that is specific to Delta is that vaccinated individuals can spread the virus. This is slightly different from what we have seen from previous strains, where it was less likely an

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Daily Covid Cases UK



Source: NY Times

Delta—continued from page 4...

asymptomatic vaccinated person had enough of a viral load that it could be spread to another person. That is a key reason why Delta has spread so quickly even within countries with high vaccination rates.

Delta is by far the single greatest threat that could derail a return to normal, increase friction along major supply chains, and create labor shortages. The question is how bad will Delta's impact be and is there a risk that other more virulent strains will emerge?

Looking at the global implications within developed and emerging markets, we get mixed messages. In developed markets, especially Europe and the United Kingdom, the news is mostly positive.

The UK is particularly noteworthy as cases and hospital admissions are down

sharply despite a full re-opening. The latest PMI (Purchasing Managers Index) data indicates a reaccelerating following the peaking of cases and full reopening.

Economists believe Europe will lag but, in time, will follow the UK trajectory. Throughout most of Europe, we are seeing COVID cases peak and in some regions exposed to the early onset of Delta (notably Spain and Portugal), we are seeing cases contract. Cases are still rising in France, Italy, and Germany (although from a smaller base) but overall, the news is generally positive.

As for the US, not so much! While at a national level the numbers are manageable (current estimates are 55,000 people in hospitals), there is a significant disparity among individual states. For example, recent numbers

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from Florida (as of Sep. 12) show that one individual out of 2,000 is hospitalized with COVID. That is a staggering statistic when you consider that Vermont's hospitalization rate is one in 100,000.

More importantly, the negative correlation between vaccination rates and hospitalizations is, as one might expect, significant. For example, the vaccination rate in Alabama is around 43%, well below the 90% rate in states like Vermont and Massachusetts. These are large discrepancies that correlate incredibly well with hospitalization rates.

Aside from the Florida stats, I expect Delta will weigh on economic output throughout the US. The main concern is "consumer risk aversion" among vaccinated individuals. According to a recent Gallup poll, the share of Americans who feel protected has dropped from 50% to 38%. Interestingly, those who are most fearful are fully vaccinated. Respondents who feel the safest have no plans to get vaccinated.

The Gallup poll is indicative of some interesting dynamics. High virus transmission in Florida or Alabama indirectly weighs on the recovery in high vaccination states because people respond to the national news cycle. What the statistics tell us is that consumer behavior is impacted more by the national virus numbers than the more relevant local data, which is consistent with the downward national GDP revisions we are seeing.

In short, there is a behavioral connection where bad news out of Florida may affect someone in Vermont, who might be more hesitant to go to a restaurant despite being fully vaccinated in a region where the virus is being contained.

For those reasons, economists have tempered US growth forecasts by one to three percentage points for the second half of 2021. The greatest impact is being felt in consumer services such as leisure, entertainment, travel, and restaurants.

Globally, there will be wide dispersions across continents, ranging from somewhat positive news in most of Latin America where, aside from Mexico, cases are in decline. Vaccination rates across Latin America are rising and when combined with previously high case counts, much of the region is closing in on herd immunity.

That is in sharp contrast to the Asia-Pacific Basin, where restrictions implemented in 2020 shut down the virus. Unfortunately, because natural immunity rates are lower and vaccination uptake has been sluggish, the virus situation is deteriorating. Accordingly, growth forecasts for India, Asia, Japan, and Australia have been cut drastically.

The main concern is China where, despite low case counts, the more transmissible strain is beginning to surge. Unfortunately, China's zero COVID policy, while admirable, is likely not achievable. The risk is that shutting down

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operations to thwart outbreaks will have serious and unpredictable repercussions on global supply chains.

Summary

We are witnessing a sharp reversal in global growth forecasts since the emergence of the Delta variant in April. The largest downgrades have been across the Asia-Pacific Basin particularly in the Philippines and Thailand, two countries not only suffering from high virus transmissions and restrictions but also from a slower than expected rebound in tourism.

We have also seen significant downward revisions for US growth related to consumer risk aversion as well as bottlenecks in housing, labor markets, and the goods sector.

That said, we are seeing green shoots from regions – notably Europe and the UK – where early exposure to the Delta strain and declining case counts might be a harbinger of good things to come.

As COVID cases begin to roll over, we anticipate upward revisions especially in geographic regions where there is significant room for vaccine-driven reopening. Think in terms of Spain, Southern Europe, and perhaps India.

The biggest risk is the emergence of a new, more transmissible strain that might penetrate the vaccine firewall. The other risk, indirectly related to the pandemic, is a slower recovery for supply chains and,

specific to the US, the ability to attract labor.

On the supply chain question, economists believe that inventories will be rebuilt in the coming months. That would be a net positive because earlier this year inventory drawdowns weighed on growth in the US, Germany, and France. Unfortunately, that could take longer than expected as Asia-Pacific economies struggle with lower vaccination rates and zero COVID policies.

As for the US labor market, economists are more bullish. Most expect the US unemployment rate to fall from 5.9% to the low 4% this year as generous federal unemployment benefit top-ups expire, and vaccination rates rise.

The challenge is that labour market participation is a complex issue. COVID has resulted in a rethinking of priorities between work, leisure, money, family, and health. It may be a slower recovery than first envisioned and something we will monitor closely over the coming months.

Recommendations

Beyond the aforementioned risks associated with Delta, I am also mindful of Central Bank policy which is expected to tighten in the coming months and could weigh on valuations. Other short-term challenges include debate around the US debt ceiling. While I have no

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doubt that it gets resolved, I suspect investors will be subjected to increased volatility as Congress and the US Senate play politics with the infrastructure bill. In fact, I am of the view that if any infrastructure bill gets passed, it will be significantly smaller than what is currently on the table.

Globally, there are growing concerns around China's housing bubble. The main player in that space is Evergrande (China's version of Lehman Brothers) which is on the verge of bankruptcy. The question is whether China bails out the company or lets it fall as a lesson to other aggressive would-be entrepreneurs. The answer is not clear cut.

Unlike China's tech giants, where the Communist Party has been waging a game of "whack a mole," Evergrande is systemically important as it plays in a space that represents 25% of China's GDP. Letting that company fail will reverberate across the working class who have laid out significant down payments on 1.6 million unfinished homes. The political blowback may be more than the Chinese Communist Party is willing to assume.

Finally, there is the contagion factor. Does China's property woes extend beyond its borders? I don't think it will but the risk it might will be enough to spook investors.

Given the many risks, I think investors would be well served to keep some powder dry, at least until we get through the seasonal challenges that historically have negatively influenced markets in the September – October period. I would not be a seller into this current downtrend, but I would not be stepping in with new buys either.

There are times when cash is the best investment.

Associate Publisher Richard Croft has been in the investment business for more than 40 years and is the founder of R.N. Croft Financial Group. As a global portfolio manager and option specialist, his focus is helping investors clarify their goals and risk tolerances, leading to an appropriate risk-adjusted portfolio. He can be contacted at rcroft@croftgroup.com

Questions



Our team of experts have your answers!

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FEAR OF MAKING (A) MISTAKE



**By Shawn Allen,
Contributing Editor**

In real estate investing there is an alphabet of fears.

When it comes to home purchases, there is FOMO, the Fear of Missing Out as home prices rise ever further out of reach. This fear causes people to get carried away in bidding wars and to potentially overpay for houses. FOMO and the resulting buying panic have been a self-fulfilling prophecy for some years now.

When it comes to selling a home there is FOSC – Fear of Selling Cheap. This can lead to lack of supply and inflated asking prices.

In investing the biggest fear has traditionally been the fear of loss. The academics call it loss aversion.

But let me suggest a slightly different fear that investors have. FOMM – Fear of Making (a) Mistake.

It's bad enough to incur an investment loss. But I think what often hurts more is acknowledging any sort of self-inflicted investment loss.

A decline in your portfolio that is caused by a general decline in the markets causes some stress. But a decline that is caused by what feels like a mistake that we made ourselves is harder to take and causes more stress. It's human nature to be more comfortable when setbacks can be blamed on others or general circumstances as opposed to our own actions.

So, I think investors are often held back by a conscious or even an unconscious FOMM – Fear of Making Mistake.

Investors with ample cash wonder if putting money to work in the market will turn out to be a mistake, especially when markets are at or near record highs. On the other hand, they also have FOMO – Fear of Missing Out on further gains.

Investors considering individual stocks have an even larger FOMM since picking an individual stock that goes down involves more choice and if it turns out to be a mistake it's harder to blame it on external circumstances and is more likely to cause stress and regret. Also, an individual stock is subject to more downside risk than the market average index.

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And investors holding individual stocks that have done well wonder if selling some or all will turn out to be a mistake (it usually is with the better companies) or will holding such stocks at their highs turn out to be the mistake?

In summary, investors are constantly faced with FOMM. So, how should you deal with it?

One common way is to simply never invest, even when funds are available. Over the years that will definitely lead to missing out on substantial gains. But such a mistake of omission is often less psychologically painful than a mistake of commission that goes bad. And non-investors can simply refuse to pay any attention to markets. If they never think about their "missing" returns, they need not be bothered by them. Of course, for actual investors this strategy is a non-starter.

Another approach is to turn all investment decisions over to an advisor. In some cases, this will consist of giving a portfolio manager complete discretion to manage funds. Or it can consist of blindly following an advisor's suggestions. There is a true psychological benefit here in that there is someone to blame for mistakes. Stress and regret over our own decisions are real mental health concerns and the chance to avoid such stress has genuine value.

A strategy that I think has merit for do-it-yourself investors is to put a portion of investments funds into well diversified exchange traded funds such as Vanguard Balanced ETF Portfolio (TSX: VBAL), Vanguard Conservative ETF Portfolio (TSX: VCNS), or Vanguard Growth ETF Portfolio (TSX: VGRO).

By putting a portion of funds into the broader market, including fixed income, investors can reduce the portion of the portfolio that is riding on their own individual security selection decisions.

While this may reduce returns, especially over the longer term, it will also increase returns in some periods and should lead to lower stress levels at times. With a lower potential FOMM, it may be easier to pull the trigger on such an investment compared to investing in individual stocks.

In conclusion, FOMM may explain part of what you are feeling as you consider investment decisions. By understanding that FOMM is a normal human feeling you may be better able to deal with it.

Contributing editor Shawn Allen has been providing stock picks on his website at www.investorsfriend.com for over two decades. He is based in Edmonton.



GAVIN GRAHAM'S UPDATES

Recommendations are
colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Pan American Silver TSX, NDQ: PAAS

BUY

Originally recommended by Gavin Graham on June 17/19

(#21923) at C\$15.58, US\$11.66. Closed Friday at C\$29.66, US\$23.44.

Background: Pan American Silver is the largest silver mining company by market capitalization (\$6.9 billion) and the second largest primary silver producer. It owns a diversified portfolio of assets in mining friendly jurisdictions including Mexico, Peru, Canada, Bolivia, and Argentina. It also owns the non-operating Escobal silver mine in Guatemala, acquired through its takeover of Tahoe Resources in 2018, which produced as much silver as all of Pan American's other mines in its last year of operation in 2018.

Performance: Down by 40% from its all-time high of \$51 last December, Pan American has nonetheless doubled from its original recommendation in 2019. Production issues have restrained output, combined with the bearish sentiment on precious metals in 2021 to date.

Financials: For the second quarter to June 30, silver production was 4.5 million oz. against 2.8 million oz. in the same quarter of 2020, which was affected by COVID-19 shutdowns. Gold production

was 142,300 oz. against 96,600 oz. and lead, zinc, and copper output all rose substantially.

AISC for silver was \$16.36 per oz. (the company reports in US dollars), up from \$12.54. This was partially due to ventilation issues at Pan American's largest mine, La Colorada. These were subsequently resolved in July. Gold AISC rose to \$1,163 per oz. from \$1,015. Revenue rose 53% to \$382.1 million and adjusted net income quadrupled to \$46.6 million (\$0.22 per share). Silver prices rose 62% to \$26.88 per oz. and gold was \$100 per oz. higher, at \$1,809 per oz.

Dividend: Pan American raised the dividend 43% from US\$0.07 per quarter to US\$0.10, the third dividend increase in the last eighteen months. This gives Pan American a 1.7% yield.

Action now: Pan American will experience further growth in silver output as the production issues at La Colorada

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RYAN IRVINE'S UPDATES

Recommendations are
colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Viemed Healthcare Inc. TSX, NDQ: VMD

HOLD

Originally recommended on May 20/19 (#21919) at C\$9.12, US\$6.77. Closed Friday at C\$7.57, US\$5.99.

Background: Viemed, through its wholly owned subsidiaries Sleep Management and Home Sleep, is a participating Medicare durable medical equipment supplier that provides post-acute respiratory care services in the United States. The company specializes in providing home respiratory services to patients struggling with various respiratory diseases including COPD and various neuromuscular diseases.

With almost 25 million Americans reporting that they have been diagnosed with COPD, the country's third largest killer behind cancer and congestive heart failure, Viemed provides a solution for people who suffer from this debilitating disease.

Performance: After topping out at \$13.69 in February, the shares have gone into a lengthy decline.

Recent developments: Total second quarter revenue was \$27.4 million. That consisted of approximately \$26.3 million in core sales and \$1.1 million in COVID-related revenue. Core revenues increased 14% year-over-year, driven by a 5% increase in patient count and an increase in revenue/patient (due to diversification strategy). Reported adjusted gross margin was 73.5%, up from 70.9% as COVID-related revenues contributed a smaller percentage of total revenues than in the first quarter. Of its core revenue, 77.3% was derived from vent rentals, down from 80% in the first quarter and 82% last year, as Viemed's diversification strategy continues to bear fruit. Oxygen is the company's fastest growing product category, up 100% year-over-year.

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At quarter end, Viemed had cash of \$31.2 million, working capital of \$28.7 million, and long-term debt of \$5.7 million. This continues to provide management with dry powder for a potential acquisition.

Near-term risk: The FDA has initiated a recall of Phillips vents and CPAP (continuous positive airway pressure therapy) machines. For the vents used by COPD patients, the recall is not expected to have a material impact as the part causing the problem can be swapped out. For CPAP machines used by sleep patients, the recall is significantly more disruptive. Phillips has approximately 50% of the CPAP market, and it will take 9-12 months to replace all the units. Viemed has proactively found a supplier of CPAP machines. There is potential for distressed assets to come up for sale due to the recall as home medical equipment providers without purchasing power may not be able to provide required equipment. Approximately 8% of Viemed's patients are sleep related.

Conclusion: Our rating has been Hold for Viemed for 2021 given the tough 2020 comparables produced from the company's "one-time" vent procurement related revenues. While vent sales growth has returned, given COVID-19 related restrictions,

Viemed's sales staff continues to be challenged accessing decision makers near-term, which is a drag on the company getting back to its 20% plus historical growth rate. As the pandemic abates, we expect growth to move back to historical norms.

Viemed expects to generate net revenue in the third quarter of \$27.3 - \$28.6 million with \$0.5 - \$0.8 million in COVID-19 related revenue. The guidance implies a return to historical levels of sequential patient growth (3-6%), which is a positive. If we see selling pressure to the end of 2021 and positive organic vent growth in the third quarter, there may be a longer-term opportunity.

Action now: We maintain our Hold rating.

Disclosures: KeyStone & KeyStone employees own shares in VMD.

PAAS —continued from page 11...

and the buildup of inventory in the system will be worked through. It is forecasting silver production of 20.5 million to 22 million oz. in 2021. With silver prices \$10 an oz. higher this year than last, and with the possibility of Escobal coming back on stream if the court decision in Guatemala proves favourable, Pan American is a Buy for its cheap valuation (13.5 times 2021 earnings) and growing gold and silver production.