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INFLATION NOT GOING AWAY

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By Gordon Pape, Editor and Publisher

Everyone know that prices are going up. Bacon, produce, gasoline, houses – everything costs more, and the price hikes are escalating each month.

Initially, our central bankers tried to ease concerns by saying the CPI rise was "transitory". Now they've backed off from that flip approach, admitting that rising prices may be with us for some time. Bank of Canada Governor Tiff Macklem said recently that inflationary pressures are "stronger and more persistent than expected."

That's the view that has been espoused for months by Philip Cross, Munk Senior Fellow at the Macdonald-Laurier Institute.

"The extreme policy response to the pandemic introduced numerous distortions into the economy that are persisting, and in some cases, worsening with time," he

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said in a report titled *Why inflation isn't transitory and won't be easily contained* that was released on Friday.

"These distortions are manifest in the unprecedented increase of household income during a recession, dislocations in the housing and labour markets, the mismatch of sectoral demand with industry supply, and heavy borrowing from debt markets."

Moreover, the CPI numbers may be understating the true dimensions of the current inflationary spiral, he warns.

"The CPI is ill-equipped to account for shortages since it was de- signed to measure prices in an economy where goods and services are abundant, not a Soviet-style economy of rampant shortages," he says.

"Shortages are de facto price increases, whether consumers pay the cost of waiting in line for their product, face shorter business hours, are given less choice of products to buy, or must buy a more expensive product because cheaper substitutes are not available. Higher prices, longer wait times, less choice, or a lower quality of service all represent increased costs to consumers, but only list prices are incorporated into the CPI."

Blaming governments for "significantly distorting the economy", he concludes: "Containing inflation may not be a simple or short process, even if the global supply chain quickly returns to normal. Shortages of labour, shifts in housing demand, and higher food and energy prices will require more than a brief nudge to interest rates. Most fundamentally, governments must find a way to fund their debt, now that central banks are ending purchases of government debt, or the upward pressure on interest rates will intensify."

The full report can be read at macdonaldlaurier.ca.

So, what does the ordinary consumer do when costs rise? They look for cheaper alternatives. Hello, big box stores.

Your local Walmart and Costco (and Target if you live near the US border) were already looking forward to a healthy holiday shopping season. Now that's likely to be boosted by consumers seeking the lowest prices they can find.

All three companies are coming off solid third quarters.

Walmart (NYSE: WMT) reported total sales of $140.5 billion, up 4.3% from the same quarter last year (figures in US dollars). Diluted net income per share was $1.11, down from $1.80 in the prior year as margins were squeezed by the combination of higher product costs and the company's low-price policy.

The company has dealt with supply chain issues by chartering its own ships to transport goods and was able to increase inventory by 11.5% in advance of the holiday season. Walmart raised its

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Inflation—continued from page 2…

guidance for 2022 adjusted earnings per share to $6.40 from $6.20-$6.35.

Target (NYSE: TGT) reported that comparable sales were up 12.7% in the third quarter, on top of a 20.7% increase in the prior year. Digital comparable sales were ahead 29% after a 155% jump in the 2020 third quarter. Adjusted earnings per share were $3.03, up 8.7% from the year before. The company said it had a "strong" inventory position going into the holiday season.

Over at Costco (NDQ: COST), net sales for the fourth quarter of the 2021 fiscal year (to Aug. 29) were $61.4 billion, an increase of 17.5% over last year. Net income was $1.7 billion ($3.76 per share, fully diluted). That compared to $1.4 billion ($3.13 per share) the year before.

Net income for the full fiscal year was $5 billion ($11.27 per share), up from $4 billion ($9.02 per share) in fiscal 2020.

The shares of all three companies were down after Friday's big market sell-off, although Costco is still close to its all-time high. This may be a good time to start building positions in one or more of them, if you don't own shares now. But ease your way in until we can determine if Friday's sell-off was a blip or the start of the long-expected market correction.

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A CYCLICAL STOCK WITH DOWNSIDE PROTECTION

By Justin Anis, Guest Contributor

Many investors are looking for securities that are well-positioned to profit from the new wave of inflation. Meet Altius Minerals (TSX: ALS).

Altius is a diversified mining, potash, and renewable energy royalty business based out of St. John's, Newfoundland. Altius boasts many of the characteristics we search for in a long-term investment: a strong management team, a unique and competitively-advantaged business model that has the ability to grow through cyclical downturns, as well as trading at attractive valuations.

In an environment where investors are concerned about inflation, Altius allows us to gain exposure to the upside in commodity prices without many of the risks that a pure play mining company must deal with. In a strong commodity market, Altius will benefit both from the rise in spot prices of the commodities as well as increased production by the operators, without taking on any of the

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Cyclical stock—continued from page 3...

development and operating risks that mining companies face. The business model is further de-risked given the diversity of their royalty portfolio across potash (20%) iron ore (23%), and copper (34%). The balance comes from power generation, nickel, zinc, and cobalt.

The management team at Altius Minerals has built a counter-cyclical business model that takes a contrarian approach to growing their portfolio of royalty assets and investments through the fullness of a business cycle. Throughout their 20+ year history, the management team has opportunistically acquired royalty streams on a diverse portfolio of assets during periods of distress in the mining space. They offer royalty financing to top tier operators of high-quality assets in exchange for long life royalties.

Some examples of this are the Chapada copper mine operated by Lundin Mining, the 777 mines operated by Hudbay Minerals, and various potash assets operated by Nutrien Inc. These royalty streams, amongst others, provide Altius with a predictable cash flow stream.

In addition to building up a war chest of cash to take advantage of royalty opportunities during cyclical downturns, the cash flow allows the company to pay a dividend and opportunistically buy back stock. At Friday's closing price of $15.42, the shares yield 1.8%.

Over the history of the company, Altius has astutely deployed this cash during cyclical downturns to establish its project generation business, a portfolio of junior exploration projects which it spins out during cyclical upswings and fuels new royalty opportunities. This process has resulted in a business that has steadily grown royalty revenue per share from $0.22 in fiscal 2014 to $1.99 in the past 12 months. This track record and consistency are rare for a company with exposure to such cyclical end markets, which is why Altius is one of our preferred vehicles to gain exposure to commodity markets.

Our investors know that a strong management team is one of the most important things we look for when evaluating a long-term investment. Altius has a top tier management team with an exceptional CEO in Brian Dalton, who founded the company over twenty years ago and is its second largest shareholder. Mr. Dalton has consistently adopted a unique and contrarian approach to building the portfolio of royalties at Altius, acquiring assets when they are out of favour and positioning the company to benefit from long term secular trends.

Like many companies geared towards natural resources, the increasing trend towards Environmental, Social, and Governance (ESG) based investing has been a headwind. Altius has responded to this with the formation of a new subsidiary, Altius Renewables Royalties (TSX: ARR). Management's stated goal

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is to completely phase out coal revenues by 2024 and replace them with royalty revenues executed on long life renewable energy assets.

Altius Renewables was formed in February 2019 after being initially conceptualized in the first quarter of 2017. Since then, Altius has invested over $100 million in renewable energy projects, operating both solar and wind power generation.

Altius successfully spun out ARR with an initial public offering earlier this year to take advantage of the valuation disconnect between the parent company and the multiples that green energy businesses trade at. They still retain a 59% interest in ARR.

We believe the shares are attractively valued and poised for multiple expansion as management continues to consistently deliver growth in royalty revenue per share. Larger royalty companies, particularly in the precious metals space, trade at significantly higher multiples. Altius is currently trading around 13.5x trailing cash flow and 12.8x on an EV/EBITDA basis. The net asset value (NAV) of the total business is estimated at $15.21, which is right in line with where the shares have been trading recently.

We believe a premium to NAV of 1.5x is reasonable, given the growth profile of the business. Franco-Nevada, the largest royalty company in Canada, trades at 51x trailing cash flow and 32.7x on an EV/EBITDA basis. This disconnect between share price and fundamentals provides an opportunity for long term investors (and for Altius itself, which has been aggressive in repurchasing stock).

We think the discrepancy is likely explained by structural factors in the marketplace. Firstly, driven by the growth in passive investing, there has been a major shift in capital towards larger and more liquid companies. This is creating significant inefficiencies that can be exploited by nimble investors.

Secondly, as mentioned earlier, there has been a structural shift towards investments that meet ESG standards, as investors increasingly prioritize stakeholder values (such as environmental concerns) when making investment decisions.

Action now: Buy. The shares trade on the TSX under the symbol ALS. They closed Friday at $15.42.

Disclosure: Lions Bay Fund holds a position in Altius.

Guest contributor Justin Anis is a Senior Portfolio Manager at Wealhouse Capital Management, where he manages the Lions Bay Fund, an award-winning North American hedged equity fund. As of Oct. 31, Lions Bay has generated a three-year annualized return of 18.76% net of all costs with 40% lower volatility than the S&P 500. Justin is a CFA charter holder and lives with his wife Joelle in Toronto.

BEATING THE HIGH US DOLLAR EXCHANGE FEES

By Shawn Allen, Contributing Editor

With travel restrictions finally easing somewhat, many of you may be planning trips and will need American currency.

It's long been my view that the banks and credit card companies are over-charging us on currency exchange fees by adding 2% to 4% over and above the wholesale exchange rate.

For example, in most cases if you use a Canadian credit card in the US, the exchange fee starts with the wholesale exchange rate and then adds an approximate 1% fee going to Visa Inc. or MasterCard Inc. Plus there's an additional 2.5% to the card issuer for a total of about 3.5% over and above the wholesale exchange rate. In a specific example, I made a purchase with a TD Visa Infinite card on Aug. 30 this year and paid 4.2% over and above the wholesale exchange rate on that date.

The situation with debit cards is often even worse. TD Bank, for example, charges 3.5% and that's in addition to a foreign exchange fee of about 1% from Interac or Visa, depending on the network used. Even transferring cash between online bank accounts typically results in an exchange fee of 2% to 3% above the wholesale rate unless the amount is over about $10,000.

Several things bother me about these currency exchange fees.

First, they get rolled in with the wholesale exchange fee on our statements so that we never see these added fees paid to the bank and/or credit card issuer. In that sense they are hidden fees which seems rather sneaky and arguably unscrupulous.

Second, these are self-serve, all-electronic transactions. Unlike the case where a bank earns a fee for providing us with physical cash in a bank branch, I can't imagine there is much cost involved. These fees appear to me to be virtually pure profit.

Third, there is little competition in this regard. The banks know that we don't typically choose a credit card or debit card based on the exchange fee. In this case, they appear to simply take advantage of us as basically "captive customers" when spending in US currency.

Luckily, there are some ways to reduce the fees and to perhaps send a message to the banks that we are not going to pay these hidden fees if we can avoid it.

The best and by far the easiest solution for vacation spending purposes is to obtain a Canadian dollar credit card that does not charge the usual 2.5% "adder" on foreign exchange purchases. MoneySense Magazine recently provided

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a list of the best such cards. Their top recommendations include the Home Trust Preferred Visa card with no annual fee and the Scotiabank Passport Visa Infinite card. Google “best no foreign transaction fee credit cards in Canada” to see the full list with all the features, which typically includes reward points or dollars as well. Given the rewards offered, one of these cards could become your primary or only credit card for Canadian shopping as well.

Another solution to avoid the approximately 3.5% total adders is to obtain and use a Canadian US dollar credit card. All the big Canadian banks offer these. It’s an added hassle to have one more credit card but it may be worthwhile for those Canadians who spend significant amounts in US currency.

With a US dollar credit card, you will likely still face a high exchange rate to pay off your card. For example, at TD Waterhouse, the additional amount per US dollar over and above the wholesale exchange rate when I checked at the time of writing was 1.9% for amounts up to $10,000. So that eliminates only about half the fee of using a typical Canadian credit card. And for those without a Waterhouse account, TD’s personal banking arm at TD EasyWeb was charging 3.1% above the wholesale rate, which almost eliminates the benefit of using a US credit card. You may be able to get a better rate by phoning in and asking.

A more advanced method to transfer funds at a lower rate with the use of an investment account is to use “Norbert’s Gambit”. I described this in issue #21813 dated March 26, 2018. It can save you money when transferring larger amounts such as $10,000 or more.

Another route for high dollar amounts is to use a service such as Knightsbridge Foreign Exchange (Knightsbridgefx.com). Also, check with your broker. Some will do foreign exchange transactions for good clients at very reasonable rates.

These high percentage fees are annoying when traveling and they also may represent a risk for banks and credit card companies. In 2019, for example, 27% of Visa Inc.’s revenues were from its currency transaction fees. Visa Inc.’s bottom line profit margin after all expenses and income taxes is a staggeringly high 54%. And I suspect that the margin related to the currency fee portion of their revenues may be even higher.

Meanwhile, Jeff Bezos, founder of Amazon, has famously said to other companies: “Your margin is my opportunity”. Visa Inc.’s incredibly lucrative foreign exchange fee adder represents a very tempting opportunity for any company in the position to take that business away. All indications are that the banks are also making extremely high margins on currency translation fees. That becomes a very tempting target for not only Amazon but for the many emerging fintech companies. I address this with respect to Visa in my update below. Meanwhile, I wish you safe and lower fee travels!

Contributing editor Shawn Allen has been providing stock picks on his website at www.investorsfriend.com since the beginning of the year 2000.

RYAN IRVINE'S UPDATES

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

This month, we start a series of updates on growth oriented small- to mid-caps with the potential to continue to outperform through the end of 2021 and particularly into 2022.

We are also monitoring "tax-loss" harvesting or selling season to see if there will be some "babies thrown out with the bath water" in a unique year which has seen tremendous gains in US big tech, and a significant sell-off in Canadian smaller information tech, health tech, and Cannabis stocks, especially over the second half of the year.

Dynacor Gold Mines Inc. TSX: DNG, OTC: DNGDF

Originally recommended on Feb. 12/18 (#21807) at C$1.93, US$1.56. Closed Friday at C$2.95, US$2.25.

BUY

Background: Headquartered in Montreal, Dynacor is a dividend paying ASM (artisanal and small-scale mining) gold ore industrial corporation. The company's activities consist of the production of gold and silver from the processing of purchased ore and the exploration of its mining properties located in Peru.

Dynacor purchases its ore from government registered producers in various regions of Peru and then processes it at its wholly owned milling facility, Veta Dorada, to produce gold and silver, which is sold internationally at market prices.

As a result, the profitability of this business depends on two factors: the margin between the price of ore purchased and the market price of gold and the throughput (the amount of ore processed). A higher gold pricing environment encourages more small-scale mining, which grows Dynacor's ore supply and creates profitable growth.

Recent financials: Dynacor reported a new quarterly sales record of $61.9 million in its third quarter (the company reports in US dollars). Net income was $3.5 million ($0.09 per share) compared to sales of $24.1 million and a net income of $1.2 million ($0.03 per share) in the third quarter of 2020.

The company completed the expansion of its Veta Dorada plant at the end of the

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second quarter. Therefore, the latest quarter was the first with the plant running at its new capacity of 430 tonnes per day (tpd). That's a 25% increase in throughput. Since the end of June, the mill has been operating at full capacity, averaging 394 tpd over the quarter.

Dynacor's ore purchasing, and processing activities continued to be very strong during the quarter, with 40,000 tonnes of ore supplied by artisanal miners and more than 36,000 tonnes processed. Since the beginning of 2021, the company has been able to attract a volume of ore exceeding its increased capacity. This results in a continuous increase in ore inventory which will enable Dynacor to continue running at full capacity until year-end and into 2022 as the rainy season approaches. Additionally, it potentially bodes well for an expansion decision on Veta Dorada to the capacity level of 600 tpd.

Dividend: On Nov. 16, Dynacor announced its board of directors approved a 25% increase to the company's monthly dividend. It will move to C$0.0083 from C$0.0067. On an annual basis that's C$0.10 from C$0.08 per share, starting in January 2022. This marks Dynacor's third increase since the company paid its first dividend to shareholders in October 2018.

Outlook: Net income for 2021 is expected to come in at $9.0 to $9.5 million, an increase of 30-38% over the earlier guidance of $6.9 million. This represents an earnings per share of between US$0.23 and $0.25, or C$0.29 to $0.31.

In addition, the company forecasts that production will exceed 100,000 gold equivalent ounces this year, for the first time in history. These forecasts are based on assumptions that the average price for gold remains around $1,785 per ounce, and the company continues to receive a consistent average grade of ore.

Conclusion: Once again, operationally and financially, Dynacor's numbers were strong and at record levels, allowing the company to easily increase its industry leading dividend by 25% on the heels of a 33% increase in the second quarter. With growing volumes of gold sold, the company was able to increase its quarterly sales for the fifth consecutive quarter.

Dynacor is well positioned to exceed both its upgraded revenue and EPS guidance for 2021. Profitability was impacted positively by $2.9 million from the partial release (approximately 60%) of gold bars retained in December 2019 by the Peruvian authorities. As such, operational profitability, while strong, appears higher with the inclusion of this one-time item.

Cash gross operating margin per gold equivalent ounce sold was down 20% to $242 from $304 the previous quarter. This was primarily a result of the decrease in average selling price of gold during the quarter. The direction of gold pricing will impact cash gross operating

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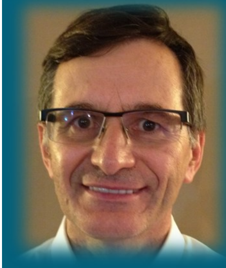

SHAWN ALLEN'S UPDATES

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

Visa Inc. NYSE: V

BUY

Originally recommended on Jan. 17/17 (#21704) at $81.84. Closed Friday at $197.65. (Figures in US dollars.)

Background: Visa operates the world's largest retail electronic payment system. This includes consumer credit, debit, prepaid, and commercial payments. Visa itself does not issue credit cards – they are issued under license, mostly by banks. Visa processes most of the transactions and collects service fees and data processing fees, effectively amounting to "toll charges" on every Visa transaction.

Visa was traditionally a method for consumers to make payments to businesses. But increasingly it is also involved in person-to-person payments, business-to-business payments, business -to-consumer payments and even some government-to-person payments.

Performance: Visa Inc. has rewarded shareholders very handsomely with relatively steady gains since its initial public offering at $11 (split-adjusted) in March of 2008. In the volatile year that was 2020, Visa finished the year up 16% to $218.73. However, it has cooled off somewhat since then with a 9.6% decline in 2021 to date.

Recent earnings*:* The pandemic lowered Visa's earnings partly due to markedly lower cross-border spending and the associated lucrative currency exchange fees. Domestic travel and entertainment spending on Visa cards was also sharply reduced.

This led to a 23% decline in earnings per share in the spring and summer quarters of 2020. However, with the economy and travel reopening, Visa's earnings in the spring and summer quarters of 2021 were about 42% above the weak 2020 figures and 10% above the level of the corresponding quarters of 2019. This growth versus 2019 is impressive given that the economy and particularly travel remains significantly impacted by the pandemic.

Dividend: The dividend was recently increased by 17% to $0.375 ($1.50 per year). The dividend yield is 0.8%.

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Valuation: Analyzed at a price of $203. The trailing price to adjusted earnings ratio at 34 is expensive. The analyst forward p/e ratio is also expensive at 30. The dividend yield is very low at 0.8%, partly due to the low earnings payout ratio of 25% but also due to the high valuation in relation to earnings. The return on equity is extremely good at 35% and that's despite the impact of the pandemic. Overall, Visa is somewhat richly valued, but this is justified by its extremely favorable profitability and growth.

Recent events: Amazon has recently been engaging in efforts to have the fees paid to Visa reduced. Amazon announced it will stop accepting UK Visa cards as of Jan. 19, 2022. This is a potentially major development and risk factor.

Outlook: Earnings will likely grow strongly in the next two quarters in comparison to the weak numbers of the prior year. The medium-term outlook is positive as Visa continues to benefit from the move to electronic payments and as it also increases its presence in person-to-person transfers and business-to-business payments.

Risks: Visa's very success and extremely high margins put it at risk for disruption by the likes of Amazon and the emerging fintech companies, as well as for increased regulation of its fees.

Action now: Buy. Visa remains centrally and dominantly positioned in the world of electronic payments and, as the lockdowns wind down, is set to continue to grow faster than the overall economy. While it is potentially vulnerable to disruption and competition, its competitive position remains extremely strong at this time.

Dynacor—continued from page 9...

margin in a given quarter either positively (increasing price) or negatively (decreasing price). The fourth quarter appears to be setting up as the opposite scenario, with an increasing price during the period. This bodes well for a higher cash gross operating margin.

We estimate Dynacor is positioned to earn in excess of $0.25 per share in 2021. Based on a justified multiple of 11 times and after adding back the net cash of approximately $0.43 per share, we arrive at fair value in the range of $4, up from $3.50 in our latest update. The multiple is relatively conservative because of the additional geopolitical risk in Peru as well as the risk of a lower gold pricing environment.

If the geopolitical environment stabilizes and the price of gold moves higher, there is upside to the current fair value estimate. The company holds above average risk.

Action now: We maintain our Speculative Buy recommendation.

BHP Group Limited NYSE: BBL

Originally recommended on Feb. 6/18 (#21809) at $42.75. Closed Friday at $53.18. (All figures in US dollars.)

Background: BHP Group is a huge Australia-headquartered global mining and petroleum company. It has $109 billion in assets and about 80,000 employees and contractors. Iron ore is its main product, accounting for 57% of revenue in fiscal 2021. Copper was 27% of revenue, with coal at 9% and petroleum contributing 7%. It has a very heavy reliance on sales into China, which represented 65% of revenue in its fiscal year ended June 30, 2021. Asia in total represented 88% of its revenue.

BHP has six mining operations and two offshore petroleum operations in Australia. In South America, it has five mining operations. In the US it has one mine and offshore in the Americas it has two petroleum production operations. In northern Africa, it has an onshore petroleum operation.

In Canada, it is developing the Jansen potash mine in Saskatchewan. Since about 2010 it has invested $4.5 billion in Jansen and has just announced a further $5.7 billion over the next six years, with first production not expected until 2027. It is also exploring for nickel in Canada and is in the process of attempting to buy Noront Resources Ltd. for about $360 million.

Performance: This stock has historically been volatile due to volatile commodity prices and changing production levels. It's currently virtually flat in 2021 to date. But it was up 13% in 2020 and 12% in 2019, which was in addition to paying a very attractive level of dividends.

Recent developments: BHP plans to merge all its petroleum operations with a company called Woodside Petroleum, forming a new top 10 independent energy company. BHP shareholders will receive shares in the new company. This is expected to occur in 2022. BHP and Woodside have just announced a new $12 billion LNG project in Australia.

Related to the above, BHP is moving more towards what it calls future facing commodities of nickel, copper, and potash and spinning off all of its petroleum operations and divesting most of its coal operations.

BHP plans to unify its corporate structure such that the existing dual share categories, which trade at different prices despite being economically equivalent, will be unified in early 2022. This will benefit the BBL shares which trade at a discount. I described the dual share structure in detail in issue #21809 dated Feb. 26, 2018.

Dividend: This company pays a dividend twice yearly and has committed to paying out at least 50% of adjusted earnings.

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The trailing year annual amount was unusually high at $6.02 per share for a yield of 11.3%. But note that, unlike almost all North American companies, BHP adjusts its dividend down or up with earnings. The dividend in calendar 2020 was substantially lower at $2.40 – which nevertheless amounts to 4.5% of the current share price.

Valuation: My analysis is based on the recent price of $54.52 per share for the American Depository Receipts, trading as BBL. The price to book value ratio does not seem unreasonably high at 2.7 considering that much of the assets may have been developed many years ago at lower costs and there is negligible purchased goodwill on the books. The dividend yield is highly attractive at 11.3% but is less reliable given that the company adjusts its dividend up and down with earnings.

The p/e ratio based on trailing year adjusted earnings appears very attractive at 8.1. The adjusted return on equity is extremely good at 34%. The adjustments were primarily related to impairments of coal and potash assets. In 2021, earnings were unusually high due to high commodity prices. Given the commodity nature of this company, its earnings are inherently volatile and unpredictable. Therefore, the value ratios can change unusually quickly.

Outlook: Earnings in the short term are unpredictable given the heavy dependence on commodity prices. Given a recent decline in iron ore prices versus the very high prices that prevailed in fiscal 2021, earnings could certainly be lower this year.

Action now: Buy. This stock is a best suited to investors seeking exposure to a diversified global non-precious-metals mining company. Investors should expect the stock performance to depend on world economic growth and on commodity prices.

BEAT THE PRICE INCREASE

Please note that the membership fee for IWB will increase by $10 plus tax on Jan. 1, 2022. This is an increase of 4.3%, less than the current inflation rate, and is needed to stay abreast of rising costs.

You can beat the price hike by renewing for another year before Jan. 1, no matter when your membership expires. Call Customer Service toll-free at 1-888-287-8229 or go to www.buildingwealth.ca/subscribe.