VALUE CONTRARIAN
ASSET MANAGEMENT

The greatest sign of appreciation you can show us is when you refer the V/C Fund to one of your friends or family members.

Kindly note, the Value Contrarian Equity Fund may only be purchased once monthly.

Last Day for October Purchase*

October 24, 2019

Call Today:	Chiraz Chakroun	(514) 398-0808
	Anna Feldman	(514) 398-0808
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*** Cheques must be received by Thursday October 24, 2019**

VALUE CONTRARIAN
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2019 Second Quarter
Value Contrarian Equity Fund

Dear Partners,

We could invest $100 billion in the next year, just not at the prices we like. It is not in the interest of (our) shareholders that we start behaving like everybody else

Warren Buffett
CEO Berkshire Hathaway

…A decision to cut rates isn't necessarily good news… First, it means the Fed thinks trouble is looming. And second it certainly doesn't guarantee the problem will be solved.
(Note: The ten rate cuts starting in 2007 didn't prevent a recession or severe bear market in 2008-2009)

Howard Marks
Oaktree Capital
July 2019

Inverted yield curves in the U.S. and elsewhere, (ie: whereby 2-year interest rates <u>exceed</u> the 10-year rate) tell us very little about the <u>timing</u> of future economic downturns…

Simon MacAdam
Global Economist
Capital Economic

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In the last twenty-five years an inverted yield curve (whereby short-term interest rates defy the norm and exceed long term rates), has had a much stronger record as a predication of recession.

In fact, the yield on 10-year Treasury bonds has dipped below that of two-year Treasury's before each of the past three most recent recessions. (According to Deutsch Bank research, the median lag between an invented yield curve and the onset of a recession was 17 months). Thus, a yield curve inversion often tells us a recession is in the pipeline, but not its specific arrival date! Obviously, recessions are not positive news for corporate earnings growth.

One important element the yield curve indicator, and most financial industry commentators fail to discuss, is the fact that stock markets usually peak well before the onset of any recession! The markets will start to discount a slowdown in the economy well before it is upon us. Thus, a recession in the autumn of 2020 could well show up in the stock markets by late 2019 or early 2020.

Second Quarter Performance

That what has performed best in the past isn't likely to perform well in the future, and what has disappointed in the past is where the opportunities lie.

Rob Arnott
CEO Research Affiliated
August 20, 2019

Danger for investors lurks not with volatile stock markets, but with disruptive technologies or changing consumer tastes. Think fresh or sugar free products, as opposed to sugary drinks and packaged processed foods.

Ben Horwood
Value Contrarian

Your Fund ended the second quarter with a net asset value of $3,370.47 per unit, an increase of $159.93 from the December 31, 2018 net asset value of $3,210.54 per unit (after the distributions). Your Fund return: + 5.0% year to date.

Once again, the second quarter was a period of profit taking and takeover activity in the Value Contrarian portfolio. We also initiated some early tax loss selling in the third quarter. As a result, we sold the bulk of our SNC position. I will provide a "mea cupla" on SNC during the upcoming year-end letter. We expect to re-visit our SNC investment during the down days of the next bear market. Yes, this dog will fly again – but patience will be required.

During the quarter, the main drag on Fund performance was our exposure to the under performing banking and oil/gas sectors, combined with a twenty eight percent cash position. Nil exposure to "momentum" and "hot" sectors (think cannabis/tech) were also contributing factors.

From our experience, buying out of favour, reasonably valued, free cash flow rich companies, often leads to positive surprises.

A prime example of this strategy was our Gluskin & Sheff investment. In March, Onex Group swooped in and made an all cash offer of $ 14.25 per share. (our average cost $ 11.75).

In the wake of the deal announcement, Gluskin & Sheff's share price jumped from around $11 per share, to $ 14.45 per share. Luckily, we sold half our position above the $14.25 takeover offer and tendered the remainder. Good things happen to quality, cash rich businesses, with reoccurring revenue.

During the quarter, we also took advantage of some quick profits by selling down our Knight Therapeutics position. Unless a significant catalyst (acquisition) comes along, we would not be surprised if Knight shares traded down to its cash position per share during the next bear market.

As always, we are patient buyers of Knight. Simply stated, Knight's future success rests on management's ability to hit a capital allocation home run (or a few doubles & triples).

As the business cycle matures and enters its tenth year (March 2009 – March 2019), stocks have moved from undervalued, to fairly valued, and at times, to being overvalued. At the end of the day, either higher interest rates and/or frothy valuations eventually act as "gravity", pulling stocks down to earth.

Investor expectations need to be tempered this late in the business cycle. Over the past 30 years, we have sought to educate our partners regarding the importance of capital presentation and discipline (patience), as a key component to long-term investing success.

At the end of the day, all stock market cycles are unique. While the catalysts may change, the end results remain the same. Bear markets have not gone the way of the dinosaur or disappeared from the business cycle menu!

OUTLOOK

"After more than two months of social unrest, it is obvious to many that discontent (in Hong Kong) extends far beyond the (China extradition) bill."

Carrie Lam
Chief Executive Hong Kong
Sept 4, 2019

It's hard to know exactly what's motivating Mr. Trump, but he appears desperate for a deal with President X; to bolster the U.S. stock market and economy to improve his chances at re-election...

George Soros
(Former Hedge Fund Manager)
September 10, 2019

How could investors not love all the uncertainty swirling around the globe these days (wink-wink). It is not a given whether President Trump will agree to a ceasefire concerning the ongoing trade war with China.

Never count out Chinese resolve to tame Hong Kong in this epic battle of wills. A true "David" v.s. "Goliath" scenario. China has a super sized conundrum to deal with. Will it merely wound or actually kill the Hong Kong goose that lays the golden eggs?

Investors must realize that a Chinese trade deal for the U.S. becomes politically impossible if Hong Kong is invaded. But the are many ways to skin a cat. The Chinese mainland dictators are not foolish. Rather, they will devise various covert & legal strategies in their attempt to squeeze the Hong Kong democracy protestors into submission – on their terms. Only time will tell which side comes out ahead.

In addition, Congress and the U.S. Senate retain their powers over any trade deal. These two bodies would certainly impede President Trump from putting his electoral interests ahead of America's interests, or if Trump negotiated a fabulous face saving, but "empty", agreement with China. Concluding a politically viable trade deal with China will be no easy task. It may take a deeply frightening scenario to conclude a lasting deal.

What will it take for Trump to pull back from the brink with China? In our opinion, should global stock markets tank, watch the politicians/president initiate a sudden course change. An example of such an about-face scenario was the surprise failure by Congress to pass the initial TARP program in September 2008. The unexpected failure to pass the TARP legislation, pummelled global stock markets and set off a financial panic. In retrospect, this failure forced the politicians to get off their asses and do something!

Specifically, on Monday September 29, Congress narrowly rejected the TARP bill (a $700 billion program designed to rescue the U.S. financial system). As a result of Congress' inaction, the S&P 500 dropped 9 percent, wiping out a record $1 trillion in value. "It was a deeply frightening moment, jolting some recalcitrant House Republicans to their senses." By Wednesday, the Senate had passed the TARP bill. Congress did its about face on Friday. (Must read: Firefighting – The Financial Crisis and its Lessons by Bernanke, Geithner & Paulson).

My guess, if in 2020 we are deep into Bear Market territory, and Trump's policies/words cause the stock markets to plummet 5% - 10% in a day, Trump will cave and conclude a trade deal (or revamp an existing bad deal) with China. (Just as Congress and the Senate quickly came to their senses passing TARP in October 2008.)

It's all about global stock market pressures. Buckle up and fasten your seat belts in 2020.

Respectfully yours, **

Benjamin D. Horwood
Portfolio Manager
September 30, 2019

Value Contrarian Equity Fund

Next Fund purchase date: October 24, 2019

Call today: 514 – 398-0808

P.S. Do visit us at our **NEW** web site: **www.valuecontrarian.com**

**We're often asked: "When is the best time to invest in the Value Contrarian Fund?" Although there is no best time, since it is impossible to time the market, a preferable entry point is when the Fund has produced a month of negative returns or a year of underperformance. Unfortunately, human nature prefers the exact opposite.

Overall, long-term shareholders in the V/C Fund benefit from a sinking stock market, the same as a regular grocery shopper benefits from declining food prices. So when stock markets plummet – as they will from time to time – "neither panic nor mourn". It's good buying news for your Fund.