Struthers Report V28 # 6.7 Ont. Chief Medical Dr., Inflation, Markets, Housing, AZT, MINE, PHD, ESTE Apr 15/22

Know when to hold-em!
Know when to fold-em!
Know where to set stops!
Know when to run!
Never count your portfolio
Until the sells are done..

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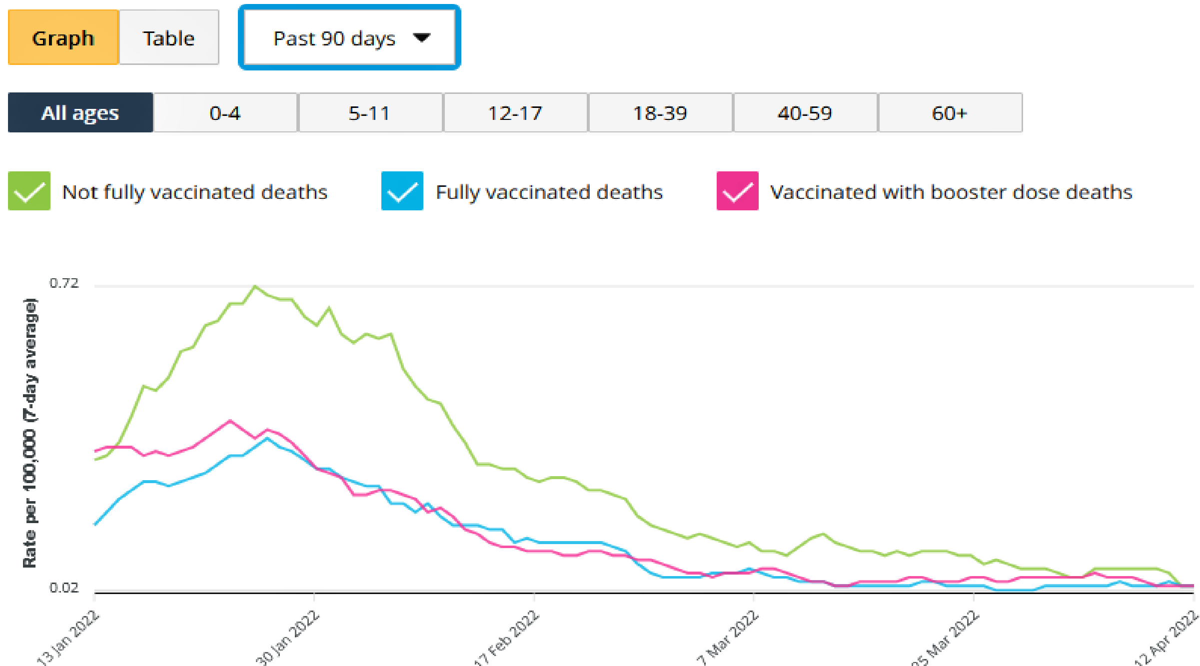
Wow!!!, there is so many important developments unfolding, it is hard to know where to start. A huge surprise was Ontario Chief Dr. Kieran Moore admitting vaccine failure last Monday. Of course he could not say those words, or say anything bad, but plainly presented the facts that prove so. Legacy media has been critical that he has not addressed the province in some time and probably he was struggling to find a way to reveal the facts/numbers. He said that they will not bring back the mask mandate at this time and there is not any significant threat to the health of children. Most shocking was cases by vaccination status in Ont., as of April 11, the **individuals who received a booster dose are currently getting infected at much higher rates. And remember, majority of children are not considered fully vaccinated so they are swelling the unvaccinated numbers:**

- **Boosters with 23.78 cases per 100k over seven days compared to;**
- **17.29 per 100k for fully vaccinated and;**
- **Unvaccinated or partially at 14.79 per 100k for the combined category.**

These are Ontario Health numbers, not mine and they are revealing that the infection **rate is almost twice as high for those with the 3rd booster shot compared to unvaccinated.** I have no doubt that these shots have compromised a persons immune system. It is the only explanation and something top medical experts warned was a high risk when these shots were rushed out.



As far as the death rate, the latest Ontario data shows it is exactly the same for fully vaccinated, boosted and unvaccinated at 0.03 per 100k. **That equates to a survival rate of 99.997%**. Virtually the risk of death is so low it is probably the same for a bad cold. I am convinced that the current testing is simply measuring colds in most cases. Remember a cold and Covid-19 **are both corona viruses.** Don't believe test results.

In Ontario, the death rate among unvaccinated has steadily declined to about the same as vaccinated. This is probably a combination of natural immunity and the fact the virus has become weaker and less lethal as new variants come out. This is usually and historically how viruses unfold over time. Even at the peak of the last wave, the death rate of unvaccinated was only 0.72 per 100k or a 99.972% survival rate as reported by Ontario Health. **And remember these are deaths with Covid-19 not from Covid-19**. This is all age groups so includes elderly. As Dr. Moore reveals just over 50% of cases in hospital are hospitalized for another reason and simply had a positive test.

I am doing a report on the fall out from Covid-19, so will not harp on much more here for now. But another 11,000 pages of Pfizer documents released. Some bombshells, but we already know this.

That said, I am still very concerned we could go back to lock downs and crap this coming winter. You cannot trust or believe anything government or health officials say. Some US states are back to silly reactions with a little bump up in cases, such as Pennsylvania. Many in the hospitality industry are pushing back against the new restrictions, with the Pennsylvania Restaurant & Lodging Association even calling the reinstated mandate "*counterproductive*" and taken without "*input from the mitigated community." "This announcement is a major blow to thousands of small businesses and other operators in the city who were hoping this spring would be the start of recovery. Restaurant workers have suffered severe backlash when enforcing these rules in the past and, unfortunately, this time will be no different."*

I know in Ontario, many small business and especially restaurants are struggling to reopen. They face supply chain issues and the biggest problem is getting new staff and people to work. The world has changed with all this Covid-19 nonsense and we will feel the effect for a long time. Labour issues are just one of the problems that is adding to the supply chain issues. Look at this data out of the US.

As Americans continue to quit their jobs by the millions, a term called *"The Great Resignation*" has been trending in the economy. In fact, 48M people left their jobs voluntarily in 2021, marking an annual record, while a monthly high of 4.5M quits was seen in November 2021. According to the latest data from the Bureau of Labour Statistics, another 4.4M workers decided to leave their jobs in February 2022, and while that figure is eye-popping, it doesn't factor in the 6.7M people who were hired during that same month. **Many are switching jobs and I believe the majority are looking for work that has been less disrupted by government Covid-19 policies.**

On the supply chain, the sanctions on Russia are hurting the west way more than Russia. The Russia currency, the ruble has already recovered to pre Ukraine invasion levels. Effectively, Russia has pegged the ruble to gold. This is going to have a profound effect on world currency and commodity markets in the years ahead. You can read a very good article dedicated to this topic here. It explains the workings quite well.

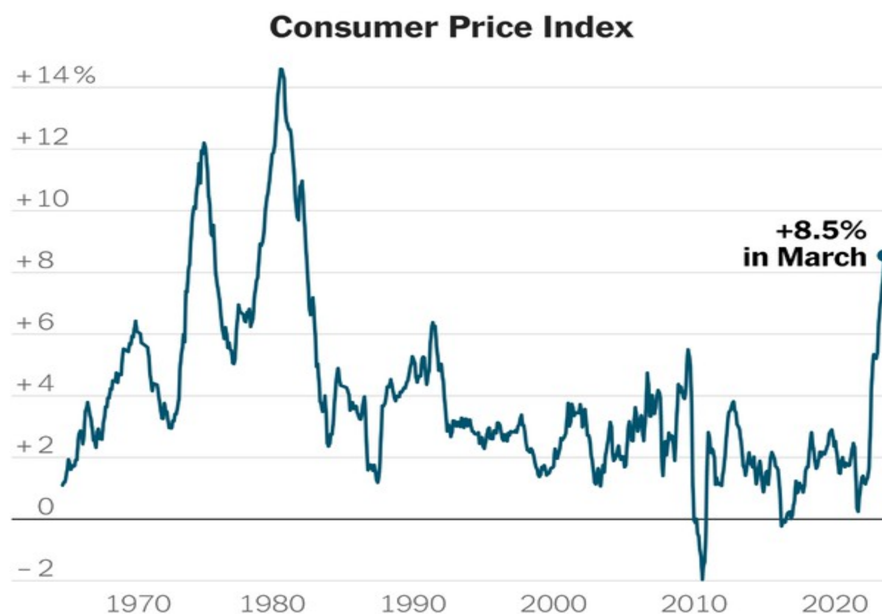
More supply chain issues related to the war, are missiles. They are going to get priority for the limited chip supply that is already in short supply. **We need that missile more than you need a new Ford truck.**

The U.S. has already sent over 5,000, or about a third, of its Javelin anti-tank missiles to Ukraine, which would take three or four years to replace, according to the Centre for Strategic and International Studies. It has also given over more than 1,400, or about a quarter, of its Stinger anti-aircraft missiles, which would take at least five years to replenish at current production levels. Raytheon and Lockheed Martin jointly produce the Javelin, while Raytheon is the sole supplier of the Stinger. Biden is meeting with US defense companies that is no doubt about ramping up production. More demand on computer chips.

There is another obvious fall out with this. The US and NATO are **not** going to be able to keep supplying Ukraine with missiles, certainly not at the pace they have been. This will benefit Russia's war effort there. All this military aid to Ukraine is effectively just prolonging the conflict. Russia already believes they are at war with NATO and I can't blame them. I am sure that NATO military goods have inflicted more damage on Russia than the Ukraine forces and equipment.

You well know that Russia is a huge exporter of oil & gas so those prices have gone up and will go higher. They are also big exporters of grains and fertilizer. That means a fertilizer shortage and lower crop yields over here. I have heard many western farmers have not received their fertilizer orders. Every year I buy a small bag for my garden and would pay between $6.99 and $8.99 depending if I got a sale price. This year that same bag cost me $20.

So lets look at inflation. **This is going to be so very very destructive and very few can even imagine**. I got out of college in 1974, so all my real world early learning was in a high inflation period. I remember it very vividly. Back in the day, as my children would say, you spent money as fast as you could and even borrowed to do so. Prices would only be higher if you waited. The interest rate increases were way behind the inflation rate and this is even more so today. The last US inflation figure came in at 8.5% and the 10 year US treasury just gone over 2.5%, which means rates are still negative by -6%. Today, at current inflation rates, the interest rate would have to be real by at least 2% to slow inflation. That means 10.5% interest rates to slow inflation. Rates will not even get to 3% or 4% before the economy blows up.



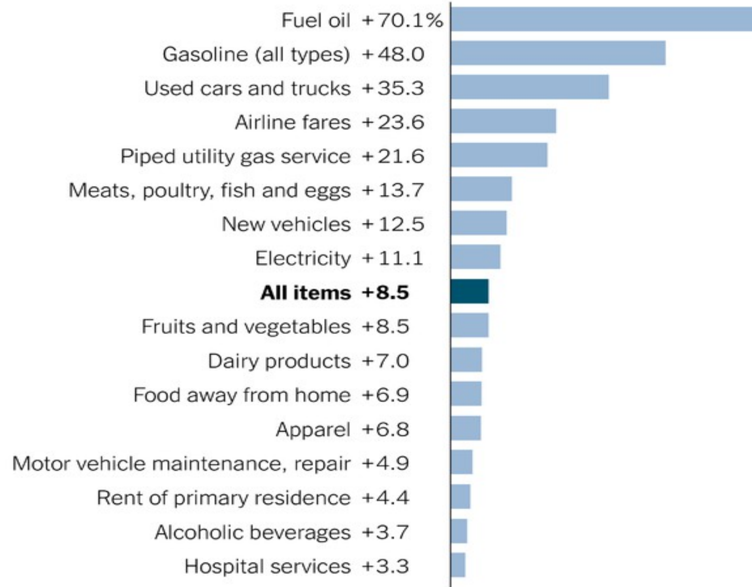
Actually, the Fed is helpless, because the current inflation wave is driven by lack of supply and the Fed has no control over that. Never the less, the Fed and/or market will force rates higher and eventually the demand will be brought down to meet the level of supply chain disaster which was further exaggerated by sanctions against Russia. **That means the Fed can only hurt us, the consumer and it is coming big time like nobody has witnessed in their history.**

Another important point is the actual inflation rate is much higher than reported and probably already at the 1980 peak. This is because they have considerably changed the way they measure inflation since the 1970s and 1980s. Federal payout increases are tied to the yearly inflation rate so it benefits them if reported rates are lower. Some major changes since the 70s/80s are:

- Rental prices are used instead of housing prices;
- Since late 1980s, hedonic quality adjustments are used to lower price increases. For example, a new model year for a car and it's price is higher, but the quality has improved, say anti-lock brakes, than the price increase would be calculated lower. Computers drop every year because of this.
- Substitution is an attempt to predict consumers. If oranges rise too much in price, they will replace them with lower priced apples, claiming consumers will change buying habits;
- Weighting, they are constantly changing what percent items have on the index. Probably to lower the

inflation number;
- In Canada, not sure in the US, but if the size of packaged items are reduced, that is not adjusted in the inflation number for that item. We have all witnessed this in many food items.

Just because the inflation number is reported lower, it does not change reality. Consumers will have to pay the real higher prices. These real prices are what effects the economy, not some number the government makes up. And inflation affects different people differently. If you are **not** renting an apartment or condo, it does not matter to you what rent prices are doing, but if you are buying a new car that year, car prices effect you. With this in mind, here is the current inflation break down by component in the US. Thanks to a NY Times article for this chart, using BLS numbers.



I can easily argue most people are more reliant on the top priced items, like fuel, gas, electricity and the meats and poultry. We all buy these items constantly.

I cannot stress enough that this whole inflation problem was caused by Covid-19, or more precise government policy action for Covid-19. Governments printed way, way too much money and their lock downs and restrictions triggered the supply chain problem. It will take many years of suffering to get through this mess.

We are headed for a recession that will make all previous ones look like childs play. This is because the current inflation is actually worse than the 1970s and it has only started it's climb higher. It is going much higher, but won't be straight up, it will have it's periods of easing and hesitation. It took interest rates of 20% in early 1980s to beat back inflation. There is so much more debt now, that 5% rates will be twice as bad as 20% back in the day. We are most likely in a recession now or just months away from it.

Real Estate is peaking out and this sector will get slaughtered just like the late 1970s early 1980s. Real estate is a good inflation hedge in the long term and most often it sees steady increases. That said, every once in a while, events unfold that really whack the sector, like the mid 1980s and 2008. These periods only last 2 to 5 years but can be devastating. Last night I watched a show on the history channel 'The food that built America' I like these documentary s, quite educational and gives you a handle on many things. Why I mention it, because it was about Wendy's, the hamburger chain. They came to dominance in the mid 1970s because of their reaction to the inflationary period and bad recession. Downtown city cores were in shambles and the restaurant chains would not even consider building in these bad areas. Many burger chains were already quite dominate, like McDonalds and Burger King so competition was very

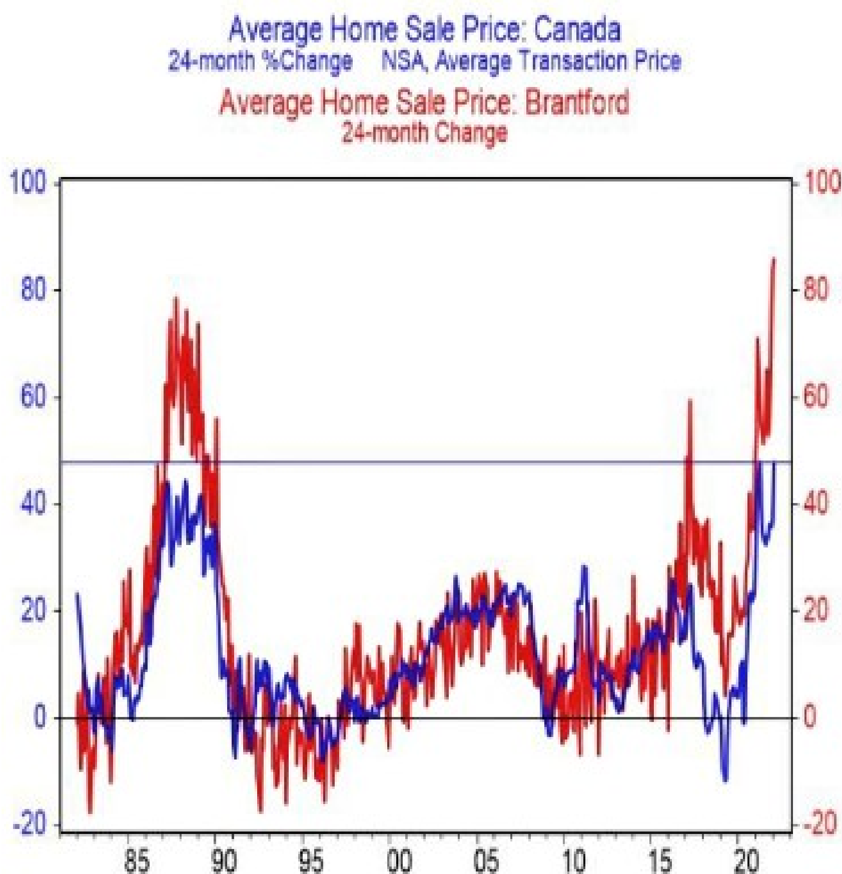
strong. Wendy's decided to expand their chain in these depressed areas because there was no competition. These ended up their most profitable stores and the Wendy's chain flourished. Opportunity like this will be back, after the wash out.

The Great Canadian Real Estate Bubble

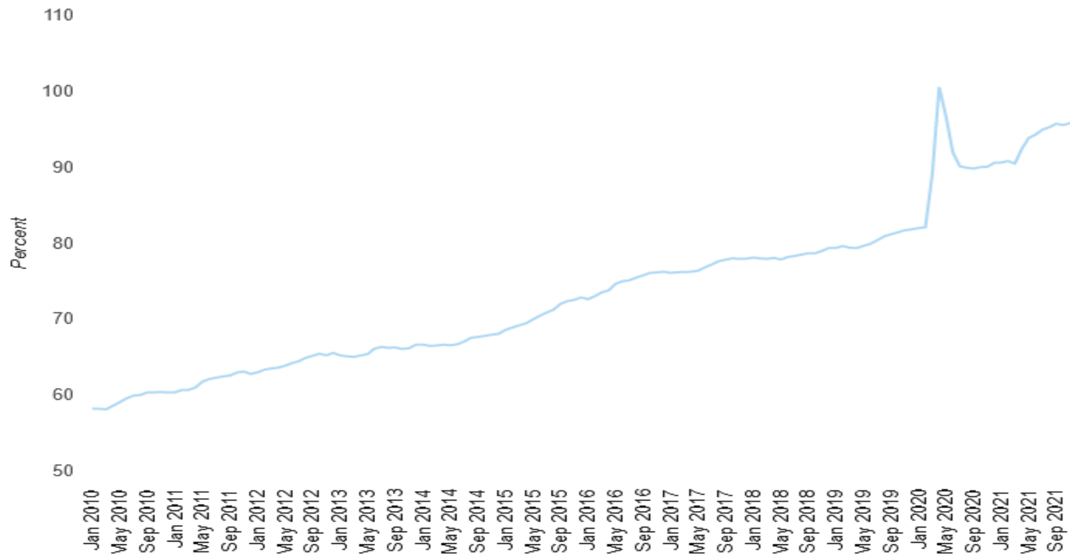
It has been quite a while since I talked about real estate. October 2021, I talked about cracks appearing in the Toronto condo market. In June 2021. I talked about the big jump in house prices is what you see at blow off tops. Inflation would persist and fears could cause a stock market correction in September/October, it held off to this January. I talked about interest rates that would have to go higher and watch the 2% level on US treasuries, we are now at 2.7%.

My previous comments were about a market peaking out. **I can comfortably predict now that the top is pretty much in, the next big move is down. T**he US has been raising rates and this past Thursday the Bank of Canada rate was increased 1/2% and more increases are coming.

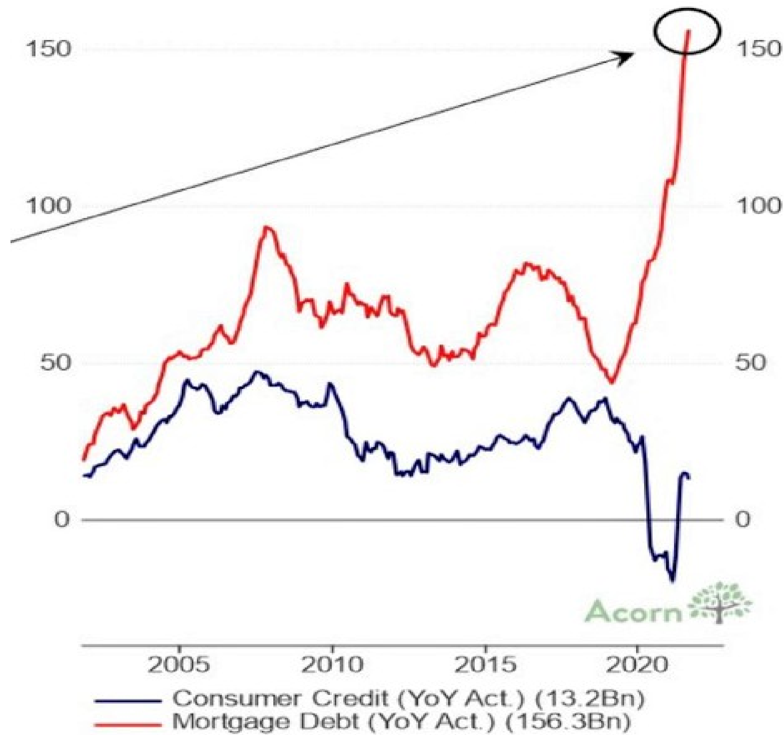
This market top looks a lot like the late 1980s one that came off the 1981 bottom. The city of Brantford, Ontario is highlighted to show some places have more dramatic increases. There are many more Ontario cities like this as the biggest part of the bubble is in Ontario. **Many Ontario cities had housing price increases between 45% and 55% from 2020 to 2021. This is insane bubble activity.** I also predicted the downturn in 1989/90. I remember arguing with colleagues in Toronto who said real estate would never come down. You can find lots of those people again today.



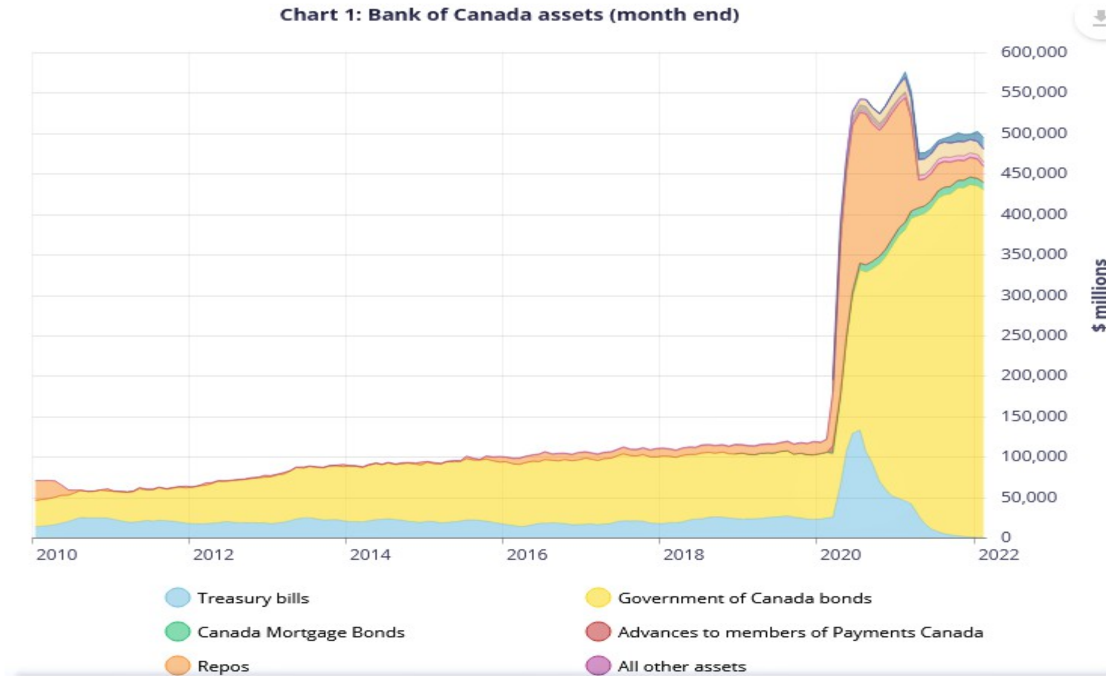
These next charts should scare the s_ _ _ out of real estate and Canadian bank stock investors. In 2008 the US housing bubble peaked when mortgage debt increased up to 100% of GDP. Today US mortgage debt is about 70% of GDP, around historic norms. Guess where we are at in Canada now. In the mortgage credit chart below that peak in 2020 should be smoothed down because we had a big drop in GDP. However smoothing out the rise, housing debt is 96% of GDP. Can you say 'popping bubble'.



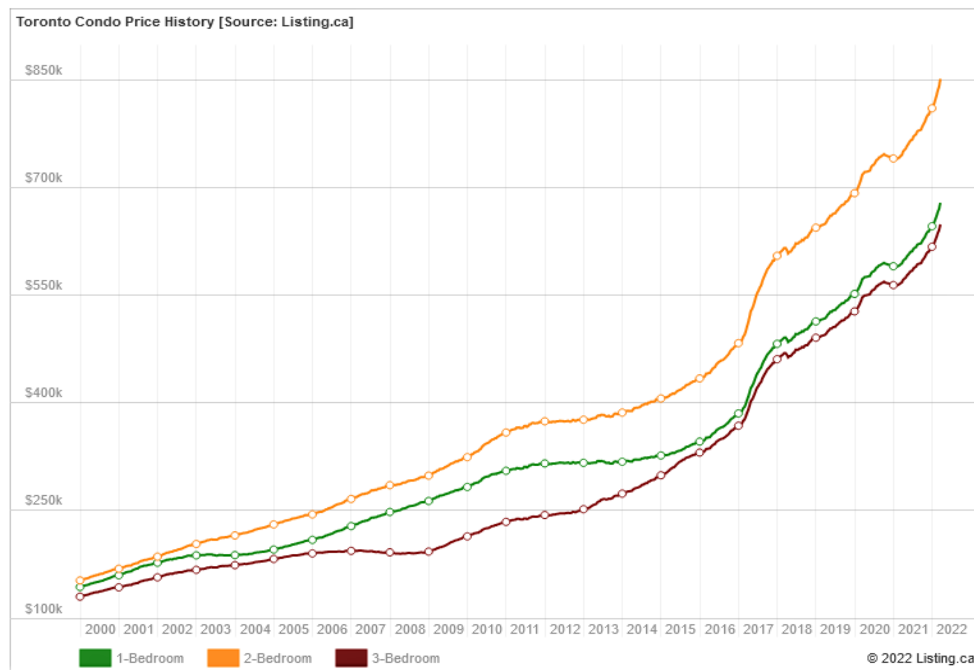
When lock downs hit in 2020 and Canada went into recession, consumers reduced their credit which is normal in a recession. Also some of the Covid relief payments went to paying off credit cards. However mortgage debt went the exact opposite way and ballooned higher, taking advantage of ultra low interest rates. **Again this housing bubble was created by government Covid-19 policies.**



To make matters worse the Bank of Canada took a play out of the Fed's playbook and started a QE program in March 2020, buying over $550 million in treasuries and bonds. This equates to the US doing $5 trillion, but the US only did about $4 trillion. BoC mostly bought government bonds and treasuries, effectively funding the Trudeau government's spending binge.



I have actually turned more bullish on condos. They were pretty flat in 2020 when the pandemic hit but started to rebound in 2021. Most important is that they fell way behind the housing price increase. In Toronto the average condo price is $736,000 vs $1.43 million for a semi detached house. Furthermore, the Trudeau government is increasing immigration to over 400,000 per year, so this should be good rental demand for the condos investors buy. Plus demand downtown is increasing with waning Covid-19 restrictions.

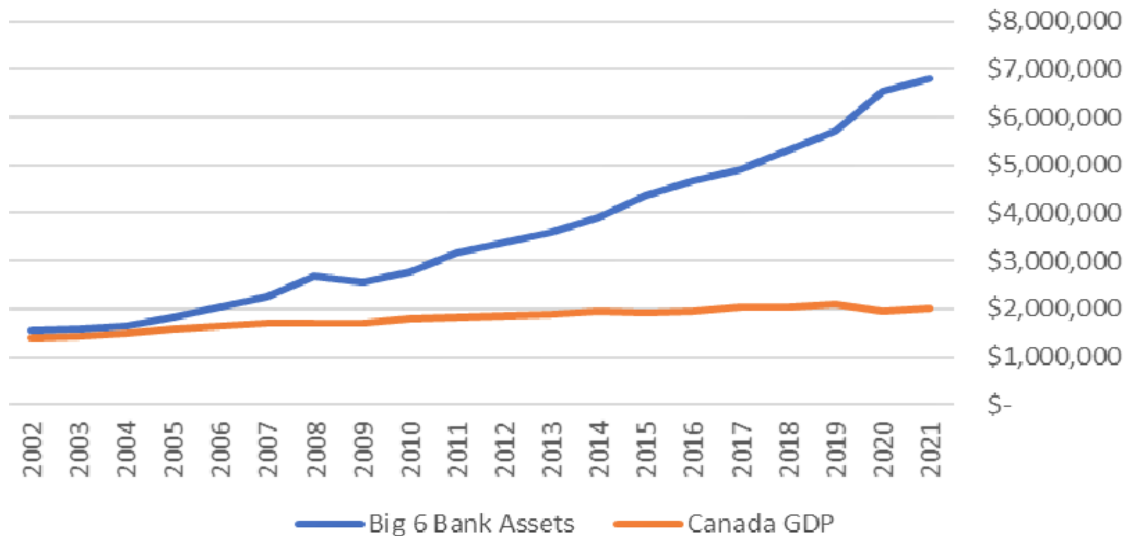


I expect in major Canadian city centres we could see condo prices rise while housing prices fall, sort of a re-balancing. However once the decline accelerates and the pin pricks the bubble, both will fall. **Home prices in Toronto's housing market fell in March 2022.** The average sold price in the GTA was $1,299,894 for the month of March 2022, which is down from the $1,334,544 average home price seen in February 2022. **This is just one month, but I suspect it is the start of a new trend.**

If you cannot see that we have a housing bubble in Canada that is about to pop, than there is not much more I can convince you with until it happens. But wait check the mortgage debt bubble.

And the Canadian Banks? With the 2008 real estate crash, Canadian banks were among the few around the world who were praised for the conservative balance sheets and they went through the crisis on cruise control. **You would think the banks gained a good lesson? Oh no, Canadian banks are more leveraged to real estate now, then the US banks were in 2008**. It is crazy and is why I would avoid bank stocks. At some point I am going to suggest shorting with Puts

Credit at the big 6 banks has grown from 155% of GDP in 2010 to 340% of GDP in 2021. They have taken on leverage at more than 2 times economic growth. Look at the leverage piled on since 2010/11.



It is easy to see on this chart the recent housing market growth was all fuel-ed by mortgage debt.

With mortgages, the Globe and Mail reports that 54% are the low variable rate mortgages. These mortgage holders face the mortgage increases immediately. Others will face it on their renewal dates. **The risk is very high the housing market unwinds with the mortgage debt that built it.**

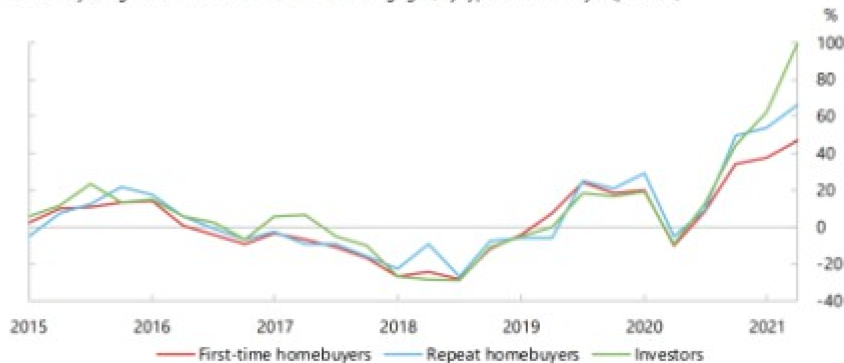
“People are in a panic," said Ingratta, who works with Mortgage Intelligence in Windsor, Ont. "They're thinking, 'Oh my God, what is the interest rate going to go up to?'" **And that was back with the 1/4 point increase in March, now we have another 1/2 point.**

What do you think is going to happen when we get another four increases, another 1%. The mortgage rate for many home owners is going to go from 1% to 3% (a triple). What would you do if your mortgage payment increases from $1,500 to $2,200 and you have to pay a lot more to drive to work, feed your family and pay higher utility bills. Buying a $1.2 M home with $500k down leaves a $700k mortgage. Not uncommon today because the average, Q3 2021 mortgage was $501k in BC and $465k in Ontario, an increase of 22.4% over 2020. A $700k 30 year mortgage at 1.0% including property tax is a payment of **$2709.81 per month. When that rate hits 3%, the payment becomes $3409.56.**

Well I can tell you, we are going to see the most severe recession that everyone living today will see in their history and housing prices will come way down because it is all built on a debt pyramid. The huge problem about this is that Canada has become a one trick pony as far as the economy goes. Stats can data back in 2019 pointed out that real estate was 51.53% of the GDP. I have no doubt this could be 60% or higher today.

If we ignore construction and all the industries tied to real estate and just look at one segment of real estate, residential. Residential investment represents 9.43% of GDP in Q3 2020, up from 7.71% during the same quarter in 2019. This is not only the highest rate seen in at least 60 years, but it’s also very high for any country. It has only gone higher in 2021. For context, the U.S. residential investment peaked at 6.7% in 2006 during their housing bubble. The current rate in the U.S. is just 4.3%.

Investors always chase returns. I mean always, there is no doubt about this. Look who has been doing the most home buying in the last part of this bubble. Bloomberg reports that multiple-property owners accounted for 31% of all homes in Ontario as of early 2020 and almost the same share in British Columbia. And look at the chart below, how it has skyrocketed since this early 2020 number.



And in here lies the quandary. Investors are not tied to a property like home owners. They don't have to pick up and move, just sell. If prices start to go down and investors see better returns elsewhere, they will jump ship faster than they jumped in. This is what will exaggerate the down trend.

Conclusion:

- We will pay the price of government Covid-19 policies for years to come;
- Inflation and rising interest rates have only just begun;
- Russia sanctions are harming us more than them and NATO provoking Russia is a very dangerous game;
- A severe recession is on the horizon;
- Own oil&gas stocks to offset heating costs and fuel costs at the pumps;
- Canadian Real Estate is peaking out, it is a bubble in search of a pin;
- Canadian banks stocks have peaked and will continue their plunge.

TSX Canadian Bank Index

Portfolios should be adjusted more to inflation hedges like energy and precious metals. Real estate will be a good inflation hedge in the US, but after it has a large correction in Canada. Canadian investors should sell off or take profits in real estate investments outside your principal residence.

Avoid the Canadian bank stocks. We should have shorted them in February, looks like the market has picked up on the problem I have highlighted above. I will watch for another shorting opportunity. Perhaps we will see a relief rally in the next couple weeks. Their Q1 earnings should be very good.

Beware of Climate Change, it is the next big scam. Like I have maintained all along, it will simply be used to raise taxes and distribute wealth. The Trudeau government increased the carbon tax on April 1st and will now tax your SUV and Pickup truck between $1,000 and $3,000 per year. This is another blow to small business that are big users of small trucks. Governments will most likely screw up the whole energy sector with their dumb green policies. This will cause increased shortages in energy. Don't be surprised to see $200 oil and then $300.

Stock up on consumables with a long shelf live, you will only pay more later on. This is a good household inflation hedge.

Sorry to be so negative and gloomy, but sometimes the truth hurts.

****************************** Updates ********************************

Aztec Minerals CSE:AZT **Recent Price - $0.325**
Entry Price - $0.40 **Opinion – strong buy**

AZT announced more good drill results last week from the California target on their Cervantes property, Mexico. Results for hole CAL22-012 returned 152.4 metres grading 0.87 g/t gold, including 33.5 metres grading 2.05 g/t Au.

California zone drill highlights:

- **0.43 g/t Au over 132.2 m** in mineralized quartz-feldspar-porphyry and hydrothermal breccias in CAL22-011, including 12.2 metres of 1.29 g/t Au, located at the northern edge of the central portion of the mineralized zone;
- **0.87 g/t Au over 152.4 m** in mineralized porphyries and hydrothermal breccias in CAL22-012, including 33.5 metres of 2.05 g/t Au, located at the northern edge of the central portion of the mineralized zone;
- **0.48 g/t Au over 54.9 m** in mineralized porphyries and hydrothermal breccias in CAL22-014, located at the northern edge of the eastern portion of the mineralized zone.

These are very good grades for oxide material that can easily be heap leached and of open pit widths.
The stock did move up on good volume and another break higher. The pull back is a good buy opportunity. Cervantes will be a gold mine in the future. I highlighted the wedge pattern last September and we got a break out to the upside in February. The recent drill news resulted in a higher high. We have both fundamentals and technical s in our favour. This pull back should be bought.

Inomine TSXV:MINE Recent Price - $0.25
Entry Price - $0.08 Opinion – buy on weakness

This past Monday, Inomin released previously unreported significant magnesium grades from historical 2014 drilling on the Beaver property. Highlights include **BN14-23, which reported 100.6 metres at an average grade of 21.5 per cent magnesium with 0.14 per cent nickel.** These holes were drilled in the Skelton and Ring zones -- not drill tested by Inomin in the 2021 drilling campaign -- as well as the North Lobe zone. The historic results, combined with the newly released 2021 drill results, demonstrate that high-grade magnesium mineralization is widespread at Beaver.

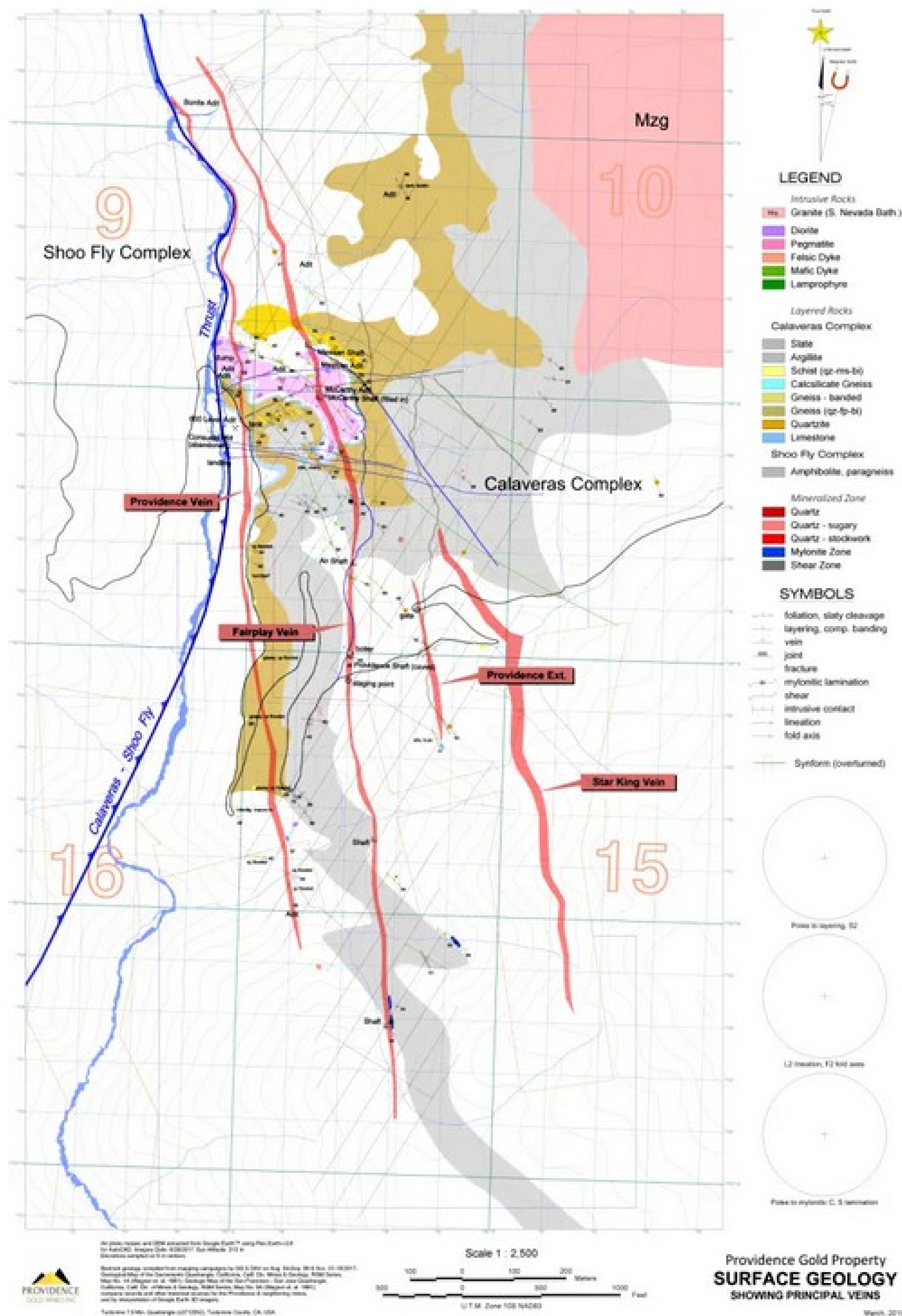
I am surprised how far the market has pulled back. Next week the short reports will be out and we can see how big a factor that is. The chart does not give any clear indication where this pull back will bottom or if it already has. For now try bids below market until there is more clarity. We should soon see survey results at the Lynx property and Inomin is in Mexico, maybe finalization on exploration permits will come soon.

Providence Mining TSXV:PHD Recent Price - $0.07
Entry Price $0.16 Opinion – buy, average down to $0.10

It is surprising how cheap this stock is, with only 60 million shares out, it has a value of only $4.2 million. Their high grade group of past producing mines in the mother lode district in California is quite unique. PHD has already proven the old mining dumps on the property have good enough grades to be toll mined. The grades were so high way back when this was mined, the stuff of a few grams was not bothered with.

What is real exciting is their next drill program is going to target these high grade zones and vein extensions. However, PHD has to first raise funds, a $1.3 million financing at 7 cents per share with a full warrant at 15 cents good for one year. **I confirmed some of this is left and open to accredited investors. Let me know if you are interested and can send the placement documents.**

The map next page shows the surface geology and where zones and veins are located. Check this video out on the property modeling. It will relate to this surface map.



Surface Geology

The best for last is the chart. The stock has broken to the upside from a wedge pattern. It is only a penny above long term and strong support at 6 cents. The first resistance level is 10 cents and that is just a mild resistance area. PHD is one of those cheap gems that could really pop on good drill results. The property has strong potential to have these results, they just need to close the financing to drill.

Earthstone Energy NY:ESTE Recent Price - US$13.76
Entry Price - $13.34 Opinion – strong buy

After market close Thursday, Earthstone announced the closing of the acquisition of assets of privately held Bighorn Permian Resources, LLC ("Bighorn"). The Company also announced the closing of a $550 million private offering of 8.0% senior unsecured notes (the "Notes Offering"); a $280 million private placement of equity (the "PIPE"); and an amendment to the Company's revolving credit facility (the "Credit Facility"). ESTE provided an update on key balance sheet metrics as of March 31, 2022, and as adjusted for the recent closings of the Bighorn Acquisition.

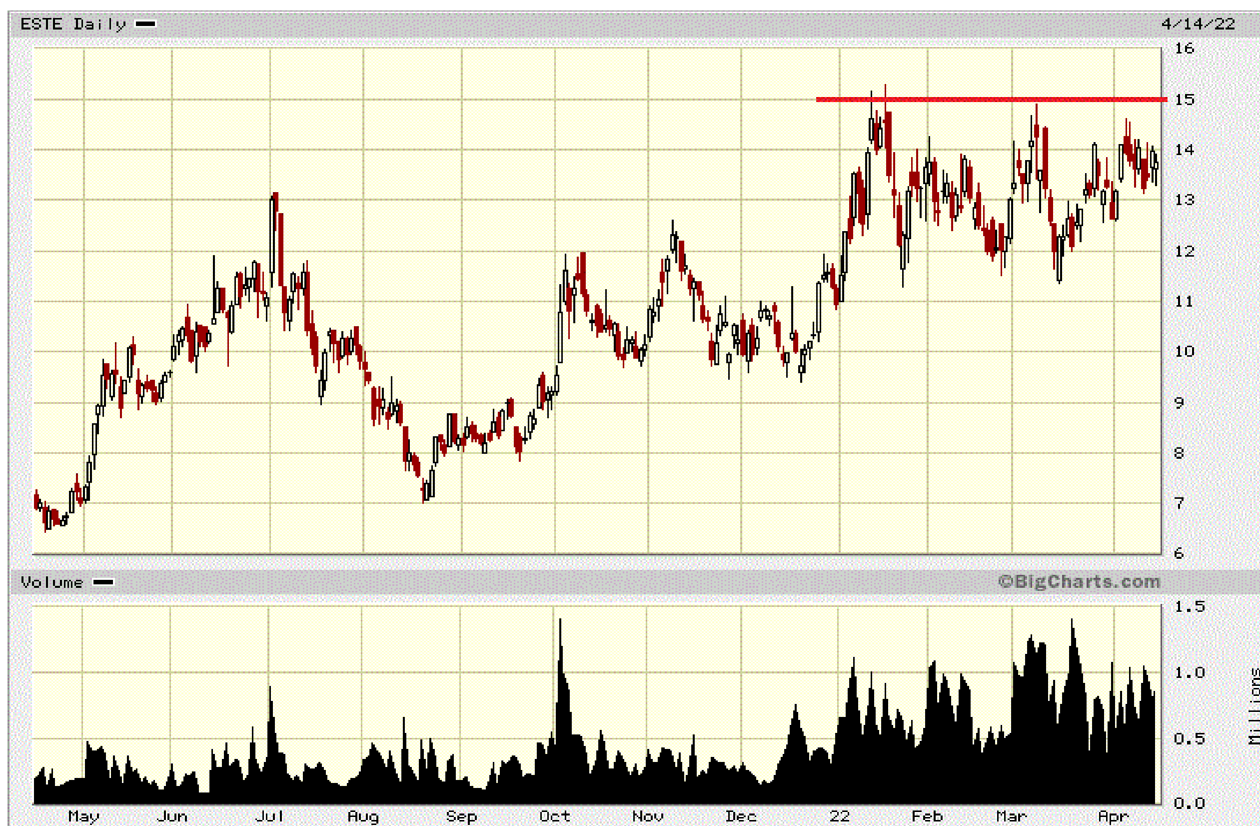
Highlights:

- The cash consideration for the Bighorn Acquisition was reduced from the announced $770 million by approximately $131 million to $639 million and the equity consideration was reduced from the announced approximately 6.8 million shares of Class A Common Stock by approximately 1.2 million shares to 5.7 million shares, both based on preliminary purchase price adjustments
- Closed on an amendment to the credit agreement governing the Credit Facility which, among other things, increased the borrowing base to $1.325 billion on April 14, 2022
- Voluntarily elected to reduce commitments under the borrowing base of the Credit Facility to $800 million on April 14, 2022
- Estimates that the Company had $337 million of undrawn availability on the $800 million of commitments under the $1.325 billion borrowing base on the Credit Facility as of March 31, 2022, as adjusted for the transactions described herein

Operations Update, Earthstone estimates its average daily production for the first quarter of 2022 to be approximately 35,500 Boepd (44% oil, 26% NGLs, 30% natural gas) which only includes 45 days of

production from the assets they acquired in the northern Delaware Basin from Chisholm.

This is a huge acquisition for Earthstone and is going to increase production over 2.5 times what they announced above for Q1 of 2022. Now we just wait and see how long the market takes to figure this company out and price in it's quality portfolio. On the chart, a close above $15 will trigger a break out.



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