PVI – The Global Investment Newsletter

22nd of April 2021

Stocks

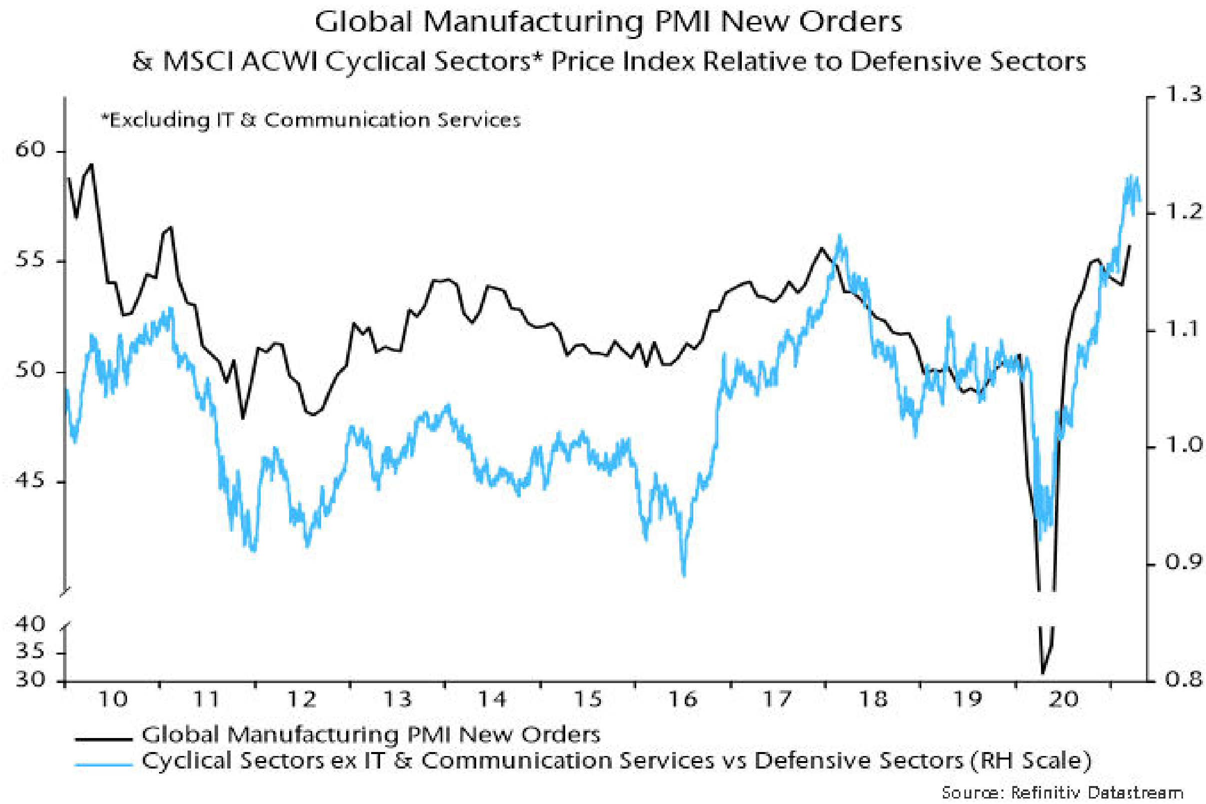
We remain cautious about the equity markets for the next few weeks and months. As explained in the last stock market letter, the valuations are currently very high and a lot of positive things have already been priced in. A negative surprise could be that economic growth in the second half of the year will be weaker than expected. At least this is what the often quite reliable money supply indicator ("real narrow money") suggests: this indicator had a global high in summer 2020 and has fallen significantly since then. Of course, this does not mean a recession, just a relative slowdown within a cyclical upswing. However, this could be enough for the purchasing managers' indices to decline and thus for the cyclical stocks that have been outperforming since autumn to decline. We therefore advise, for example, to take profits from automakers stocks that had huge runs.

Chart: money supply (blue) und purchase manager index

Source: moneymovesmarkets.com

Of course, one has to observe the further stimulus measures and, above all, their influence on the real money supply - nevertheless, a quick rebound is not to be expected here. The opening of the service sector as a result of the advancing vaccination campaigns could have a somewhat supportive effect and somewhat offset the relative decline in the industrial sector.

Chart: cyclical stocks vs. defensive stocks (blue) und purchase manager index

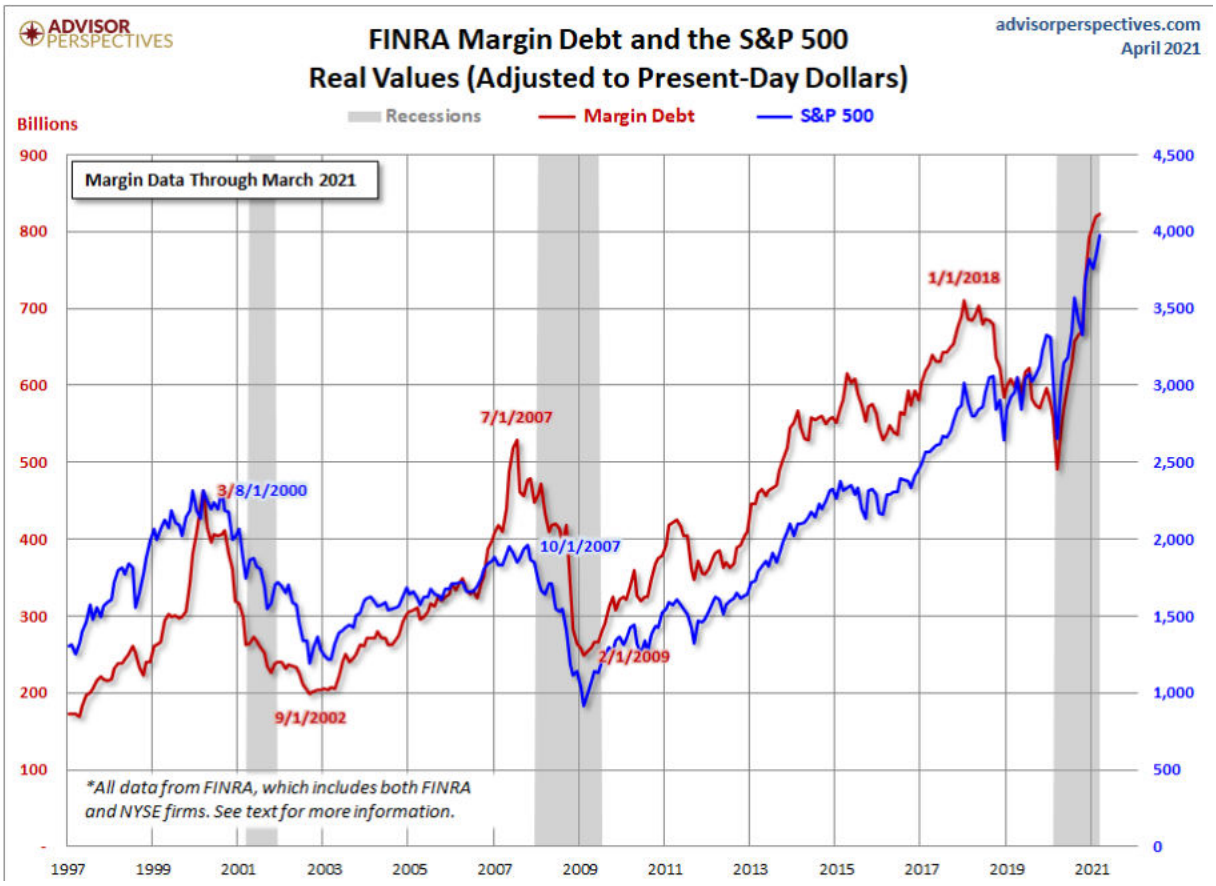


Source: moneymovesmarkets.com

The positioning of the US portfolio managers is currently extremely bullish (record low cash holdings) and also the securities loans and the put / call ratios are at very high levels and reflect the festive mood. The argument of the "flood of money that drives the stocks on" is heard again and again, but this is already priced in with the fund managers: the fund managers have bought shares and pushed the prices so high that the cash holdings are low compared to the stock values.

The outstanding securities loans at record levels also testify to a speculative market:

Chart: margin debt (red) and S&P 500



Source: advisorperspectives.com

Of course, such sentiment values can last for a long time - in extreme cases for years, such as in the Internet boom. However, the trigger could actually be the overestimation of growth in the second half of the year. The stock market could anticipate this a few months. Therefore, the market seems ripe for an extended correction lasting several months.

We therefore recommend continuing to position portfolios more defensively.
Pharmaceutical and telecom stocks are currently offering safe dividend yields. We also see the environment as positive for precious metals and gold and silver mines. We are sticking to our put options in the model portfolio.

Precious metals

The precious metals have been positive over the past few weeks. We believe that gold may have made an important low at just under $ 1700. In addition to the gold mines listed in the last stock market letter, we consider the silver mines in particular to be particularly promising, albeit more speculative.

Silver should develop very positively in the coming quarters, as the prospect of increased silver demand through applications such as electric cars, hybrids (these contain almost twice as much silver as combustion engines cars), photovoltaic and 5G networks will fuel the price imagination. According to estimates by the Silver Institute, industrial demand is expected to rise by around 100 million ounces per year in the coming years. This is significant for a total supply of about over 1000 million ounces p.a. and is likely to trigger waves of speculation in silver again and again. Since this market is much narrower than the gold market, the price could trend very dynamically upwards. We see price targets of over USD 40 silver in 2021 and up to USD 70 in 2022 possible.

In addition to the certificates and options mentioned in the last letter, silver mining stocks are particularly promising. Pure silver deposits are very rare, promising deposits can be found mainly in Mexico and South America. We consider the country risk in Mexico to be justifiable - Mexico is considered "mining friendly" and has a long tradition.

Buy recommendations for silver mining stocks:

Discovery Silver

Discovery has the largest, known, as yet undeveloped silver deposit in the world. The deposits in Mexico are estimated at over 500 million ounces. The "grades" are well suited for an open pit mine and the deposit is already well mapped through many drillings. There are well-known mining investors on board and they are easily financed with almost 100 million cash holdings – easily sufficient until the decision to build a mine is made. The geological risk and the financial risk are largely off the table here. Furthermore, the management has built up several companies and successfully sold them to large mine operators. Such a result also seems conceivable here.

Buy recommendation: Discovery Silver: *(ISIN: CA2546771072, WKN: A3CM15, Price 2.36 CAD, trading in Canada)*

Price target: 5–7 CAD, time horizon: a few quarters

Risk: high

Gogold Resources

Contrary to its name, Gogold is silver mine in Mexico. The existing smaller mine is currently providing sufficient profit to advance exploration in the historic Los Ricos South and North mining district. Therefore one is not necessarily dependent on external financing. The reserves in Los Ricos South alone would be sufficient for another mine (approx. 5 million ounces per year), but Los Ricos North appears to be significantly larger. Gogold has an aggressive drill program in 2021 and other very good drill results should propel the share price. The management team and investors are successful and experienced.

Buy recommendation: Gogold *(ISIN: CA38045Y1025, WKN: A1JAES, price 2.6 CAD trade in Canada)*

Price target: 5–7 CAD, time horizon: a few quarters

Risk: high

Vizsla Silver

Vizsla is the most speculative of the three presented silver mines, as it is still dependent on external financing. On the other hand, the market capitalization of just under 170 million CAD is only a third of the other two values and the deposits in the “Panuco Project” (historic silver mine) deliver extraordinary drilling results. A rough estimate of the resource suggests at least 100-150 million ounces of silver only in the currently explored portion of the project. Management and investors are also top notch here. Vizsla also has the option to purchase an existing silver mill on the property for $ 40 million (payable over several years). All mining permits are already available. Therefore one could start very quickly with a production of 3-4 million ounces.

Buy recommendation: Vizsla Silver *(ISIN: CA92859G1037, WKN: A2QN63, price 1.85 CAD)*

Price target: 4 –5 CAD, time horizon: a few quarters

Risk: high

Buy recommendations for gold mining stocks:

Fortitude Gold Corp

Fortitude was spun off from Gold Resource Corp (Goro) as a spin-off a few weeks ago. It is well known that spin-offs are often very lucrative special situations on the market. The details of the spin-off are interesting: the entire Goro management team stayed with Fortitude. Furthermore, this spin-off happens exactly when the Isabella-Pearl Mine in Nevada starts its positive cash flow: Goro has invested over 60 million USD to move the material away from the Pearl. The mining of the Pearl Zone is very lucrative and will generate cash flows over the next 4 years that, according to our estimates, exactly cover the current market value (based on 1700 USD gold). The properties next to the Isabella Pearl, however, contain at least another 200,000 ounces of gold - this was already proven by drilling by Homestake Mining in 1989 and 1990. It therefore seems to us that the management has set the numbers very low here, as is typical for spinoffs. We assume that a small additional investment will extend the life of the existing mine by many years. The management wants the shareholders to participate directly in the profits with increasing dividends (current dividend USD 0.24, dividend yield 4.4%). We see the share as an excellent risk / reward (up listing from the pink sheets to the NYSE) and see the price doubling even if gold prices rise only slightly.

Buy recommendation: Fortitude Gold Corp (ISIN: US34962K1007, WKN: A2QLCA, price 5.5 USD)

Target price: USD 10 –13, time horizon: a few quarters

Risk: high

Further new purchases in our speculative model portfolio:

BeyondSpring

BeyondSpring is a China and USA-based biotech company specializing in oncology and developing the active ingredient plinabulin. Plinabulin causes a significant reduction in chemotherapy-induced neutropenia (increased risk of infection due to decreased immune system). The product has already passed the Phase III test procedure, the data are very promising and approval was applied for in the USA and China at the end of March. If approval is granted, there could be considerable price gains here, since plinabulin would be administered as an additive to pegfilgrastim (the standard that has existed since the 1990s) and thus has considerable market potential (probably even a blockbuster).

A phase III study on the effects of plinabulin in lung cancer is also ongoing. If the data here confirms the previous tests, approval for this indication would be applied for in 2022. Since you have at least 2 possible indications, the share would still have a residual value even if the FDA rejected the neutropenia indication. The market capitalization of only 380 million (with about 100 million cash balance) seems extremely low for this potential. This could also be because BeyondSpring is run by Chinese founder and researcher Li Huang (she owns 25% of the shares). However, in the past few quarters, high-profile individuals have been brought onto the board of directors and into the role of CFO, all of whom have backgrounds in large established western pharmaceutical companies. The share is of course very speculative, but given the currently very favorable prices, the risk / reward ratio seems very positive to us.

Buy recommendation: BeyondSpring *(ISIN: KYG108301006, WKN: A2DNMQ, price 10.0 USD)*

Target price: USD 20–40, time horizon: 1-2 years

Risk: high

Conservative Model Portfolio: (starting value on 01/13/2021: 100.000 Euro)*

Performance 2021: +2,47%*

15.707	**Euro ENAV Spa (entry price 3,58 Euro, now 3,92 Euro)**
16.927	**Euro China Mobile (entry price 47,6 HKD, now 53,3 HKD)**
9.486	**Euro Barrick Gold (entry price 23,6 USD, now 22,4 USD)**
15.354	**Silver ETF (entry 19,88 Euro, now 20,35 Euro)**
15.387	**Gold Junior Miners ETF (entry 34,9 Euro, now 35,8 Euro)**
1.555	**Euro AT&T (entry 30 USD, now 31,4 USD)**
3.000	**Euro Verizon (entry 57 USD, now 57 USD)**
4.153	**Euro Nasdaq-100 Put-Optionen (entry 16,5 Euro, now 14,9)**
20.900	**Euro Cash**
102.470	**Euro Total Value as of 04/22/2021**

Exposure through put option:

The Nasdaq put results in a short exposure of approx. 25% of the portfolio to the Nasdaq. Should the Nasdaq lose 10%, the portfolio would gain 5% and vice versa. This also serves as a safeguard.

In the conservative model portfolio, investments are presented which have a rather low-risk business and very strong balance sheets. In addition, stocks with high dividends are presented, since even the bond ETFs in the USA currently hardly yield any interest, or the risk of such an investment is even higher in the long term than a good selection of solid dividend stocks.

The expected returns will of course not be able to match the speculative portfolio. In general, we are satisfied with returns of 7-10% p.a. here, even more can be achieved with clever timing.

Speculative Model Portfolio: (starting value on 01/01/2020: 100.000 Euro)

Performance in 2020: +22,89%*

Performance year to date: +36,9%*

27.888 Euro Rafael Holdings (entry 24,2 USD, now 40,3 USD)

13.000 BeyondSpring (entry 10,1 USD)

21.600 Euro Silver Call-Options (entry 6,5 Euro, now 7,02 Euro)

10.000 Euro Wallbridge Mining (entry 0,63 CAD, now 0,63 CAD)

10.000 Euro Troilus Gold (entry 1,09 CAD, now 1,14 CAD)

10.000 Euro Ely Gold (entry 1,05 CAD, now 1,07 CAD)

10.000 Fortitude Gold (entry 5,5 USD)

10.000 Vizsla Silver (entry 1,85 CAD)

10.000 Discovery Silver (entry 2,37 CAD)

10.000 Gogold Resources (entry 2,60 CAD)

13.455 Euro Nasdaq-Put-Options (entry 16,5 Euro, now 14,8 Euro)

22.300 Euro Cash

168.283 Euro Total Value as of 04/22/2021

Transactions:

Sale: natural gas certificate @ 0,7 Euro,

Partial Sale: Wallbridge, Troilus, Ely (in order to balance the overall weight of gold an silver miners in the portfolio)

Buy: Fortitude Gold, Discovery Silver, Gogold, Vizsla Silver, BeyondSpring

Exposure through the options:

The Nasdaq put results in a short exposure of approx. 50% of the portfolio to the Nasdaq. Should the Nasdaq lose 10%, the portfolio would gain 5% and vice versa.

The silver call results in a long exposure of approx. 40% of the portfolio to silver. Should silver rise 10%, the portfolio would gain 4% and vice versa..

In the speculative portfolio, stocks are presented that have very high potential. However, the risks are also high - so investors should understand that not every speculation has to be successful up in order to earn a good return.

* We base the portfolio on a simplified flat tax of 25% (calculated after positions are sold). The exchange rate changes are taken into account in the values, but not shown above (for reasons of clarity).