



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

The Spring has Sprung Edition

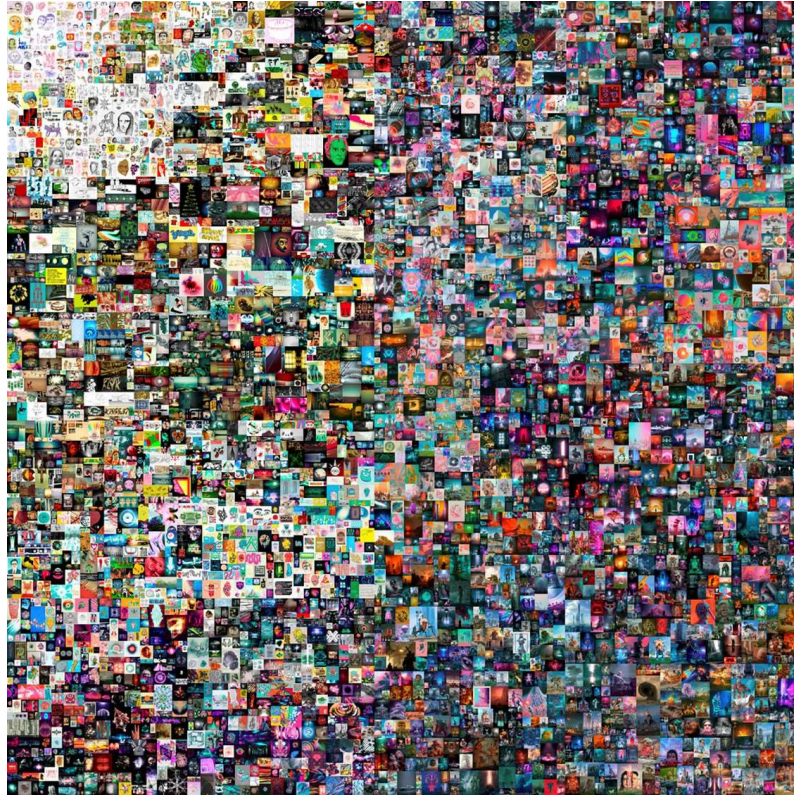
Hope springs eternal in the human breast. The vernal equinox is tomorrow, Saturday March 20. In the Northern Hemisphere, the days will get longer and the weather better. We have long advised clients that humans tend to feel caution as winter approaches, and optimism in spring. Markets often bottom during winter months and peak during early summer. Studies have shown most of the price gains made by the S&P500 have occurred between the months of Nov and April. Those remaining invested over the winter often had the chance to sell at better prices in the early summer. The differences are not large enough to drive an entire portfolio strategy around it. Time in, vs. Time-ing remains the best predictor of average returns.

I'll repeat a story from my early years in the business. In June/1990 one of my first clients fretted that the stock market was going to repeat the 1987 crash of 30%. He was worried his \$100,000 USD account would decline \$30,000. I believed he was wrong as the S&P500 had already experienced a decline that was unlikely to be immediately repeated. We debate. He decided to stay in cash (he invested later)

Our argument proved silly. In June/1990 the S&P500 total return index closed at 391.14. today saw the S&P500 TR index close at 8,116.17. His \$100,000 US would now be worth \$2,075,000. Yes, IF the market had declined 30% (it didn't) and he'd recognized that decline as an opportunity instead of confirmation the world was ending, and he then held for the entire remaining period, he would have acquired 30% more units and show a 30% higher value today. One who believes they can out-guess the market, and who is rewarded the first time would not have been likely to try it once and never try again. It often goes like this. *"I think the market will crash, I'm in cash"* followed by *"prices are up too much, they will fall then I'll buy"* followed by *"it's all just speculation by others, I'll get my chance"* followed by...*"I never made any money in stocks"*.

The past 12 months have confirmed patience is a virtue. Monday, March 23, 2020 saw the S&P500 TR Index close 4,559.51 as investors digested COVID-19 news over the weekend. At this writing the S&P500 TR is up 78% from that low. Those are the extremes. Using the 50-day moving average again, the gain is 'only' 32.4%. Mar/2020 was so last year. The pain is past. Investors are feeling frisky again.

Beeple NFT ‘worth’ \$69 million



‘Everydays: The First 5,000 Days’. Artist: Beeple. Medium: digital non-fungible token.

My father was an architect specializing in institutional public art gallery design. My mother spent her career in art education, at one point as a curator for a major US metropolitan museum. My step-mother owned an art gallery focusing on modern art. My brother and I grew up as art rats, playing at the feet of Renaissance masterpieces and art galleries both classic, and modern. We were told to sit quietly listening to art experts pontificating on the compelling story behind a given painting. Said experts were often the gallery owners selling the piece. The higher the value, the farther the assembled crowd of expert opinion pontification meter went into the ‘superhot gas’ reading. As all art values are completely subjective, it makes for interesting investor psychology. One can argue there is only one Mona Lisa, and only a Louvre to hang it in.

The Beeple art sale story got a lot of attention recently.

<https://financialpost.com/personal-finance/high-net-worth/heres-who-bought-the-69-million-beeple-nft>

“The auction for Everydays: the First 5,000 Days opened for bidding on Feb. 25, and shot from US\$100 to US\$1 million in minutes. But it wasn’t until the final 10 minutes of the sale on Thursday that the bidding action became particularly intense. The number quickly jumped from US\$14 million to US\$30 million. With seconds to spare, Metakovan placed the winning bid.” The \$69 million price tag was repeated often.

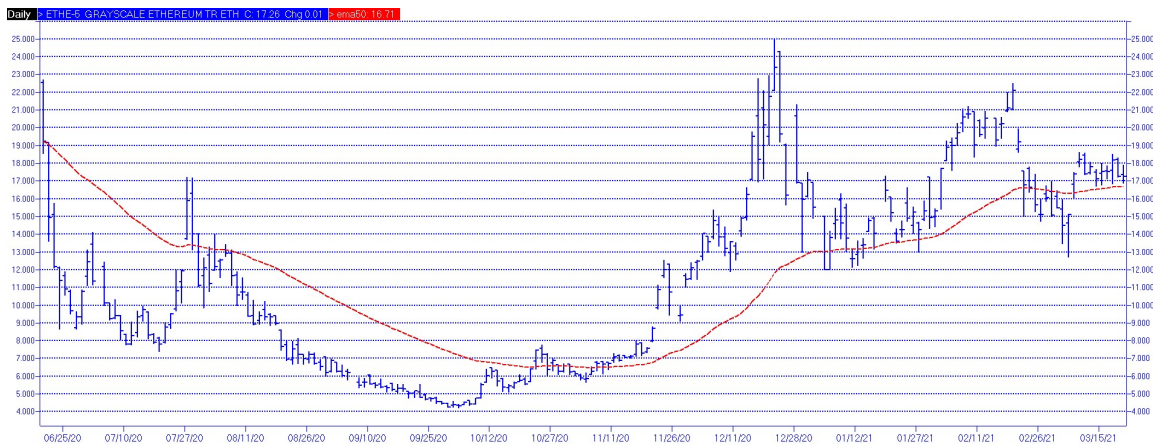
A typical art auction house fee is 12.5%. The auction house provides an ‘expected value’, storage, delivery, security of payment and auction services. The auctioneer will typically start the bid between 25-40% of the ‘expected’ value. My guess is Christie’s took this one on for the publicity. The starting bid for the ‘Everdays’ NFT of \$100 implies an expected value of \$400. The final close was \$69 USD million implying something over \$8.6 million in fee to Christie’s.

Crypto fans pointed to this event as yet another legitimization of crypto currency, some implying the rise of crypto’s signalling a broken global currency system with the Brave New World coming. This view holds that those not owning crypto’s just don’t get it and will pay the price of their worthless dollars collapsing in value.

The following detail from the story was not repeated (emphasis mine).

"Metakovan (the mystery buyer) intends to pay using Ethererum, the world’s second-biggest digital coin; approximately 42329.453 ETH, according to a Christie’s rep. Accepting cryptocurrency is a first the 254-year-old auction house and a major nod to the payment form’s legitimacy. A 10:11 a.m. EST on Mar. 11, a short time after the lot hammered, Ether was trading at US\$1,815 to the dollar."
"Metakovan, who says that he doesn’t own a house, doesn’t own a car, and "just tries to be physically light, so that I can pack and move around,"

Grayscale Ethereum Trust (ETHE-NYSE-\$17.26 - 1/10th of ETH price)



The first day of trading on the NYSE for the Ethereum ETHE Trust was Thursday Jun 20, 2019 with an open at \$33.33. Monday June 24, 2019 saw all-time highs of \$67.78 with a close of \$14.67 . Sept 30, 2019 saw ETHE hit session lows of \$2.38 (not a typo). Mar 11, 2021 the date of the auction, ETHE closed at \$17.80. There was a runup in ETHE value in front of the auction. Could be coincidence. At this writing ETHE trades at \$17.39. Recall the NYSE trading price is approximately 1/10th of the underlying crypto currency exchange price (<https://grayscale.co/ethereum-trust/>). Note that the ETH trust has an annual internal ‘fee’ of 2.5%. Over 10 years 25% of the value will be eroded by fees. This also means, as the only assets of the trust are the underlying ETH coins and the coins create no cash income (no dividends etc.), 2.5% of the Trusts Ethereum ‘coins’ will be sold each year to cover the fees. Those coin sales will hit the market presumably monthly.

Based on the Ethereum coin historical trading values and using the 'Everydays' NFT close Ethereum cost of 42,329 ETH, we have a potential historical value range from highs of \$286.9 million \$USD to lows of \$110,744 USD (yes 110 thousand). If we use a stock market valuation tool trailing 50-week moving average of \$1,365 ETH, we arrive at \$57.7 million avg USD equivalent. These values assume a constant 42,329 ETH price.

So... a digitally created art piece that could eventually be worth billions...or \$100, is paid for with digitally created currency that historically has been worth millions...or next to nothing. Christie's captures attention (and we presume a 12.5%+ ETH fee quickly converted into dollars - implying \$8.6 million ETH sold immediately), the media has a field day, and crypto bugs go ape. Welcome to the new normal.

Let's argue the crypto-fans are on to something and Weimar Republic style inflation is around the corner. Unless one believes conspiracy theories, this will be followed by authoritarian rule, owning businesses that provide real things that people must have regardless how they are valued would be a way to preserve wealth. Happily I don't believe I have to figure this out, using the current 'broken' system, owning those kinds of companies has been a way to build wealth in the past and seems likely to continue to so in the future. Our growing dividends prove this out. I'll take 'broken' this spring.

Will the Inflation Dog Bark?

<https://realreturns.blog/2021/03/18/will-the-inflation-dog-bark/>

'Avoiding Bad Decisions' – Farnam Street (FS) Blog March/2021

<https://fs.blog/2021/03/avoid-bad-decisions/>

Moving on to the energy space

'Pipeline' is a bad word...right?

From NBF Feb 25, 2021 research update regards the much maligned Enbridge Inc.

*"Sustainability Loan reaffirms #1 Midstream ESG ranking Overall, our 2022e AFFO/sh remains largely unchanged at \$5.27 (was \$5.26), while our 2022e D/EBITDA (prefs/hybrids as 50% debt) taps up to 4.6x (was 4.5x). Meanwhile, the company secured a \$1.0 bln Sustainability linked credit facility, reaffirming our #1 ranked ESG scorecard among Pipeline & Midstream peers (84/100). Of note, in addition to building out its European offshore wind platform and executing North American selfpowered renewable opportunities, **ENB is exploring carbon pipeline and storage opportunities, with the potential to store ~22% of Canada's GHG emissions.** Yup. Over 1/5th of Canada's GHG emissions.*

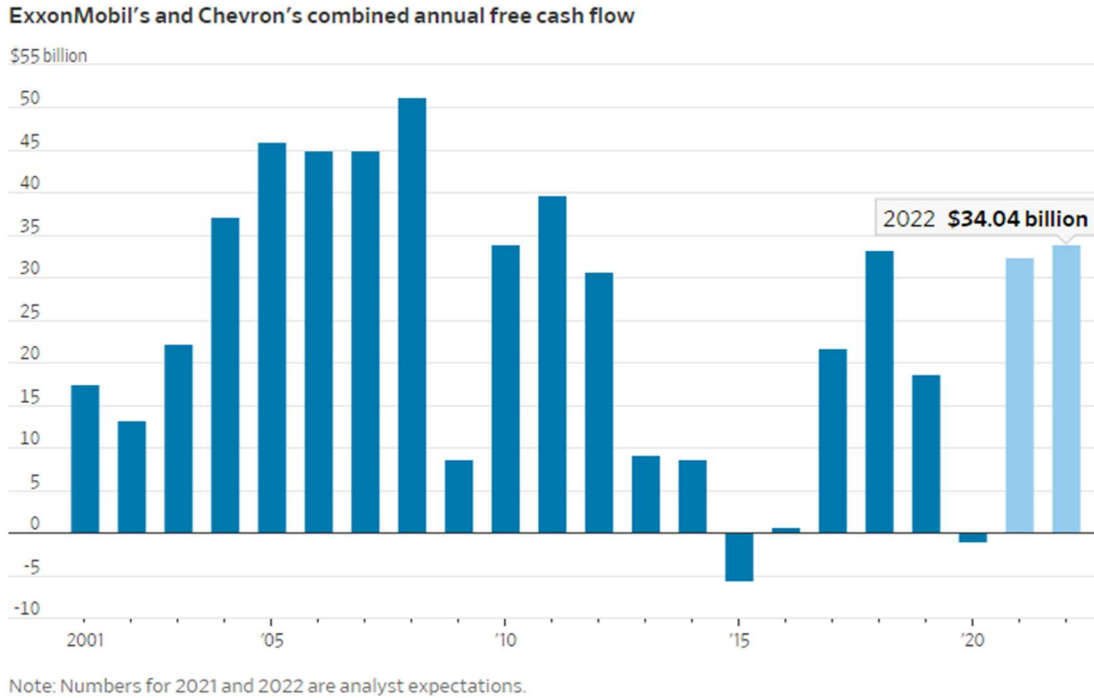
https://www.enbridge.com/~media/Enb/Documents/Investor%20Relations/2020/ESG_Investor_Presentation.pdf. Alberta private company Enhance Energy is involved in CO2 capture.



<https://enhanceenergy.com/> Enhance Energy was on March 15, 2021 Context Energy discussion of carbon capture. https://context.capp.ca/articles/2020/feature_enhance-energy-carbon-capture

Yes, Context Energy is an oil-friendly comment website.

One narrative we've seen a lot of is oil companies are going broke. Simple logic says don't own them. Well...maybe not.



A few headlines from Friday courtesy of NBF's Calgary Energy Desk

Energy News:

Ottawa invests \$50.5-million in Moltex Energy to develop nuclear reactor technology: Ottawa is investing \$50.5-million in Moltex Energy Canada Inc. to help in the development of the company's stable salt nuclear reactor and spent fuel recycling technology. The money includes \$47.5-million from the Strategic Innovation Fund and \$3-million from the Regional Economic Growth through Innovation program [LINK](#)

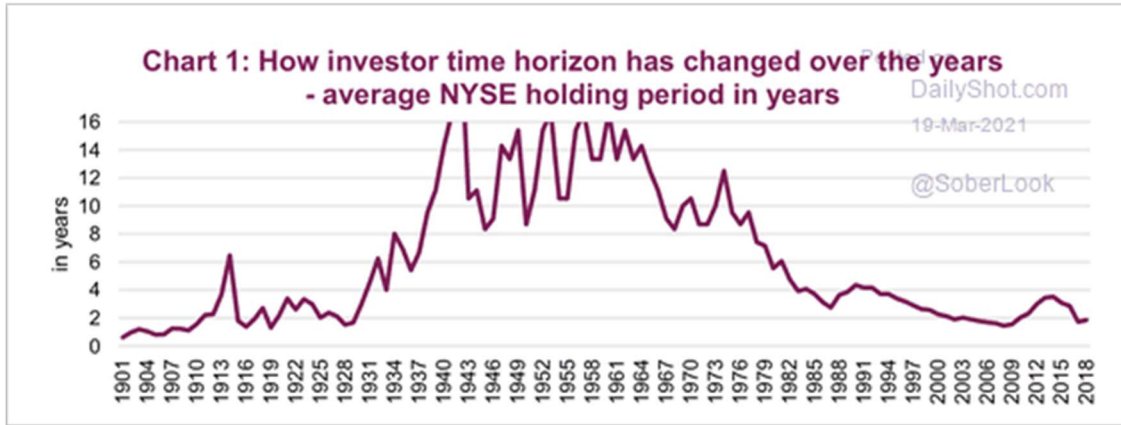
U.S. green energy push sets global edible oils alight, raises food inflation fears: U.S. President Joe Biden's green fuel push using edible oils is helping drive up vegetable oil prices that are already near record highs, hitting key cost-sensitive consumers in India and Africa and stoking global food inflation fears [LINK](#)

Slow Comeback for U.S. Refiners Is Starting to Hit Crude Prices: America's oil refiners are taking their sweet time to come back to full capacity after the historic arctic blast that crippled the U.S. Gulf



energy belt last month. Crude processing rates in the region, the heart of U.S. oil refining, are stuck at about 80% of levels seen before the winter storm and ensuing power outages that forced shutdowns [LINK](#)

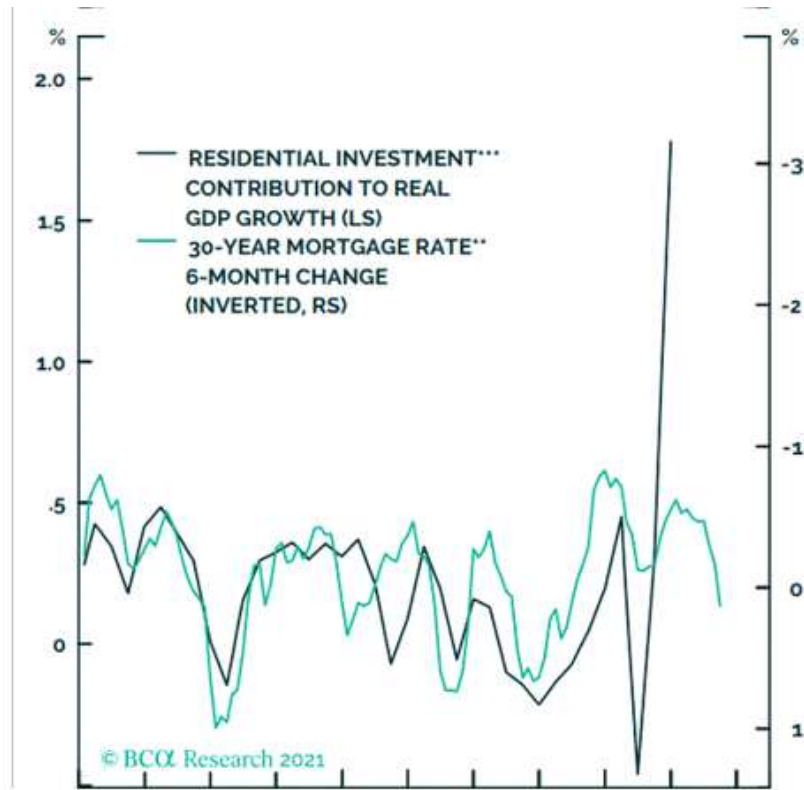
China Buys More Iranian and Venezuelan Oil, in a Test for Biden: China has sharply increased its imports of oil from Iran and Venezuela in a challenge to two Biden administration foreign-policy priorities, according to U.S. officials, undermining key diplomatic leverage Washington needs to restart long-stalled negotiations [LINK](#)



Source: Market Ethos, Richardson GMP/via Daily Shot

Housing has been in the news this week with records being broken in Vancouver...again.





'Home prices up in February for a 16th straight month' – Teranet House Price Index update March 17, 2020

Strong price growth affects most markets in the country

Share of regional markets* where prices rose by 10% or more in the last 12 months



*32 markets in total
NBF Economics and Strategy (Source: Teranet-National Bank)

See Teranet House Price research in the PDF links



Like the crocuses in the yard, hope is upon us.

Have a Great Weekend!

[Anna Hilberry's YouTube Page](#)

[NBF – Hilberry Group website](#)



FOR THE RECORD JAN 22, 2021

DOW INDUSTRIALS:	32,627
S&P 500:	3913
S&P/TSX COMP:	18,854
WTI:	\$61.36
LOONIE IN \$USD:	\$0.7997

© NATIONAL BANK FINANCIAL. All rights reserved 2019.

[Terms of use](#) [Confidentiality](#) [ABC's of security](#)

The information contained herein was obtained from sources we believe to be reliable, but is not guaranteed by us and may be incomplete. The opinions expressed are based on our analysis and interpretation of this information and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The opinions expressed herein are those of the author and do not necessarily reflect those of National Bank Financial.

The securities or investment sectors mentioned herein are not suitable for all types of investors. Please consult your investment advisor to verify whether the securities or sectors suit your investor's profile as well as to obtain complete information, including the main risk factors, regarding those securities or sectors. This document is not a research analysis produced by the Research Department of National Bank Financial.

National Bank Financial is a subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange (NA: TSX).

Sent by

Montreal office
National Bank Financial
Wealth Management
1155 Metcalfe 5th Floor
Montreal, Quebec H3B 4S9
Phone: 514 879-2222

Toronto office
National Bank Financial
Wealth Management
130 King Street West Suite 3200
Toronto, Ontario M5X 1J9
Phone: 416 889-3707



Regulated by
Investment Industry Regulation
Organization of Canada

