HILBERRY GROUP
WEALTH MANAGEMENT

Nov 5, 2021

Climate Blues

We've been spoiled. It's been a long time since we've experienced a typical November payback for the hot dry days of August. Steady rain for the past two weeks at sub-9% temps is 'normal'. It feels shocking. The cedar trees in the fields and the fish in the pond are loving it. A couple of ducks have moved into to feast on the green growth. Both sides now.

The UN Conference of the Parties #26 (COP26) continues in Glasgow, Scotland this week. We'll update the conference news flow with tidbits we came across this week.

On Monday the WSJ reported…

"Glasgow Expects 25,000 Climate Summit Guests. It Has Just 15,000 Hotel Rooms."

Visitors from 120 countries start arriving this weekend for the climate change meeting, but not everyone has found a place to stay; 'most stressful'.

https://www.wsj.com/articles/glasgow-expects-25-000-climate-summit-guests-it-has-just-15-000-hotel-rooms-11635517039

Yes, 25,000. Cruise ships have been hired to dock in the city, making the state-rooms available.

"Airbnb Inc. is offering vouchers worth $140 on its rental platform to people listing their Glasgow homes during the summit, the company said. Prices for two-week rentals near the climate conference venue start at around $7,500 and blow past $10,000.

A budget twin room at the three-star Victorian House hotel will add $18,000 to some country's national debt. Two weeks at the hotel costs $750 other times. But then a Volkswagen van, no toilet, was listed on Airbnb at $2,100 for the summit's duration."

Catering to this crowd is big money. If I'd pre-booked the Victorian House in Glasgow two years ago, I could be subletting it for a huge profit. Rental Arbitrage!

That 70's show?

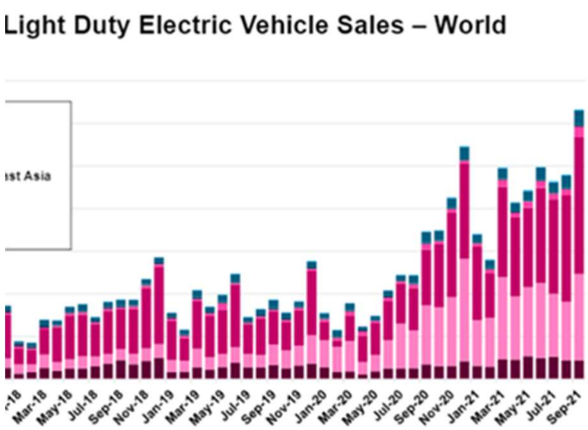
'Biden pushes G20 energy producing countries to boost production'

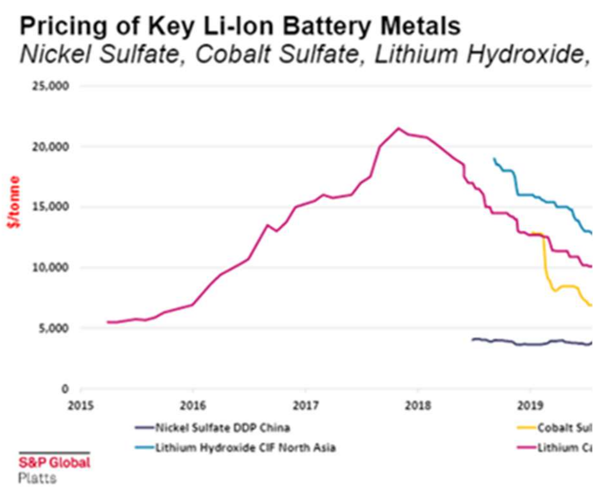
This week US President Joe Biden continued requests for OPEC to increase oil sales to the US. OPEC rebuffed the calls confirming few OPEC members are the US' friends. We point out the irony of a US President begging (there's no other way to describe it) OPEC countries to ship more oil. We hope asking OPEC to ship more oil via trans-ocean tanker while discouraging US domestic oil production and restricting Canadian pipeline crude access into the US market from their closest and friendliest neighbor (the latter favoring US producers) was not lost on Canadians. Politicos avoided connecting the dots to higher fuel prices. What ever happened to 'Energy Independence' as a US political talking point?

https://www.reuters.com/business/energy/biden-push-g20-energy-producers-boost-capacity-ease-price-pressures-2021-10-30/

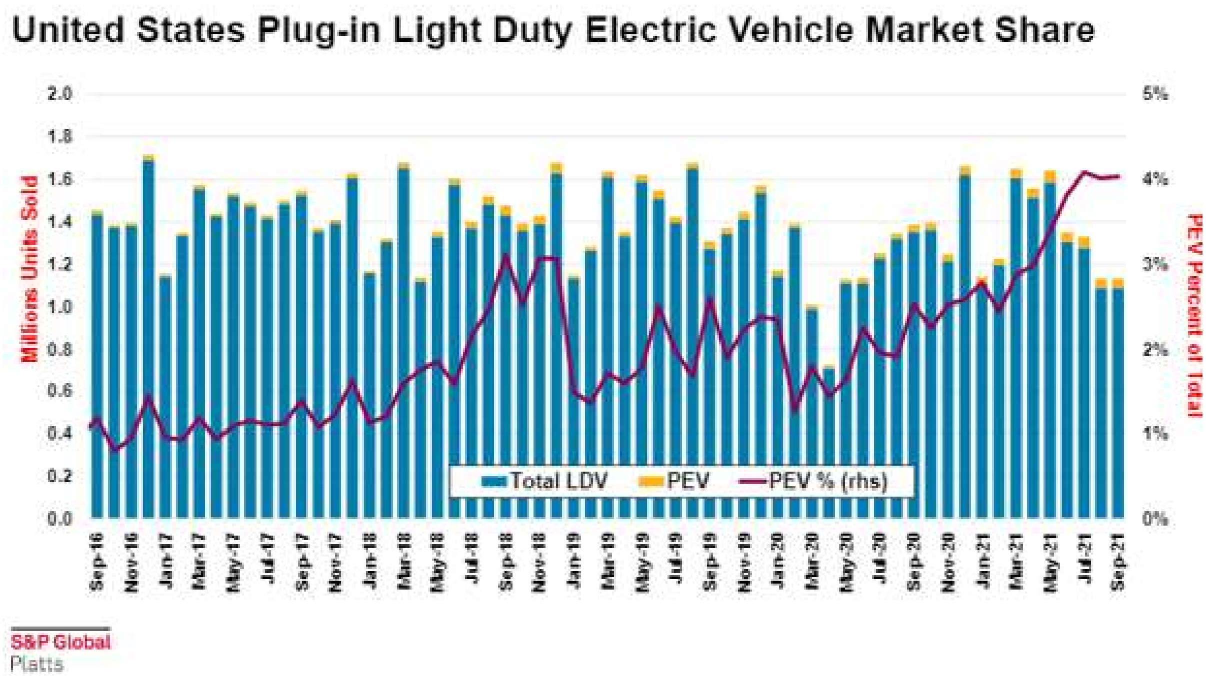
Staying with COP26 issues…EV Sales, market share and power load.

Light duy remotely powered 'plug-in' battery operated electric vehicles (PBEVs) are touted at COP26 as a major emmissions solution. Hybrid's are passe. Hydrogen? Fuggeda 'bout it. Light duty electric vehicle sales are up both in actual terms and relative to internal combustion powered ones (left hand chart). EV fans claim this as proof PBEV's gaining market share and acceptance. Meanwhile Li-Ion battery metal prices have been falling since 2018 (right hand chart). Fans again say this confirms the trend. Maybe.



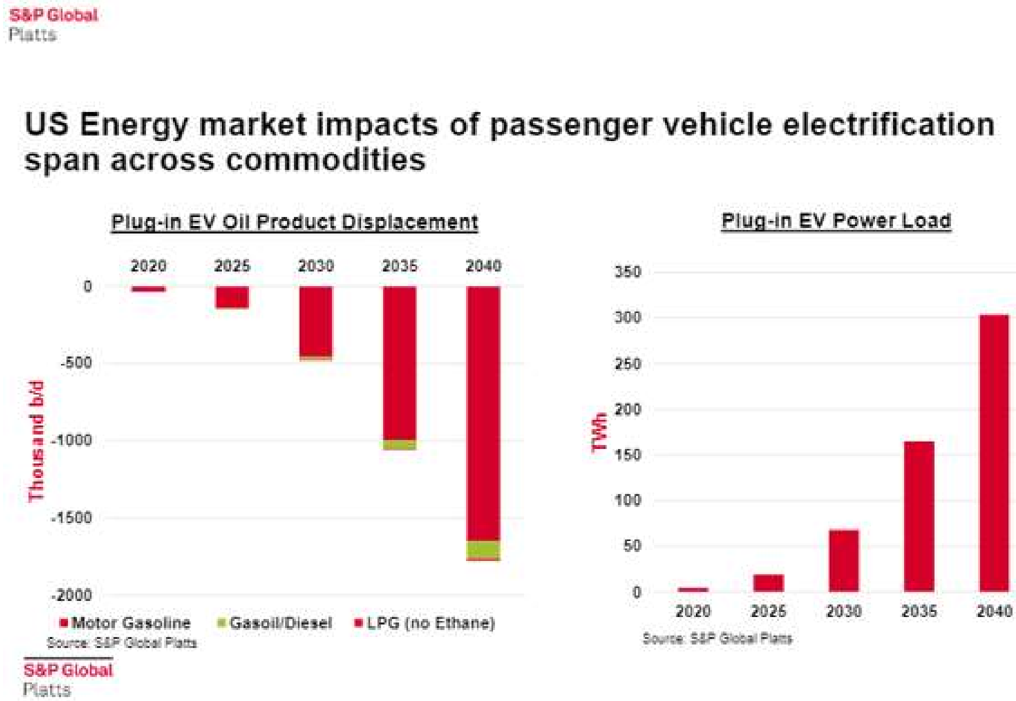


What about that EV market share thing? EV buyers remain upper income bracket. That group discovered they were spared the worst of the COVID-19 recession, watched their investments grow, couldn't go anywhere or doing anything so saved gobs of money. They could afford an EV. Some did. Meanwhile Mainstreet stopped buying cars, pickups in particular. Supply chain issues compounded things. I suspect at least some of the EV ratio to ICE market share increase appears due to an overall decline in conventional vehicle sales since COVID arrived. 2022 will be an important confirmation of which is happening. Big Auto – responding to public pressure and policy - is investing in electric vehicles.



In the above chart, the blue bars are total vehicle sales. The tiny yellow bars at the top of the blue bars plot EV sales. The burgundy line plots EV market share (now 4%). Note the decline in blue bars in latter half of 2021. If overall sales drop but EV's grow, the EV 'market share' grows. 2022 will tell us if EV sales growth becomes more broadly based. With Tesla's market capitalization now surpassing the GDP of Mexico, some investors are betting big. Tesla's competitors, all of whom produce various versions of PBEVs, the longest standing being Toyota, are receiving no such love. So far, EV sales and sales gains have been buy Tesla buyers. So far, Tesla has been the only car producer to be bid up in price. Maybe Tesla is simply a much better car maker than all the others combined. Maybe Tesla has the only solutions. Or maybe it's a Tesla thing as much as an EV thing? Also this week Elon Musk tweeted a dash of cold water regards last week's Hertz announcement buying 100,000 Tesla Model 3's pointing out no contract had been signed. This week GM said they can catch Tesla's market share.

If PBEV sales take off (vs. onboard power generation via hybrid technology), what is the projected impact on the electrical power grid by 2050?



A drop of 1.8 million barrels per day equivalent consumption of hydrocarbons (above chart left hand) = increase of 300 Terawatts of electrical power (right hand). This view has hydrocarbon fuels rapidly replaced by renewables. These are the numbers past Bank of Canada and Bank of England Governor Marc Carney discussed this week encouraging investment analysts, pension funds, University endowments, bankers and to exit hydrocarbon fuels and buy into renewable Solar & Wind powered electrical generation stories. For activists such as Greta Thunberg it's all just 'Green Washing'.

'*The Most Important 2000 Years of Energy History*' **Goehring & Rozencwajg**

In past Readings we've noted the poor energy returns derived from wind and solar generated power. We accept hydropower as viable. BC Hydro is proof. A water reservoir is akin to a huge battery, storing winter's snow and rain for summer's demand. As BC Hydro's Site C dam project also proves, meaningfully expanding hydro power is a challenge. If global warming means dryer summers will hydro be as efficient? This year's experience in Europe with lack of wind power has confirmed our concerns. Following the deep declines in Canadian oil & gas producer share prices, we believed it was overdone and advised the oil & gas sector would show strong share price gains. We've advised maintaining a footprint in oil & gas assets believing a realization was coming for the investment and consumption community regards the reality of an energy transition to renewable energy (slower/longer than hoped). To be clear, we also maintained a holding in renewable energy, focusing on utility companies making the transition and power generators already focused on renewables. Our Toyota holdings reflect this transition too. We've steered clear of pure 'green technology' bets. Staying in oil & gas wasn't easy or popular, yet has proved correct.

Clients are correctly concerned over the environment and want to support new solutions. Investors (and policy makers) pondering the important issue of CO2 emissions should watch GoRozen's latest 33-minute video. The intro warns their conclusions will not be popular. The video does a great job of explaining **Energy Return On Energy Invested (EROEI)** and how it applies to wind and solar power. They argue EROEI of Wind and Solar is not sustainable and explain why. They maintain natural gas in the short-term, base metals (copper) and nuclear over the longer term will be more realistic solutions. I've speculated hydrogen fuel cells might be viable. GoRozen takes hydrogen fuel cells to task too. I'm trying to pick holes in their thesis. So far, I'm coming up blank. I will be in New York next week. I plan on visiting their Wall Street offices. Here it from the horses mouth.

http://blog.gorozen.com/blog/the-most-important-2000-years-of-energy-history-featuring-leigh-goehring-and-adam-rozencwajg

As a final nod to the week's COP26 news flow, Credit Suisse provided a novel 'Treeprint' concept, converting our daily CO2 output to an equivalent number of trees required to offset. This work was mentioned in the Financial Post. I found the original for our clients.

***'When emissions turn personal: How many trees are needed to offset your carbon footprint?'* Credit Suisse Oct 29, 2021**

https://credit-suisse.com/treeprintreport

Moving on to tech stocks…

We have a few clients who've have made a bundle on **Nvidia (NVDA-$298.98**). After noting a recent pop in the price, a client holding the stock asked me for my comments on Nvidia's market values. Does it make sense to BUY/HOLD/SELL here? The following is my emailed reply. For his privacy I've changed his name to Sam.

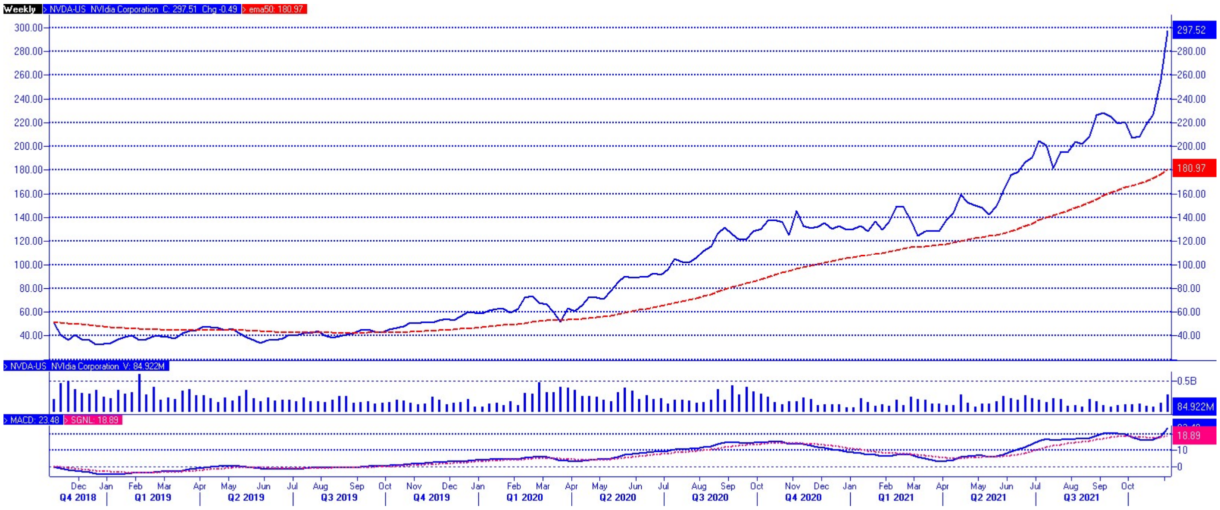
Sam,

Nvidia stock first issued shares in an IPO Jan 22, 1999 at $12.00 $USD per share. Adjusted for stock splits the IPO price was $0.25 (25 cents) per share. Nvidia began trading Feb 19, 1999 and closed that day at $9.80 per share (split adjusted $0.2041) for a sharp -18.3% kick in the pants.

1,000 Nvidia shares bought at the IPO would have cost $12,000 $USD. Stock splits would have taken that original IPO 1,000 share holdings to 48,000 shares. At today's intra-day high of $314 the market value of the holding would now be $15, 072,00 USD (!) explaining how the 1%'ers get to be 1%'ers. Easy Peezy. Maybe not.

In May/2001 Nvidia hit a split adjusted $4.17. 13 years later, in Feb/2014 you could have bought it again at the same price. In Oct/2015 Nvidia hit lows of $5.87 closing that month at $7.09 for a May/2001 to Oct/2015 total return of 70% or 3.6% compound avg. return. The stock price took off, breaking $100 in July/2020, closing out Oct/2020 at $125. Today it hit $314.

Nvidia Weekly ranges 3 years



When I see parabolic price charts, I get the chills. When those price spikes are on top of previous escalations, I go hypothermic. As long as the crowd continues to bid, the prices can go bananas. Until they stop.

As you've asked for my value thoughts, perhaps it's time for me to do a bit of a longer explainer on our philosophy. This will help you put my comments, my biases/weaknesses into perspective. I think you need to understand the animal you're dealing with!

Rather than chasing growth, I look for dividend-paying/out-of-favor companies at prices well below what investors happily paid in the past vs. buying into surging price stories. The chart price trends of companies we buy often look awful, the corporate news is usually bad and no one cares. Those low prices vs. a steady and growing dividend often translate into nice fat, boring dividend yields. Sometimes it will take time for things to come around at the company and longer for investors to get excited again.

Here's a typical pattern for us using a generic $100 shares of $50 stock with $2 div = $5,000 out lay = $200 income = 4% dividend yield.

***Year 1** – little price change (maybe a bit of sag). $2 divs = $200 received. Total $5,200 end. Re-invested divs now hold 104 shares at year one end = 104 shares X $50 = $5,200*

***Year 2** sideways again. Dividend grows 6% in year 2 to $2.12 per share. Re-invest divs. Total shares held end year two = 108 shares X $50 price = $5,400 + $21 res cash = $5,421.*

***Year 3** things turn around for company, investors bid share price up 10% in the final quarter of year three to $55. Dividend hiked 6% again to $2.24 per shares. Divs reinvested. End of year, 112 shares held X $55 = $6,160 + $36.50 residual cash = $6,196 = 24% total return.*

Year 4** things are definitely improving with earnings growing 15%. Investors aren't really convinced yet so bid up the stock by an additional 12% to $61.60 (not the full 15%). Divs increase 10% (better earnings) to $2.46 per share. End of year hold 116 shares X $61.60 = $7,145 + $29 residual cash = $7,175 = **43.5% total return.

Avg return around 9.5%. More importantly in my thinking, year four's dividend income is now $285 = 5.7% cash yield on the original $5,000 outlay.

From a market price perspective (IE what shows up on a price chart) the price return only is 5.3% per year. Blah. Who cares? Boring. As price hasn't done much, it still isn't overvalued yet. Broad market declines will take all stocks lower. Usually (but not always!) the less nosebleed to start with the less damage on the downside. Dividends are sticky keeping investors invested. Dividends are also (mostly) consistent meaning a scary price decline doesn't rob the investor of that 5.7%-on-cost income cash flow. Think rental property income with more liquidity and no renters to deal with. This approach requires less timing precision and places income into the hands of the investors. If they don't need it, they can always re-invest or use the dividends to add to other stocks.

When prices flop, that income keeps driving forward. On paper a 5.7% income reduces 30% price loss to a still difficult -24.3% loss. On paper one is still singin' the blues but if we avoided close to 6% on the way down that's 6% we don't have to make back on the way up = 12% round trip loss avoided. Dividend payers tend to show lower market correlation (up and down) they tend to drop less. It all means our dividend payers will likely be back in the black sooner than the broad market when prices slump. We'll be back in black a LOT sooner than the high-fliers. Meanwhile the investor receives cash income that grows each year. It's possible the dividend could be cut by one company but not likely all at once. Diversification helps. Boring as heck.

Or…one could buy Nvidia (NVDA) on Oct 5, 2021 at $197, hoping other investors will bid up the price. Which they did!

Today Nov 5, 2021 Nvidia hit $314 = +59.4% in 30 days. Is the compony really worth 60% more? Were investors blind in October? Why weren't investors paying $300+ last month? With this long explainer of my biases in mind…here's what our data says on Nvidia.

Nvidia has historically been valued by investors at 25 X cash flow per share (CFPS). The S&P is currently price 14 X CFPS. Historically Nvidia has on average been priced 78% above the S&P500 average. It's always been expensive.

NOTE: Cash-flow per share (CFPS) is NOT net earnings per share. It is the internal 'operating profit' on sales, before taxes, depreciation, dividends etc. CFPS is popular with analysts following hyper-growth stocks as the premise is CPFS can be plowed back into the company before tax, driving up earnings when they show up…some day. By re-investing in the business that expense is deductible from the annual tax bill owing. If one plows all the cash-flow back into the business, there are no 'earnings' to be taxed. Meanwhile the share price could rise as investors smell a bright future, The corporation's owners (for now) could show tremendous wealth generation (on paper) and pay very little to any tax…until they sell. This is true for any industry. NOTE: The ability to deduct re-investment from earnings is not, repeat not, a 'subsidy' as anti-capitalist activists claim. This treatment of operating income re-investment as a 'subsidy' idea also features heavily in anti-hydrocarbon producer presentations. It's not true either.

In September, 2021 NVDA's 12 mos. forward 2022 projected CFPS was $3.80. The stock was trading at $220 = 58 X CFPS, being over twice the company's own historical average. Today Nvidia trades at 80X trailing CFPS, 75X 2022 projected CFPS and 59X 2023 projected CFPS. Using 2023 projected CFPS, the stock is priced today at 2.3X what investors have paid for it in the past on a figure 3 years out. Recall that average is 78% higher than the S&P average. Also recall the S&P average Price/CFPS 14X multiple is in itself ballooned by the likes of Nvidia, Tesla, Google, Amazon, Facebook, etc. Finally note that word projected is repeated a lot.

Maybe Nvidia is about to surprise investors by 2.3 X what the street expects? That implied result is in the price. Investors seem to be paying for those wonderful 2.3 fold 2023 cash flows today. If CFPS 'only' gained 20% then what? The stock price could drop in half and still be back to the long-term average price vs CFPS paid. It's expensive. More so that usual.

That's how I view these kinds of stories and that's why we don't often own them. We're happy to generate high single/low double digit total returns for clients with better risk/return profile and higher cash income.

Your Boring as Heck advisor,

Steve Hilberry

'Is Hyperinflation Coming?' – Cullen Roche Oct 25, 2021

Crpto-land offers itself as the solution to hyperinflation. Cullen Roche takes the Crypto-spinners to task. He answers the question 'No'. But some inflation is likely.

https://www.pragcap.com/is-hyperinflation-coming/

Dire predictions of the US Govt going broke were back in the conservative media/blogsphere news this week. Ben Carlson took on this worthy issue

'The United States Has Been Going Broke For Decades' – Ben Carlson Oct 31, 2021.

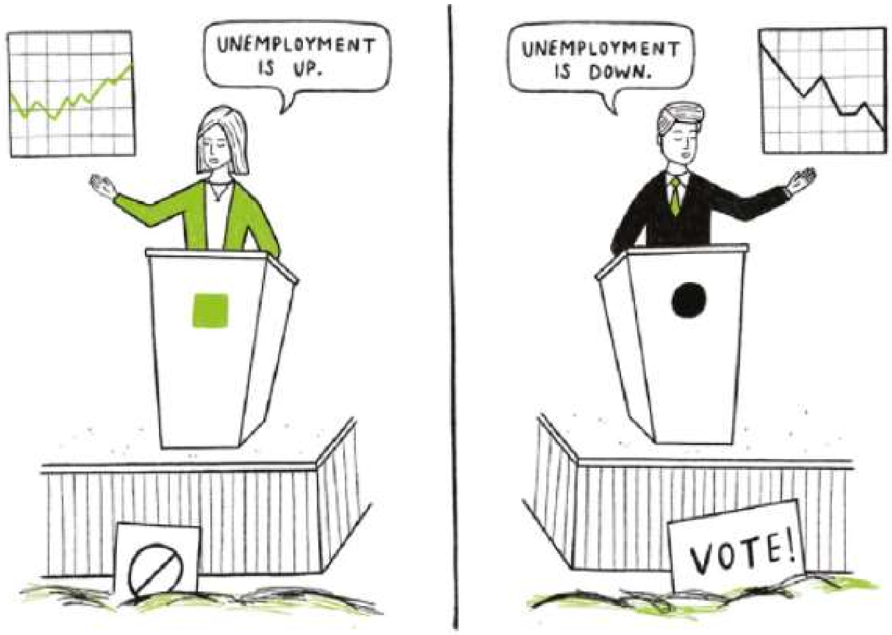
https://awealthofcommonsense.com/2021/10/the-united-states-has-been-going-broke-for-decades/

'Data fallacies' – GeckoBoard Best Practices

(credit for web link idea to Visual Capitalist daily note Nov 4, 2021)

I can't stress enough the importance of understanding spin in data. I now spend too much time parsing out why something isn't true or isn't relevant. In investment selection one must screen data sources for bias. The explosion of self-serving online 'influencers' has complicated things.

Cherry Picking



"When making a case, data adds weight – whether a study, experiment or something you've read. However, people often only highlight data that backs their case, rather than the entire body of results. It's prevalent in public debate and politics where two sides can both present data that backs their position. Cherry Picking can be deliberate or accidental. Commonly, when you're receiving data second hand, there's an opportunity for someone choosing what data to share to distort the truth to whatever opinion they're peddling. When on the receiving end of data, it's important to ask yourself: 'What am I not being told?'."

(highlighting mine).

https://www.geckoboard.com/best-practice/statistical-fallacies/

staying with data…

***'Will We Have a Recession in the Next Year'* – Ben Carlson**

"It's time to get ready for 24/7 trading and markets in everything."

https://awealthofcommonsense.com/2021/11/markets-in-everything/

Can You Be Too Big To Fail? | Lessons from Evergrande

Watch Anna's latest video here

https://www.youtube.com/watch?v=WgUkMDua_O8

Nov 05, 2021

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Nov 05, 2021

DOW INDUSTRIALS:	36,327
S&P 500:	4,697
S&P/TSX COMP:	21,455
WTI:	$81.14
LOONIE IN $USD:	$0.8023 $US

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