



WEEKEND READING

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

Merry Christmas!

This will be our last Weekend Reading posting for the year. Omicron permitting, given the chance to hopefully have time with family and friends, we'll keep it light this week.

Lumps of Coal or Surprise Gifts for 2022?

In Victorian England, coal was so common getting a lump in one's stocking was the reward for being on the naughty list. 2021 European sky-high prices for old-school coal powered energy may have us revisiting this idea. It's been a wild, wild, year. Fire, Floods, Pandemics. The only thing missing was a Plague of Locusts. Meanwhile investors partied hard. Prices for truly speculative ventures went ballistic this year. While in New York I spied street poles draped with banners advertising 'Free Crypto trading. Nothing is free. Clients tell us of acquaintances who've left their jobs to make a killing day-trading using unregulated trading 'apps' on their cell phones. All profit with no downside. What's wrong with us? Why aren't we there?

The last time I experienced this kind of nuttiness was during the Dot.Com boom. In 1999 investors were convinced the practice of computer coders recording the year in date-sensitive software with a 2-digit entry (1999 = 99) vs. 4 digits would bring the 'End of Days' via Year 2,000 computer programming software glitch (Y2K Bug). As it was all going to end anyway, it was time to *Party like it's 1999*. The world didn't end on Jan 1, 2000. With Y2K relief, investors embraced the final paroxysm of Dot.Com boom. The *New Paradigm* meant owning anything but Tech was a mistake. Tech stock prices exploded to new highs in March/2000. Clients told their brother-in-law was day-trading the Nasdaq QQQ index ETF making huge returns. What was wrong with us? Why weren't we there? The QQQ peaked at \$109.50 in March/2000 with darlings trading over 100 X earnings. The Q's crashed,

bottoming in Oct/2002 at \$19.76. In Sept/2015 the QQQ finally broke the March/2000 highs. At this writing the QQQ trades at 386 for an annual avg return of 6%.

Most of that positive return was achieved over the past 5 years. The index results don't tell the whole story. Recall indices replace losers with new entrants. Many investors chasing the hot names in 1999 saw permanent losses. Nortel Networks is a reminder. Staying in the game is tough after losing all one's capital. The New Paradigm was a thing, it just wasn't nearly as profitable as soon investors were paying for. In retrospect it all seemed so predictable. Lumps of coal.

Investors who avoided dramatically overpaying by focused on the tried-and-true dividend payers experienced downside too, but not nearly as steep or for as long. The Dow Jones Utilities Total Return Index closed March/2000 at 198.50. The index peaked in Dec/2000 at 287 then flopped to lows in Oct/2002. The Utilities closed Oct/2002 at 157.50 being -20.5% from the value when the Nasdaq peaked in March/2000. The total span underwater was 12 months from June/2002 to Nov/2003. Along the way investors were paid to wait. At this writing the Utilities sit at 1,205 for an avg return of 8.6%. Boring is good.

***'Winds of Change'* Howard Marks OakTree Capital**

Howard Marks 16-page close spaced commentary puts me to shame. He comments on this year's weirdness.

<https://www.oaktreecapital.com/docs/default-source/memos/thewindsofchange.pdf>

I don't disparage new ideas. The human spirit brims with optimism and the need to innovate is baked into our genes. The more of us we can bring to the game, the more great new ideas will arrive. Despite pundits predicting consumption lead doom, lifting populations out of poverty has always and everywhere meant we all benefitted. Ending slavery was predicted spell the end for the working man. This same thinking saw woman entering the work force as ending male careers. Immigration was predicted to rob workers of their jobs. The opposite was true as new hearts and minds brought new ideas and new ways of living (and consuming) at costs so low we throw perfectly usable but unfashionable things away. We no longer threaten our badly behaved offspring with lumps of coal that many have never seen. In early 20th century, Pneumonia was a leading cause of death in developed nations, brought on partially by coal fired smog. Amazing advances in health and technology let us live much longer and healthier lives. If we can bring the developing world out of poverty, who knows what great ideas will come from those millions of minds released from the grind of surviving into the next day? I believe we're already in the best of times and see no reason they can't continue. An example:

'The largest space telescope in history is about to blow our minds'

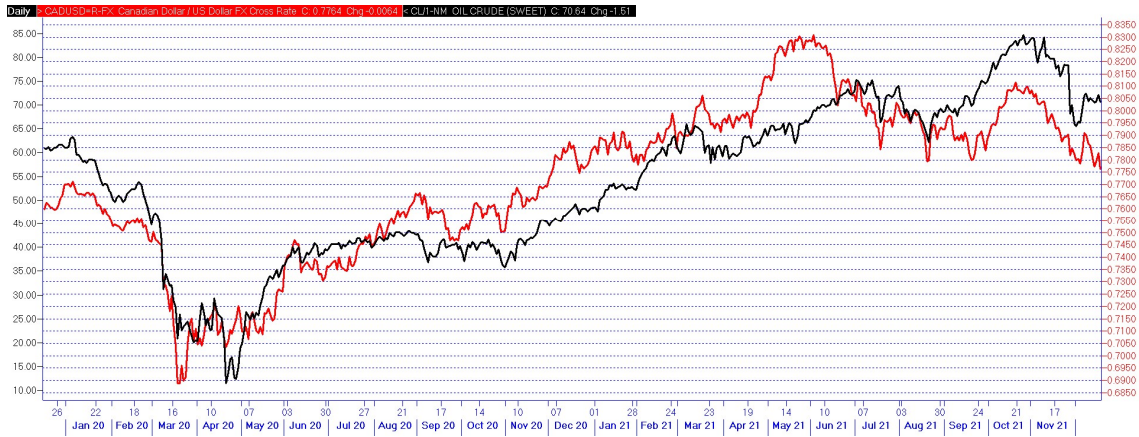
The James Webb space telescope is slated to launch this month. Astronomers hoped it would be in December. This could be a major leap forward for our understanding of the Universe.

<https://www.vox.com/science-and-health/22664709/james-webb-space-telescope-launch-date-december-science-hubble>



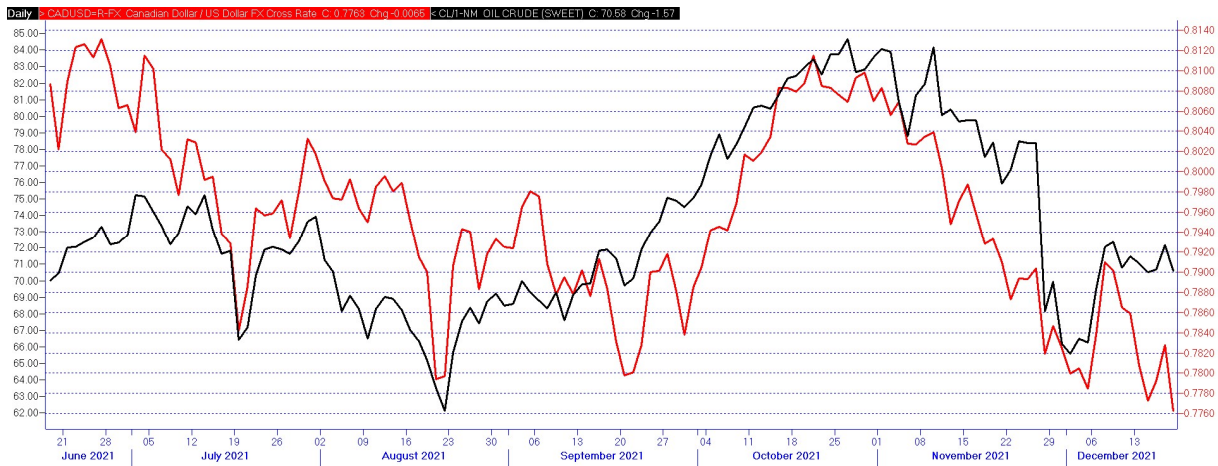
The Loonie has had a good 2 years. I expect more in 2022. Oil is why

Loonie (red) vs. WTI (black) 2 years



International money continues to view Canada as an oil producer pricing the Canadian dollar in line with crude oil prices.

\$1 CDN in US funds (\$0.7786 red) vs WTI Crude \$USD (\$70.80 black) 6 months

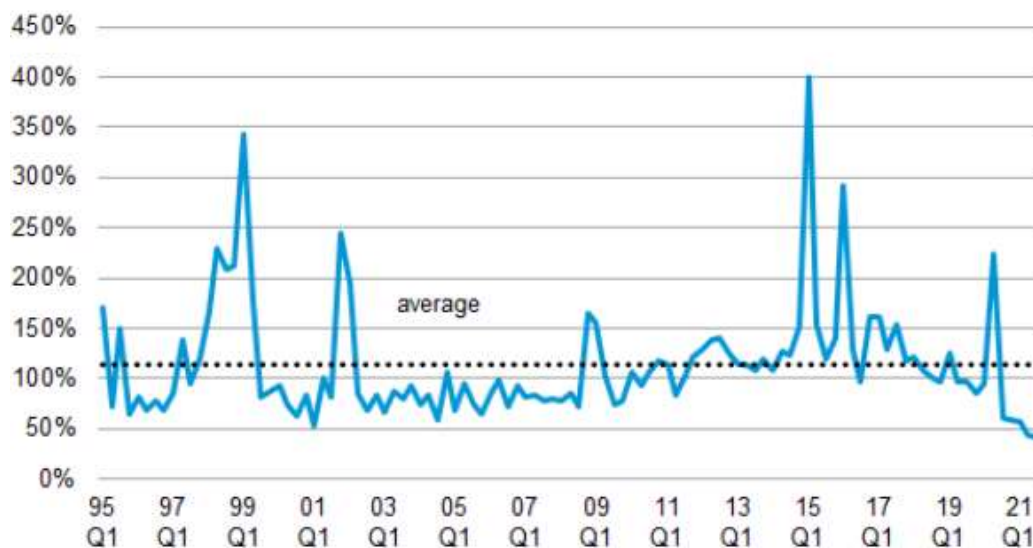


Notice the recent divergence at the right-hand side of the 2nd chart. Investors ponder Canada's attitude towards its energy assets. Will this continue? My bet is no. Here's why.



No drilling means no new oil. US oil producers CAPEX is at a 25-year low.

Figure 2. Ratio of capital expenditure to cash flow for 47 U.S. oil companies



Source: Chart by U.S. Energy Information Administration, based on data from Evaluate Energy



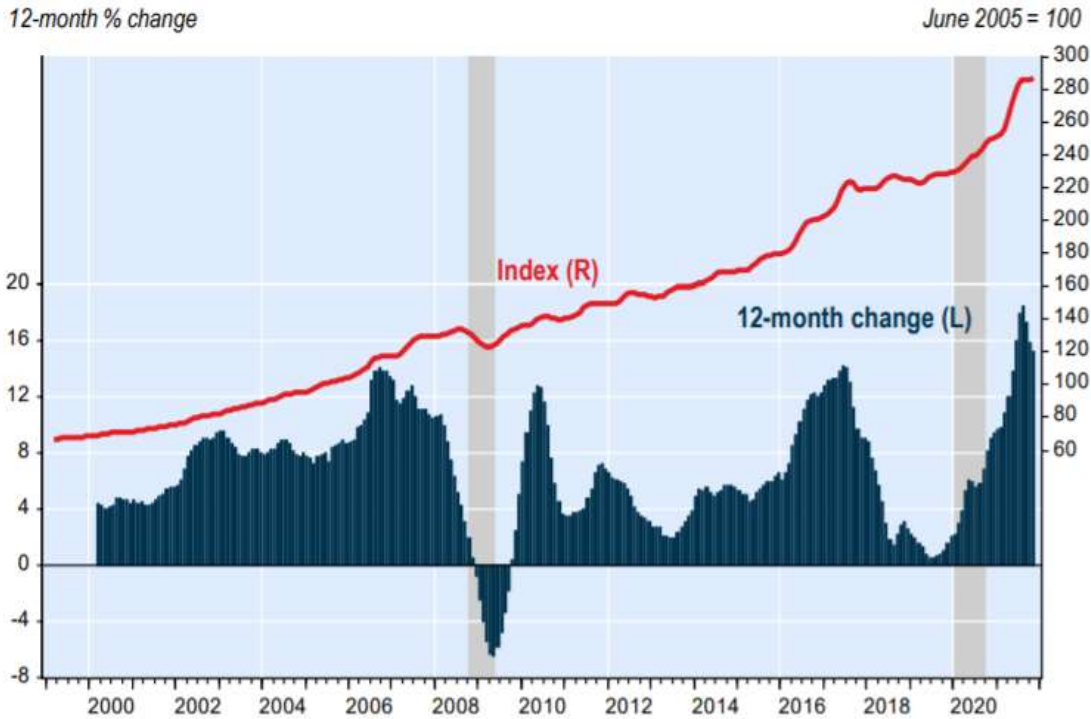
For any commodity if no new supply is developed existing assets become more valuable. Canada could benefit. This week saw Cenovus sell some of its SAGD heavy oil extraction assets to a private (non-publicly traded) buyer for \$800 million. With the ESG pressure on publicly traded entities to divest, I expect we'll see more go-private deals. 'Going Private' means offering to purchase all of the outstanding publicly traded shares of a corporation, usually at a premium to recent prices. While I'll enjoy the profits to be had, seeing assets become unavailable to the general share-buying public is a concern. To be clear, the assets will still be there, making profits for their owners, but that ownership will be beyond the reach of investors with modest means.

Canadian House prices rose in November...again.

Metropolitan area	% change m/m, NSA	% change m/m, SA	% change y/y, NSA	% change from peak	Peak date
Composite 11	0.4%	0.5%	15.2%	0.0%	2021-11
Victoria	1.0%	1.1%	18.8%	0.0%	2021-11
Vancouver	0.4%	0.4%	13.9%	-0.3%	2021-08
Calgary	0.1%	0.0%	8.3%	-0.1%	2014-10
Edmonton	-0.3%	-0.1%	4.8%	-1.3%	2007-09
Winnipeg	0.0%	0.4%	10.6%	0.0%	2021-09
Hamilton	0.6%	0.9%	24.9%	0.0%	2021-11
Toronto	0.8%	1.0%	16.3%	0.0%	2021-11
Ottawa-Gatineau	-1.1%	-0.5%	18.0%	-2.5%	2021-08
Montreal	0.0%	0.1%	15.5%	-0.1%	2021-08
Quebec	0.3%	-0.4%	8.0%	0.0%	2021-11
Halifax	1.2%	0.7%	29.8%	0.0%	2021-11



Teranet-National Bank National Composite House Price Index™



For the full report see the following link.

<https://housepriceindex.ca/2021/12/november2021/>

National Bank's COVID-19 Daily Monitor for Friday Dec 17

Omicron Variant has us all on edge. Will this be the final wave of this seemingly never ending story? Will the more contagious but apparently less virulent strain crowd out the more dangerous ones? Will herd immunity finally show up? The stock market thinks so. National Bank updates the stats. As the Omicron variant is fast moving we may have more data today and changed policies after this goes out to clients.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=f7c4df88-2ba0-4f74-b569-5caa3a290a4a&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

It's been a good year. Be of good cheer.

Year to date our Canadian model portfolio is up 28% and our US up 24%. Client portfolios are at record highs. We're optimistic next year will be rewarding. Perhaps not as good as this year, but worth waiting for. We're hoping no lumps of coal are headed our way.

May your holidays be happy and bright

The Top Performing Sectors Right Now | Exploring Stock Performance by Industry in 2021

December 17, 2021



Watch Anna's latest video here

<https://www.youtube.com/watch?v=w5sPr34SSZ0>

Have a Happy and Safe Holiday!
Best wishes from the Hilberry Team.



FOR THE RECORD Dec 17, 2021

DOW INDUSTRIALS:	35,365
S&P 500:	4,620
S&P/TSX COMP:	20,739
WTI:	\$70.86
LOONIE IN \$USD:	\$0.7756 \$US

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