HILBERRY GROUP
WEALTH MANAGEMENT

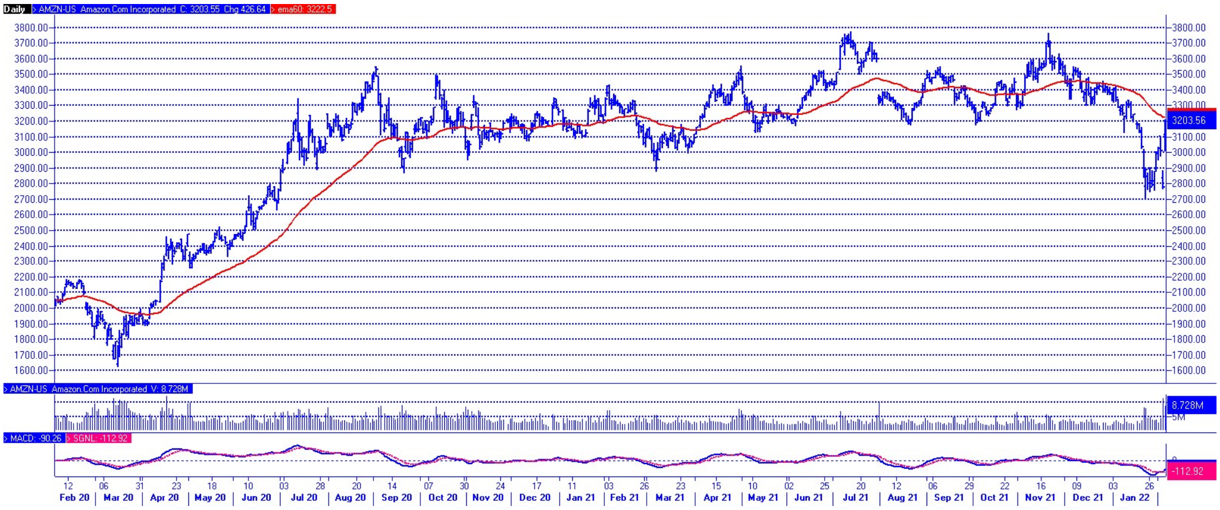
Feb 4, 2022

Back to the future:

It's been another tough week for the waxed-winged Icarus stocks.

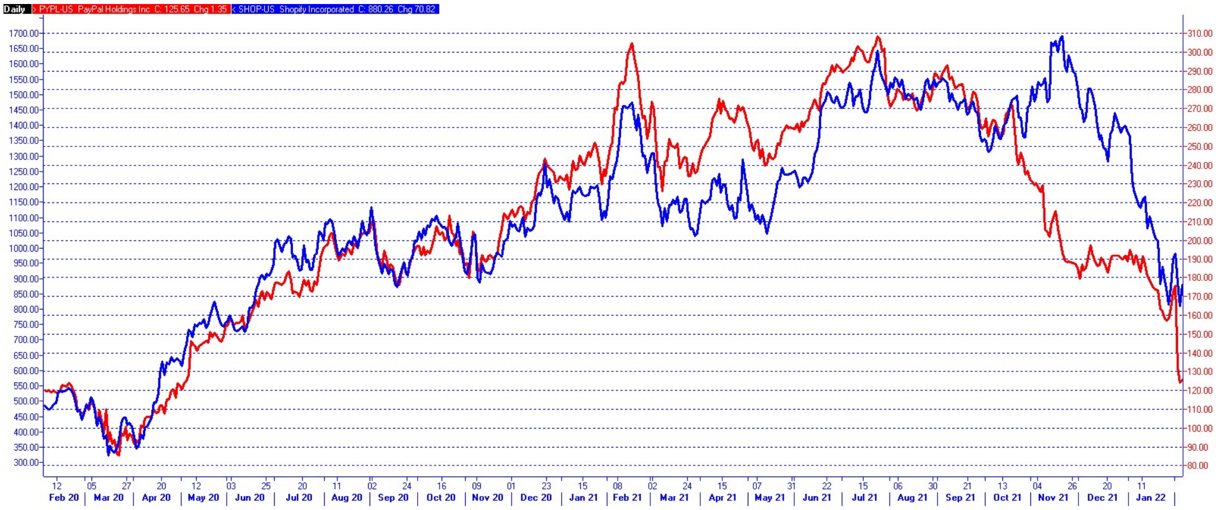
Meta Platforms Inc (FB-$234.35) formerly known as Facebook flopped -25% on Thursday on disappointing earnings. The price is down -38% from the $380 in Sept/2021 highs. **Block Inc (SQ-$107.35)** formerly known as Square, got slammed again, ending the week at $107. The price is -62% from the Aug/2021 highs. Maybe clever name changes aren't such a good idea. **Netflix (NFLX-$407.45)** bounced mid-week on news insiders added to their holdings in the stock. By Friday most of the gain was lost. Friday **Amazon (AMZN-$3,204.60)** rode to the rescue. The stock rallied +15.2% as investors cheered Q4 results. Q4 included +$11.8 billion gain on Amazon's investment in electric truck maker Rivian.

AMAZON (AMZN- $US-$3,204.42) Daily ranges – 2 years.

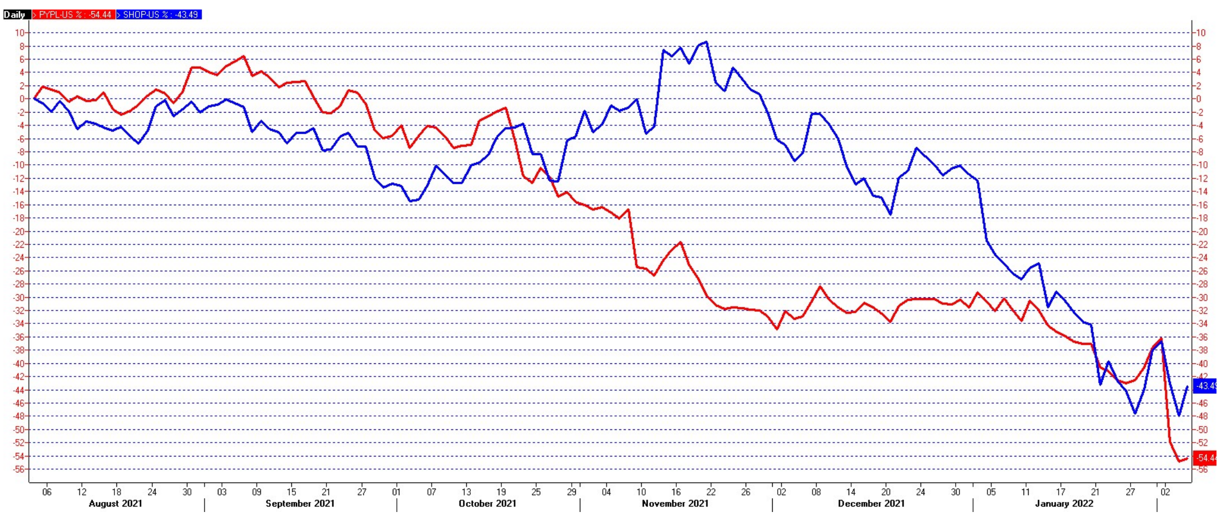


Amazon has rallied back to the previous 2021 low range of $3,200. Flat lined since Jul/2020.

PayPal (PYPL-$USD-$125.65 red right) vs Shopify (SHOP-$USD-$878.26 blue left) 12 mos



Amazon rescued Shopify's price. PayPal not so much. Industry insiders tell us Shopify may be losing sales momentum. Both stocks have lost similar % values since summer 2021.



"What were you thinking?" Scott McNealy

'At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?'

— Scott McNealy CEO Sun Microsystems, Business Week, April edition 2002

Dot.Com darling Sun Microsystems hit $250 per share in early 2000 during the Dot.Com bubble. A year later it traded at $10. The above April/2002 interview saw the stock at similar levels. Sun Micro continued to show increasing revenues post Dot.com bubble, enhanced by acquisitions made with stock subsidized by investors, but struggled with net profits. When investors tired of handing over free money and began asking for some of the actual cash back, the game was up. Sun Micro was acquired by Oracle in April/2009 at $9.50 per share. 96% below the bubble high and 90% below the 1998 pre-bubble price around $100.

Fast forward to January, 2022…

'Investors have subsidized our Uber rides, Spotify tunes and Netflix binging - but maybe not for much longer' Tom Bradley

Canadian value-oriented money manager Tom Bradley of Steadyhand Investments discussed the recent blow-off in social media stocks. His comments will be familiar to regular to our Weekend Reading followers.

https://financialpost.com/investing/investing-pro/investors-have-subsidized-our-uber-rides-spotify-tunes-and-netflix-bingeing-but-maybe-not-for-much-longer

'The Hidden Market Crash' Novel Investor Jan 28, 2022

https://novelinvestor.com/the-hidden-market-crash/

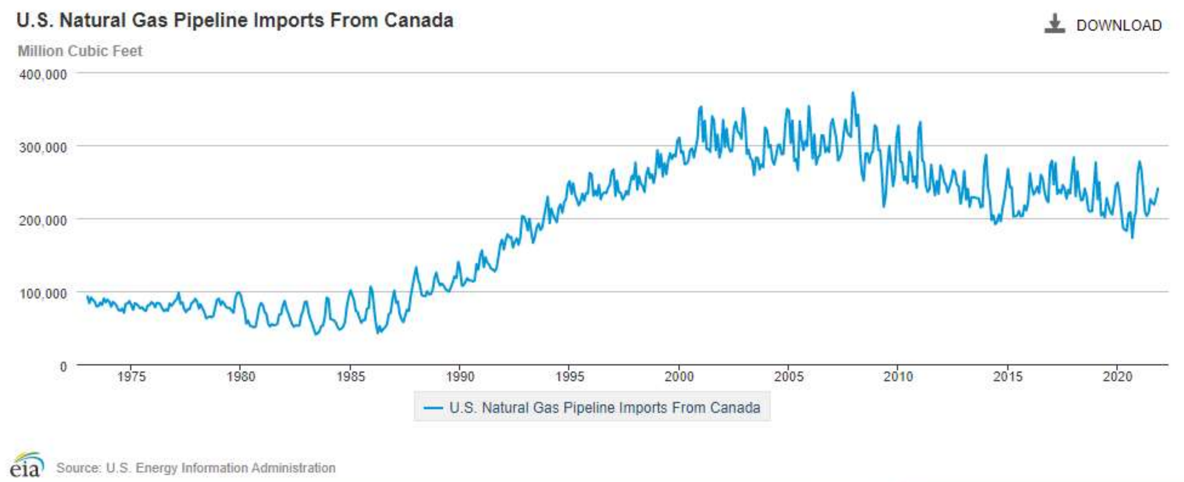
'The Price of Admission in Stocks' Charlie Bilello Jan 30, 2022

Required reading for our equity investors.

https://compoundadvisors.com/2022/the-price-of-admission-in-stocks

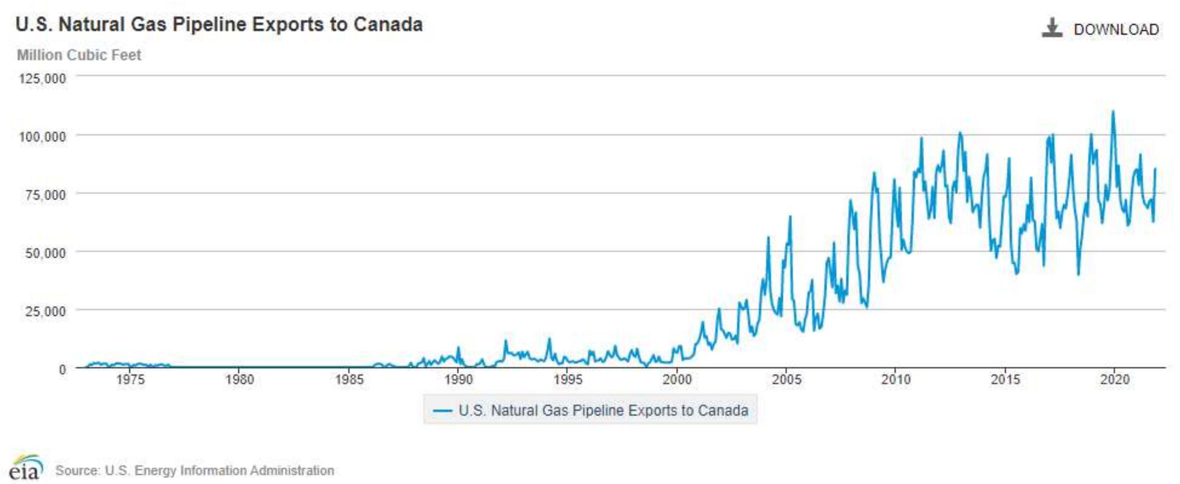
Turning to the energy markets.

US Natural Gas Imports <u>from</u> Canada



US Imports from Canada are 98% via existing pipelines from Western Canada – some West to East via the TransCanada gas pipeline through Chicago but most straight south. A combination of US shale gas production, capped CDN pipeline capacity and discouraged CDN development saw Canada's gas exports to the US fall from a 2004-2006 peak of 311 billion cubic feet per month (BCFM) to a post-COVID 2021 233 BCFM. This number may grow next year. Canada's gas exports to the US are down 78 BCFM/-25%.

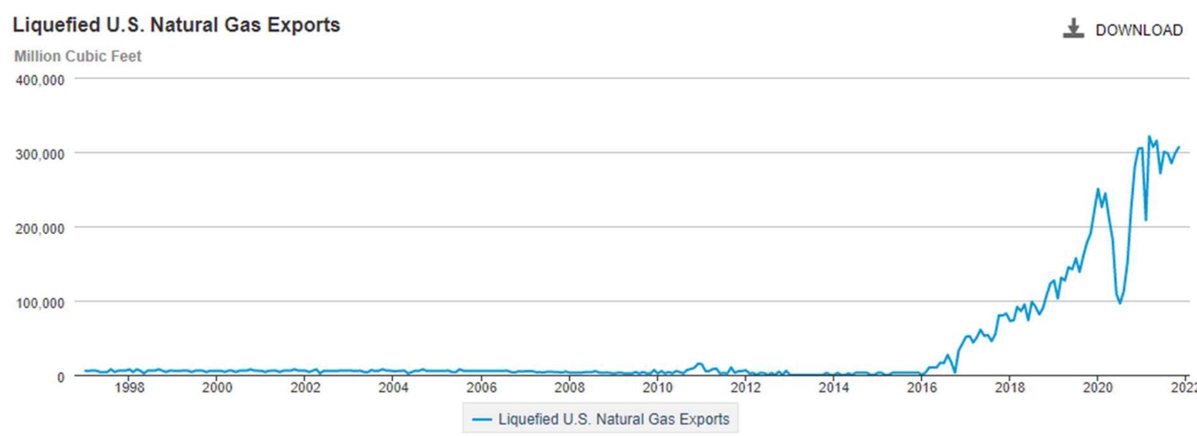
US Natural Gas exports to Canada



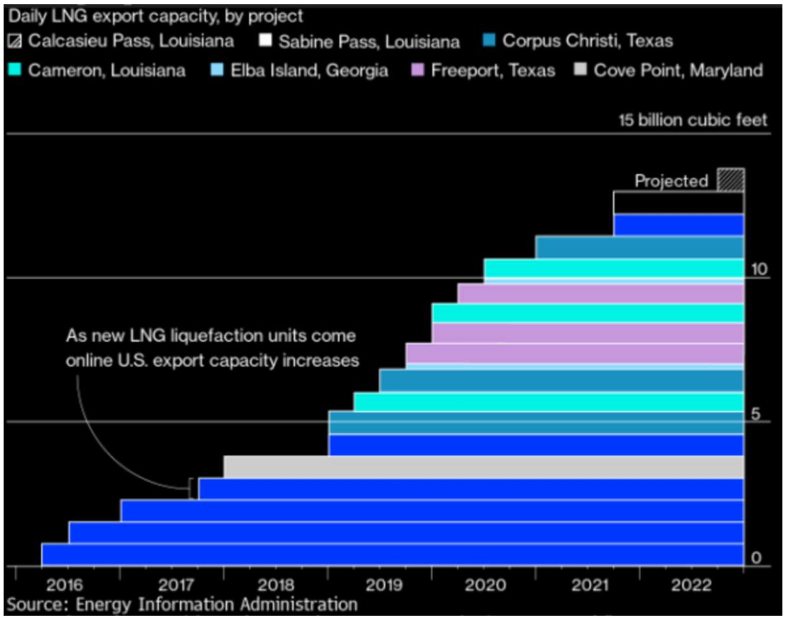
US gas exports to Canada, mostly up the eastern seaboard into Quebec and the Maritimes. 2005 avg monthly US export was 35 BCFM. Past 12 mos. avg 91.2 BCFM = + 56 BCFM = +160%. No expansion of Canada's West-East pipelines pared with an upward natural gas demand trend in Eastern Canada results in Eastern Canada buying from the Americans. This is money that could/should stay home. Canada's gas exports to the US declined 78 BCFM while our imports climbed 56 BCFM for a net gas trade decline (add the two together) of 135 billion cubic feet per month.

The 2006-2021 78 BCFM decline in Canadian exports to the US had zero relationship to US internal consumption. 2006 US average monthly gas consumption was 1.808 trillion cubic feet per month. The past 12 months avg has been 2.538 trillion CFM. US gas consumption has increased by 730 BCFM / +40%. 55% of US gas exports go to Mexico. TransCanada built the pipeline. The US further added to gas export capacity via Liquified Natural Gas (LNG) gas to liquid liquefaction terminals. In the early 2,000's predictions were the US faced an energy deficit. Billions were poured into natural gas <u>import</u> terminals, ready to receive LNG shipped from international suppliers. Import terminals connected to the US gas pipeline system were designed to 'de-liquify' LNG. The rise of US shale oil & gas turned this need on its head. The US has rapidly converted de-liquifaction plants to liquefaction, adding new capacity. 7 major terminals, mostly in the Gulf Coast are being built/expanded. This trend accelerated sharply during the Obama Presidency with Joe Biden as VP. Mr. Biden continues the trend. Being in the US 'National Best Interest' this is unsurprising.

US Liquified Natural Gas exports (LNG via vessel)



US LNG export terminal capacity 2016-2022



'EU Taxonomy; Sharpening the Tools' NBF ESG Research ('Before the Bell' Feb 2, 2022)

Natural gas seems likely to pass the EU ESG test. Consumption will rise.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=093a7a11-357b-4bfd-a461-984aab2ef7e7&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

'Britain scrambles $12 billion to soften 54% household energy price blow' – Reuters Feb 3, 2022

https://www.reuters.com/world/uk/britain-has-profound-problem-with-rising-energy-bills-business-chief-says-2022-02-03/

Current Govt policy in many Western nations focuses on pricing (taxing) carbon'. The rationale being increase the cost of carbon to reflect its true 'price' on the global ecosystem. As the current open market price doesn't reflect this goal, a carbon price is applied. The stated goal is to raise the cost of hydrocarbon fuels past the point of viability, squeezing out demand. As the cost of such fuels rises, the alternatives will suddenly become 'cheaper' than hydrocarbon fuels. Paring carbon taxes with direct or passive resistance to expanding existing hydrocarbon energy sources has discouraged investment. Energy asset owners aren't fools. If they believe their assets are on the way out, why would they throw more money at them? Supply contracts. Demand continues. Prices rise some more. It's all going according to plan. Will demand fall off as consumers turn to electrification(?).

Then that winter thing happened. Snow, ice, cold and all that. What about consumers for whom a $50 increase in monthly heating costs means $50 less food? They can't afford a dedicated electric commuter car receiving an income tax-deduction that only works if you have enough income to deduct from (upper middle-class+). There 22 million UK citizens in this lower/minimal income band. They vote. Uh oh.

"We must rescue them" (and they do need rescuing). "We'll borrow gobs of money to subsidize/shield them from the effects of our policies. To reduce grumbling from consumers who maybe can afford the higher costs, at least for awhile (another voting block), *we'll send them emergency heating cost grants too*". Notice that word 'grant'. As in free. Taxpayer money isn't free.

To protect consumers from these policy outcomes the UK Govt enacted price-controls, preventing energy providers from passing on costs to consumers. As profits collapse providers went bankrupt. As they went under, supply contracted further. Collapse loomed. All so predictable but not predicted.

The next logical step is the UK Govt will be 'forced to step in and rescue' (nationalize) the energy industry ensuring they 'protect the vulnerable'. What else can one do? This will all cost someone else's money. The solution is to raise taxes meaning purchasing power decreases. As purchasing power contracts, taxes on income don't bringin the anticipated revenue. Solution? Tax assets not just income. All according to plan.

Meanwhile here in Canada….

Where did the all the Canadian energy money go?

TotalEnergies Reaches Final Decision on $10 Billion Uganda Oil

- Uganda expects production to reach 230,000 barrels a day
- Final investment decision includes oil development, pipeline

By Fred Ojambo and Paul Burkhardt

(Bloomberg) -- TotalEnergies SE and its partners reached a final investment decision worth over $10 billion to produce Uganda's oil discoveries and build a pipeline that will turn the landlocked East African nation into a significant crude exporter.

TotalEnergies, along with partners Cnooc Ltd. and state-owned Uganda National Oil Company, announced the agreement that will bring output from the Tilenga and Kingfisher fields near Lake Albert and transport them through the planned East African Crude Oil Pipeline.

Source: Bloomberg

$10 billion US is roughly $12.7 billion Canadian. BC's provincial Govt total expenditures for 2021 were projected to come in at $61 billion. The Provincial Govt's 2020-21 COVID-19 inflated deficit was $8.1 billion. BC's projected 2023-24 post COVID budget deficit is $4.3 billion. The Uganda project equates to 3X BC's deficit.

B.C. Government Fiscal Position
[Millions of C$ unless otherwise indicated]

Fiscal Year	2020-21 Revised	2021-22 Plan	2022-23 Plan	2023-24 Plan
Revenues	**60,967**	**58,929**	**63,286**	**65,074**
% change	3.9	-3.3	7.4	2.8
Expenditures	**61,601**	**64,377**	**67,020**	**68,697**
% change	4.4	4.5	4.1	2.5
Pandemic and Recovery Contigencies	-7,510.0	-3,250.0	-1,000.0	-300.0
Forecast Allowance	-	-1,000.0	-750.0	-400.0
Surplus (+)/Deficit (-)	**-8,144.0**	**-9,698.0**	**-5,848.0**	**-4,323.0**
% of GDP	-2.8	-3.1	-1.8	-1.3
Net Debt	**59,962**	**71,642**	**82,771**	**92,732**
% of GDP	20.3	22.8	25.0	26.9

Source: B.C. Budget 2021-22, TD Economics.

https://economics.td.com/domains/economics.td.com/documents/reports/budgets/bc/BC_Budget_2021.pdf

How to Stop Sabotaging Your Investing

There are negative connotations with the word 'loss'. That which doesn't kill you makes you stronger.

https://www.safalniveshak.com/stop-sabotaging-your-investing/

With all of the above angst, how are we doing?

Carnage? Keep Calm and Carry On.

We've fielded calls from anxious clients seeing headlines screaming *'6 Months of Carnage'*. Here are our numbers over this period. What you don't do matters.

Hilberry Dividend Growth Portfolio net returns				
June 30, 20221 to Feb 3, 2022 market closes.				
		Merged	**CDN Divs**	**US Divs**
	Feb-22	0.6%	0.5%	0.9%
	YTD	2.6%	1.2%	3.9%
Jun/21 to Feb/22		8.4%	4.0%	11.1%

The past few months have confirmed ***Thou Shalt Not Over-Pay***. We believe the recent blow-off in the social media/Pandemic trade are ultimately healthy. As we're not playing in that sandbox, we haven't share in the ecstasy and despair. We're just here to make money. We think there's more coming. Hang on to your hat!

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Feb 4, 2022

DOW INDUSTRIALS:	35,089
S&P 500:	4,500
S&P/TSX COMP:	22,271
WTI:	$92.22
LOONIE IN $USD:	$0.7838 $US

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