



WEEKEND READING

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

The Rottweiler solution

We live in a small dell or 'hollow'. Hilberry's Hollow. We're on a 20-acre hobby farm west of Duncan in the Cowichan Valley's farmlands. We are surrounded by rolling hills with small scale mixed farming, dairy farms, vineyards, woodlots, open fields with copses of trees out to the edge of the valley backing onto heavily timbered mountain slopes. There's an old tractor parked by our barn and horses in the field. Bucolic splendor. Our neighbors immigrated from post WWII Italy to create Zanatta Winery, one of the first vineyards in BC.

We moved into Hilberry Hollow in 1994. The house was run down and the barn a mess. Long-time neighbors still shake their heads at the sweat-equity, time, and treasure, we've poured into it. We did much of the work ourselves. The country neighbors passing by all know each other. Neighbors don't steal from neighbors. We never locked our doors, had no perimeter fences, gates, a hedge or even a dog. We had a friendly cat. As we are on the corner, a community postal box was in front of our house. Having a circular driveway, some folks used it to turn around after picking up their mail. We thought it a bit of an imposition but really didn't mind as we worked days in town, and mostly didn't care. Being in safe and friendly Canada here on safe and friendly Vancouver Island, miles from big city crime what's the worry? Who needs fences?

Then somebody decided to walk into our unlocked garage and stole a power washer. A bit later probably the same somebody stole a power saw. We got a dog but kept him in the house when we were gone. Didn't want him wandering and getting hit on the road. To protect the furniture, we kept him in the basement. One afternoon, we came home to a dejected looking dog. Probably the same repeat offender entered the house mid-day, ransacked the upstairs with the dog locked in the basement. Fortunately, the thieves saw the dog through the basement glass door and fled without much damage. While we didn't do the breaking in, we really had only our selves to blame. We began to take our security seriously.

We bought a pair of Rottweilers, built perimeter fences, installed electric gates (to keep the dogs in, not the people out), added locks to all the doors and windows. The Rotties are wonderfully loyal, friendly family pets, affectionate, great with kids, don't stink or shed much and...will NOT tolerate intruders. Bad actors know this, they leave us alone now. We haven't been broken into since. I love the dogs and hate the fences and locks. Makes me look like one of those uppity types, all worried about their stuff. The good neighbors who mean us no harm know the dogs by name, smile and wave with the occasional chat over the fence, but they no longer wander uninvited up the door and stay out of the driveway. They're not quite as friendly. None of us are. The thieves changed us all.

It's a painful lesson. There is always someone willing to take your stuff. Some will attempt to sneak in. Others will try direct intimidation. A good fence and a pair of Rottweilers with big teeth tells the bad dudes to try somewhere else. We're doing all of us a favor.

NATO's *raison d'être* is deterrence. Pre-invasion of Ukraine, Putin intentionally gave the West plenty of warning spending months building up a 190,000 strong army drawn from the far reaches of Russia. Yet Europe and NATO did nothing but stand around at meetings fluffing feathers and puffing about not giving Putin an excuse to invade. He didn't need one. When clear Russia was actually going to invade, the US pulled out the few advisory troops it had in Ukraine. No teeth and no muscle. Nothing to tell a bad guy 'go try somewhere else'.

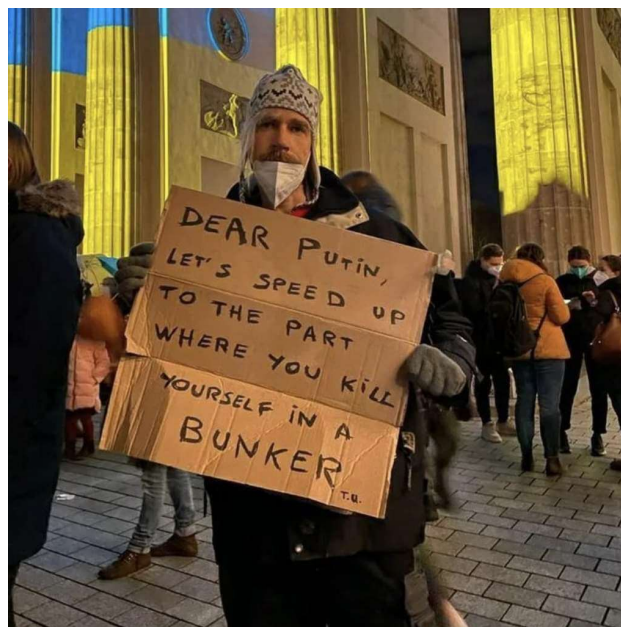
From the perspective of a despot, Democracies may appear to be led by fickle politicians with narrow political agendas on both sides of the ideological spectrum. The longer it's been since the voting public has suffered hardship, the harder it is to have frank discussions about expensive ideas like defense or economic security. It's not the politician's fault. They give us what we vote for. Meanwhile adults have better things to do. Who in their right mind wants to spend their day arguing over potholes in the road, inter-provincial trade, high school dress codes or CRTC culture issues? Sure, those issues matter but let someone else do the squabbling.

History says democracies initially appear weak, feckless, unprepared, and unmotivated in the face of aggression. When attacked, they are surprised and shocked, not wanting to believe it's happening. Leadership wasn't elected to deal with those challenges. They lose the first few battles and things don't look good. Despots make the mistake of conflating initial success with winning the war. Then the adults show up. They set aside their previous lives and prove willing to make the hard decisions, pay the price both personally and politically. Some will even give up their lives. They aren't there for the same narrow political reasons (although if they stay long enough, they might). The population hungers for leadership. Unlike dictatorships, democracies have no barrier to excellence. If elected leaders are incompetent, they are replaced. As elected leaders don't rely on generals to support them, weak military leaders are tossed. Corruption is culled. History says democracies see their very best - eventually - rise to the occasion. History says democracies win. Always. This time will be no different. It will be difficult.



On the other side, a dictator rules by rigid control, suppressing any dissent. Because they don't see dissent, they think there isn't any. They are accustomed to winning every argument via fear and force. Resistance means not enough force was applied. Despots won't hear dissenting advice and as no one dares say otherwise. They see their population and military infused with their personal vision. They don't/won't see the false smiles. The lack of deep personal commitment at the military level results in combat losses. The more their armies fail, the less advice the despots accept, believing solely in their own wisdom, purging all others. The military command-and-control system breaks down. Meanwhile the boots dying on the ground decide something isn't right. Doubt is a poor motivator in a firefight. The losses accelerate. Hitler believed England would collapse under The Blitz. He believed the English were indulgent and weak, led by weaklings. Initially it was so. Then the adults showed up. As the Blitz and Ukraine has proved, the attacked have nothing to lose and everything to gain by resisting. The more ruthless and brutal the despot's attacks, the more unified the resistance becomes and the deeper the defender's hatred for the attacker. Hatred is a secret weapon. Defenders set aside petty politics (there will be plenty later on) and unite. The defense of Stalingrad marked the beginning of end of the Third Reich. The US lost the Vietnam War causing deep divisions that never healed. The 1979 invasion of Afghanistan lead to the collapse of the Soviet Union. A surfeit of heavy firepower is no match for a determined population. Ukraine's dryland proximity to NATO countries means military hardware suitable for infantry will flood the battlefield. Russian troops will suffer. (See the Bloomberg article *'Putin, His Rat and Six Ways the War in Ukraine Could End'* below).

In the end, Putin loses not only his original objective, but control of Russia. He probably loses his life. The war probably won't change international borders. It's all such a terrible waste. The path to that final loss has no honorable defeat and no agreement that includes Putin. He's sealed his own fate. How much of the rest of Russia and Eastern Europe will he take with him? Chaos is likely. Any student of military affairs has read this script many times. It was summed up on the streets this week.



Proving that there's hope (and a market for everything) Amazon is now selling T-Shirts. Ukraine has already won the propaganda battle.



Roll over image to zoom in

Eventually this gets better. As with our Italian neighbors, who went on to great success as Vintners and helped build our local economy, I expect we'll see Ukrainian immigration to Canada. They will bring their skills and education with them. Canada, will again benefit. As awful as it is to say, these times present both trials and opportunities. Our job is to chose.

'Putin, His Rat and Six Ways the War in Ukraine Could End' – Bloomberg March 4, 2022

<https://www.bloomberg.com/opinion/articles/2022-03-04/six-scenarios-for-how-putin-s-war-in-ukraine-could-end>

'Opinion | Why the U.S. Needs to Act Fast to Prevent Russia from Weaponizing Food Supply Chains' Politico

<https://www.politico.com/news/magazine/2022/02/27/russia-weaponizing-food-supply-chains-00012130>

'The big sanctions: A quick explainer' Noah Smith Feb 27, 2022

The goals and risks of SWIFT cutoff, central bank sanctions, etc.

<https://noahpinion.substack.com/p/the-big-sanctions-a-quick-explainer>



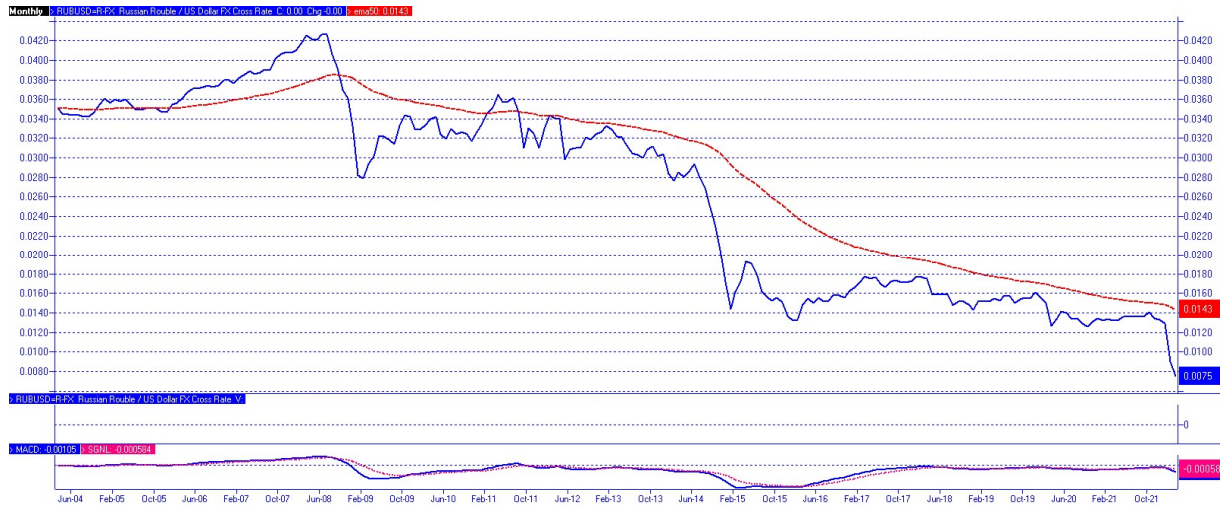
‘Now You Get It’ – Morgan Housel

<https://www.collaborativefund.com/blog/experience/>

Remember the BRIC (Brazil, Russia, India, China) fad?

Q: What the market thinks of Russia under Vladimir Putin? A: Nyet.

Cost of 1 Russian Ruble in \$USD (\$0.0075) monthly March/2004-Mar/2022



The current version of the Russian Ruble first traded in international exchanges in Jan/1998. The initial rate was set at 5.96 Rubles per \$USD / 16.78 cents USD per ruble. In Dec/1999 Russian President Boris Yeltsin suddenly ‘resigned’ leaving Vladimir Putin as acting President. With a brief managed reprieve under Dmitry Medvedev, Putin’s been in power since. From the initial Jan/1998 rate the ruble has sold off steadily. During the lead-up to the Ukraine invasion the ruble (managed by Russia’s Central bank) traded around at 1.3 cents per \$USD. The ruble has since collapsed 41%. At this writing Friday Mar 4, the ruble hit a new low of 0.75 cents (not dollars – ¾ of 1 cent) for a loss of 95.5% of it’s value since 1998. This is the perceived value of Putin’s tenure for the entire Russian economy, viewed through international investors. The ruble has become rubble. It is why Citizens trapped inside Russia’s financial system have favored US paper dollars. Oligarch friends of Mr. Putin pillaged the country’s wealth moving often to real estate. Holding mansions in London, New York and Florida, apartment blocks in Toronto and Vancouver they were shielded from this decline. Suddenly losing access to their liquid financial holdings, none are feeling so smart. We’re not clear what happens in the case of Russian nationals holding real-estate in Canada. How does Canada legally seize these assets? The civil liberty implications are significant.

The above confirms our having avoided the BRIC’s. We’ve been pressured in this stance over the years. At one point ‘Best Practices’ in our industry advocated an allocation to Russia and China. Glad we stood our ground.



Vaneck Russia ETF (RSX-US-\$5.59) monthly since inception Apr 24/2007 \$39.23. Last \$5.59 (\$5.00 weekly low) – 85.75%



We expect this and similar ETFs to be wound down.

Crypto Currencies Updated

I've asked myself "What problems do crypto's solve?" The only answer I can come up with is "Evasion".

We've long questioned the value of cryptocurrencies (not to be confused with blockchain) for conventional finance. Is paying in Bitcoin truly easier than paying in Loonies? Is the potential tiny per-transaction cost savings of avoiding a financial intermediary worth the crypto's second-by-second price change risk and lack of security of the process? Do you REALLY trust 3rd party encryption for serious dough when many of those bitcoin miners were in China and Russia? Not unless you have no alternative. The Ukraine War and resulting sanctions are proving this out. Russian money is seeking alternatives to conventional currency transactions. **Cryptos initially surged sharply higher amid a surge in demand from Russia as the ruble tumbles. Now they're crashing. Bitcoin \$25.85.**

Feb 22-Mar 4 \$1 USD in Ruble (120.40 blue) vs. Bitcoin US dollar spot (red).



Do Bitcoin holders sense regulations are coming? Why have regulators been so slow? I suspect the reason was who was perceived to be using them. In efficiently regulated economies with accepted rule-of-law protections and Central Bank backing of transactions and deposits, cryptos don't really solve many problems. In Canada crypto's are mostly speculative fun. In dictatorships and kleptocracies, cryptos are incredibly convenient...for the rulers to hide their corrupt pillage of national assets. As those assets flowed to the West, great. Russia sanctions changed it all. We've predicted crypto's are inflationary and that G-7 regulators will bring the hammer down. A reminder that If Bitcoins fall into a grey legal area, 'proceeds of crime' belong to the state. And here it comes....

Ukraine Asks Binance, Coinbase, 6 Other Crypto Exchanges to Block Russian Users

"Earlier today, U.S. authorities added regulations aimed at thwarting the use of digital currencies and assets to evade sanctions."

<https://www.coindesk.com/policy/2022/02/28/ukraine-asks-binance-coinbase-6-other-crypto-exchanges-to-block-russian-users/>

Russia Ukraine Crises: Implications for Global Oil Markets – Oxford Energy March 22

<https://a9w7k6g9.stackpathcdn.com/wpcms/wp-content/uploads/2022/03/Russia-Ukraine-crisis-Implications-for-global-oil-markets.pdf>

'Nord Stream 2 owner considers insolvency after sanctions' Reuters Mar 1, 2022

<https://www.reuters.com/markets/europe/exclusive-nord-stream-2-owner-considers-insolvency-after-pipeline-halt-sanctions-2022-03-01/>

'Eric Nuttall: What Canadian policymakers can learn from Europe's energy woes' Financial Post Mar 1, 2022

<https://financialpost.com/commodities/energy/oil-gas/eric-nuttall-what-canadian-policymakers-can-learn-from-europes-energy-woes>

Denmark resumes construction of Norway-Poland gas link

COPENHAGEN, March 1 (Reuters) - Construction of the Danish part of Baltic Pipe, which will connect Poland to Norwegian gas fields, is resuming following a 33-month hiatus, Danish grid operator Energinet said on Tuesday.

The pipeline is designed to reduce Poland's reliance on Russian gas **but construction was halted in May 2019 due to environmental issues.** (emphasis mine)

<https://www.reuters.com/business/energy/denmark-resumes-construction-norway-poland-gas-link-2022-03-01/>

A few names we're following. Some we'll buy. Some we're glad we never owned

Cummins Inc (CMI-NYSE-\$192.70) daily 12 mos.



Feb 28 (Reuters) - Cummins Inc. [CMI.N] expects "some impact" to its business in Russia and is analyzing and preparing for current and anticipated sanctions, the U.S. truck engine maker said in an e-mailed statement on Monday.

Cummins has an office in Moscow. In 2006, Cummins entered an agreement with Russian truck maker Kamaz Inc. KMAZ.MM to produce engines for the company's fleet of trucks, buses and other heavy machinery. Cummins did not respond to request for comment on its relationship with Kamaz

After that announcement the stock price initially held. With the Mr. Putin's intent to accelerate the Ukraine conflict made clear on Tuesday, including the use of 'vacuum bombs' (more below) Cummins' price decline continued into mid-week. Feb 28 also saw Cummins insiders register their intention to sell (small portions of holdings. The insider SELL news was ill timed at best.

From highs around \$275 a year ago, Cummins has declined 30%. Given rapidly escalating risks we're cautious on making short-term price projections. Eventually, fundamental values trump emotion. Cummins now trades at 13 X trailing earnings/ 11 X projected earnings. That 'projected' bit could be a challenge. 11 X earnings equates to a 9% earnings yield. The company pays a 3% dividend. This could be a solid investment over time.

Global automakers including Volvo and Daimler are exiting the Russian economy. It's going to be a mess. That cornered rat thing again.



Loop Energy (LPEN-TSX)–March 21, 2021 \$14.25 NBF Rating BUY Target \$20.

While researching Cummins’ price decline, I came across Loop Energy. The company has backing from Cummins. NBF was the lead underwriter of Loop’s \$100 million IPO Feb 25, 2021, priced at \$16.00 Our research desk initiated coverage March 21, 2021 with the stock at \$14.25. The analyst initial price target was \$20.

Loop (LPEN-TSX-\$2.64) Mar/2021 \$16 IPO to Mar 1, 2022



At this writing Loop Energy trades at \$2.64 for an 83% decline in value. The CFO recently resigned. That \$100 Million IPO is now worth \$27 million. Ouch. What you don’t do matters.

Thou Shalt Not Over-pay revisited

FANGS peak-to-last -25% but it’s worse for some constituents.

- Amazon (AMZN) Nov 2021 high \$3,762. Last \$2,895 -23.4%
- Tesla (TSLA) Nov 2021 high \$1,243. Last \$840 -32.4%
- Alibaba (BABA) Nov 2021 high \$311.44. Last \$100.55 -67.7%
- Metaplatforms (Facebook – FB) Sept 2021 high \$383.79. Last \$199.91 -47.9%
- NetFlix (NFLX). Nov 2021 highs \$700.99. Last \$360.80 -48.5%
- Nvidia – Nov 2021 high \$346.47. Last \$225.70 -34.8%
- Shopify (SHOP-\$US) Nov 2021 \$US high \$1,762.92. Last \$595.03 -66.2%
- Twitter (TWTR) Feb 2021 high \$80.75. Last \$33.40. -58.6%

And the Pied Piper playing the tune they wanted to hear before diving over a cliff, Cathie Wood’s ARK Innovation Fund (ARKK) Feb 2021 high \$159.70. Last \$60.55 -62.1%.

Revenge of the dinosaurs.



Remember the 'End of Oil' 2003 & 2004? 18 years later there's no end in sight...yet. Meanwhile Canada's Oil & Gas sector has been on fire.

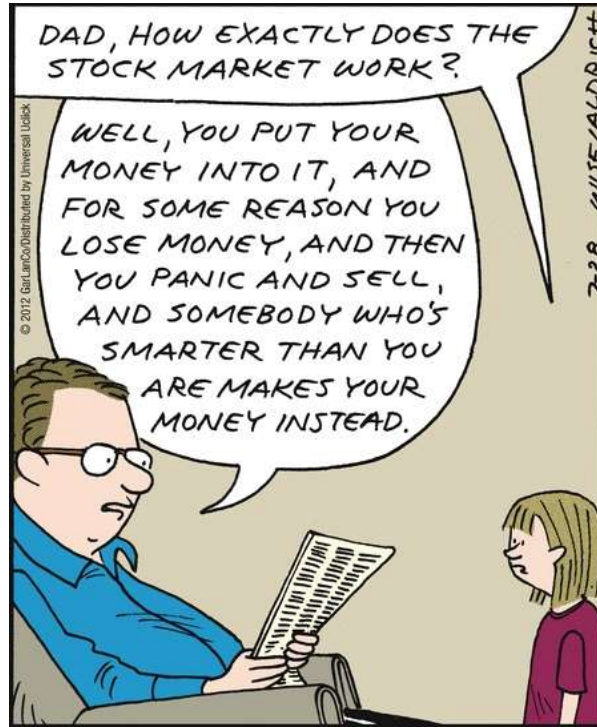
Suncor Energy (SU-TSX-\$40.10) daily – 12 mos: +48%



We've maintained our exposure to conventional Oil & Gas producers, focusing on Canada. It wasn't philosophical. We believed Canadian energy stock prices were too cheap. It wasn't popular or easy. We had pushback. Patience has proved a virtue. Suncor's price is still below



the previous 11 year range. While we don't think this is over yet, prudence says a bit of trimming soon make sense. Pruning not harvesting.



“When you’re going through hell, keep going” – Winston Churchill

Got a hot tip and thinking of selling out your portfolio? You’ll have to get the timing right twice.



Watch Anna’s latest video here

<https://www.youtube.com/watch?v=drocWaK5Kmo>

Have a Safe Weekend

Steve & Anna Hilberry

March 4, 2022



FOR THE RECORD Mar 4, 2022

DOW INDUSTRIALS:	33.614
S&P 500:	4,328
S&P/TSX COMP:	21,402
WTI:	\$115.85
LOONIE IN \$USD:	\$0.7857 \$US

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