Hilberry Group
Wealth Management

April 22, 2022

Thou Shalt Not Overpay – revisited…again

Netflix Inc (NFLX-$212.89) daily ranges – 6 months April 22, 2022.

In Nov/2021 Netflix investors decided paying an all-time high of $700.99, +40% in 3 months, was reasonable. On Friday not so much. Last trade $212.89 = 70% decline. Netflix quarterly earnings report predicted a reasonably healthy $6 billion in net earnings. What happened?

In the Q3/2021 earnings report Oct 19, Netflix reported $3.19 earnings per share for the quarter (predicting $0.80 for Q4/2021). The Q3 results were above analyst expectations. Most held or increased targets. An example was **Credit Suisse (CS**).

National Bank Financial
Wealth Management

Here are CS's Oct 19, 2021 revenue and earnings projections:

Financial and valuation metrics

Year	12/20A	12/21E	12/22E	12/23E
Revenue (US$ m)	24,996.3	29,742.4	34,694.0	40,367.1
P/SALES (x)	0.0	0.0	0.0	0.0
EBITDA (US$ m)	4,701.3	6,326.8	8,235.6	10,676.3
Net Debt (US$ m)	8,103	8,842	9,374	9,778
EPS (CS adj.,)	6.08	10.71	12.96	17.28
Prev. EPS (US$)	-	10.28	-	17.43

Number of shares (m)	442.60	IC (current, US$ m)	19,168.42
Net debt (Next Qtr., US$ m) 1	8,841.9	Dividend (current, US$)	-
Net debt/tot eq (Next Qtr.,%)	63.0		

Source: Company data, Refinitiv, Credit Suisse estimates

CS shows Netflix's 2020 posted annual earnings per share (EPS) OF $6.08, CS projected 2021 EPS of $10.71 and 2023 projected EPS of $17.43. They predicted gross revenue would jump 61%, internal 'EBIDTA' earnings +225% and net EPS + 286% by 2023. What's not to like? Investors cheered. Netflix soared. At the Nov/2021 $700 highs the stock traded at 115 X the trailing (ie actual) posted 2020 earnings, 65X CS 2021 projected EPS, 54X 2022 EPS and 40X CS projected 2023 EPS. I keep underlying projected for a reason. In Nov/2021 the S&P500 traded around a not cheap 24.8 X EPS. Recall Netflix is a S&P500 constituent. In Nov/2021 Netflix was priced over 4X higher than the avg P/E of the S&P500. Netflix was priced for perfection. Bill Ackman's Pershing Square was famously buying Netflix during the period.

CS's Oct 19, 2021, 12-month share price target of $740 earned their top *'OutPerform'* rating. That $740 target was 121X the last (IE actual or real) posted 2020 earnings of $6.08 EPS, 69X CS' projected 2022 EPS. Credit Suisse reflected street optimism.

In Oct/2021 using CS $740 target price, the implied 12-month future market cap for Netflix was $329 billion. At Apr 22, 2022 close, the implied market cap is $97 billion. Pop! Ouch. That's a lot of money that isn't.

On Wednesday, 3 months after spending close to a $billion on the stock, Bill Ackman revealed his Pershing Square Holdings fund sold all its Netflix holdings locking in over $400 million loss. Not to worry though, there was another $14 billion at the end of March in the fund.

https://www.reuters.com/technology/ackmans-pershing-square-sells-netflix-investments-2022-04-20/

All this tedious math tells us investors were simply paying far too much for Netflix last year. The Nov/2021 share prices paid implied far more revenue than subsequent quarters revealed. The statement assumes investors weren't actually doing any math at the time. In my experience, when markets are frothy, investor Fear Of Missing Out (FOMO) takes over. Logic, caution, and those tiresome calculators are thrown to the wind. We've been warning of overenthusiasm in the 'FAANG' stocks. What you don't do matters.

Chart provided this breakdown of Netflix earnings sources.

https://www.chartr.co/newsletters/2022/4/20/the-economics-of-netflix

We didn't own the name in Nov/2021 in our managed portfolios and with no dividend we don't own it now. The 19.2 X P/E that looks lower than the S&P500 avg. I must admit that I'm now paying closer attention to the stock price. I'd wait for the price to bottom out and flop around a bit before committing. Only adventuresome need apply.

In the next piece, Michael Batnick comments on Netflix and other 'growth' names recently. NOTE: Mr. Batnick's refers to 'ARKK' being the stock symbol for ***Ark Innovation Fund*** 2021's market darling hedge fund manager Rock Star of 2021 Cathie Wood. Ms. Wood's, loaded up on crypto's, Netflix, Shopify and other hot names.

'The Market is an Expensive place to Find Out Who You Are'

https://theirrelevantinvestor.com/2022/01/22/the-market-is-an-expensive-place-to-find-ot-who-you-are/

Thou shalt not overpay #2: Crypto update

Grayscale Bitcoin Trust (GBTC $27.71) weekly ranges – 3 years.

For the past 3 years we've advised against significant commitments to crypto-currencies. I was telling enthusiastic clients 'Don't Buy' in 2020-21 with their brother-in-law's bragging about Bitcoin soaring from $5 to $50. Our concern was and remains, that cryptos are a form of unregulated currency. That's supposedly the appeal - until you get ripped off. So…if crypto's are currency, the unregulated generation of 'currency' debases all pre-existing currency. This is the very definition of inflation. At it's simplest, cryptos are counterfeit currency. Counter-fiet, as in against the fiat currency of the state. That concept may be comforting for deep state conspiracy theory. We've predicted regulators would crack down on cryptos. The IMF has finally showed up.

***'The IMF Is Calling the Sheriff for a Crypto 'DeFi' Crackdown'* – Barron's Apr 22, 2022**

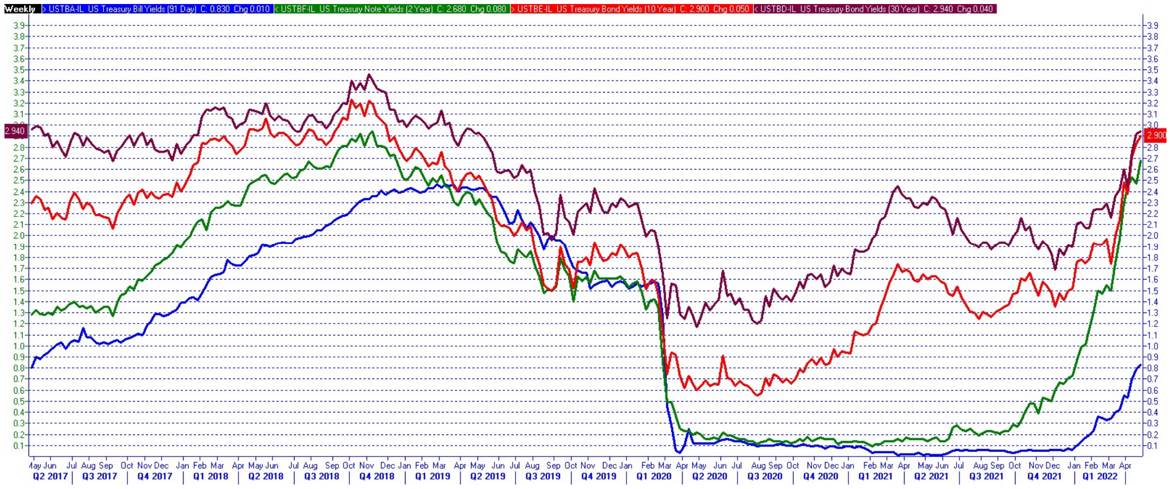
"The International Monetary Fund has a message for governments: Find ways of regulating DeFi platforms for trading and lending cryptocurrencies before the risk to the global financial system spirals out of control."

https://www.barrons.com/articles/imf-defi-systemic-risk-crypto-51650578050

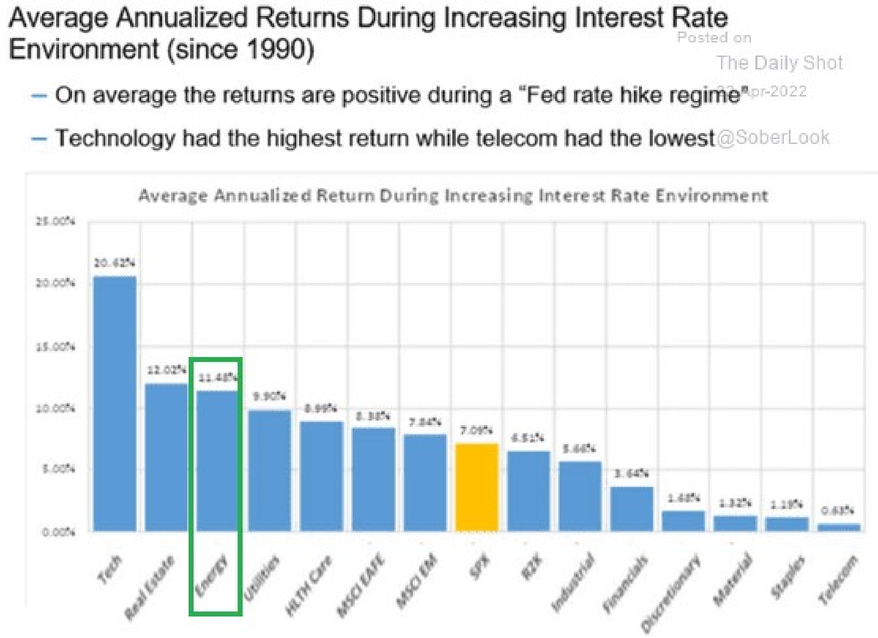
Are rising rates bad for stocks?

Markets sold off on Friday. Punditry pointed to Fed Powell's Thursday announcement of a more hawkish stance on increasing interest rates. The next chart plots US Fed Govt debt yields 90 days (blue) 2 years (green) 10 years (red) and 30 years (burgundy) over the past 5 years. The 2 yr. green line touched the 10 yr. red line last week. Pundits screamed SELL claiming the '2 over 10 inversion' was a recession signal in 6 to 12 months meaning this is the last chance to sell stocks.

We disagreed two weeks ago and still do. We pointed to the 90-day blue line being miles below the longer-term borrowing rates. This week the longer-term rates climbed higher, now being above the 2-year rate. So much for an inversion. Investors see rising demand for credit driving up longer term rates. Rising demand for credit means rising demand in the real economy. We don't think a recession is around the corner. To be clear we believe we will <u>eventually</u> see the 90-day yield go above the longer-term yields for an 'inversion'. That inversion appears some ways off.

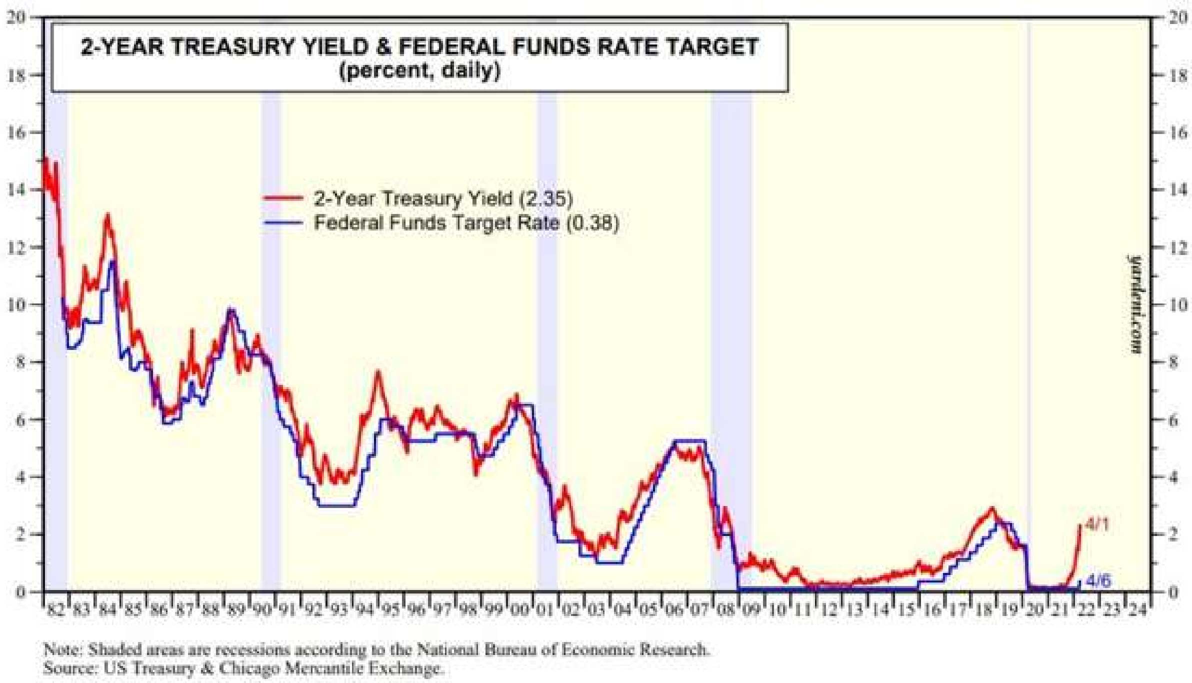


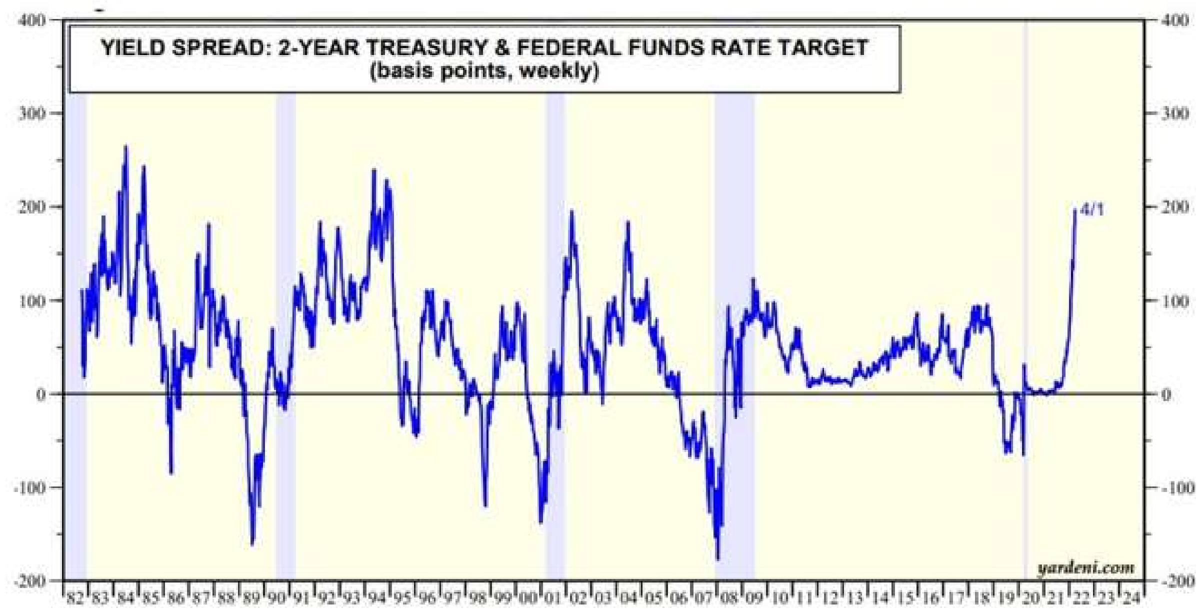
Clearly rates are on the way up. What does history say this means for stocks?



History says rising rates are not a reason to jump out the window. Energy is highlighted due to Canada's economy still being focused there. Note that real estate does better than one would expect.

Best Recession indicator: Fed Funds Rate vs 2 yr Fed T-Bond Yield - Ed Yardeni



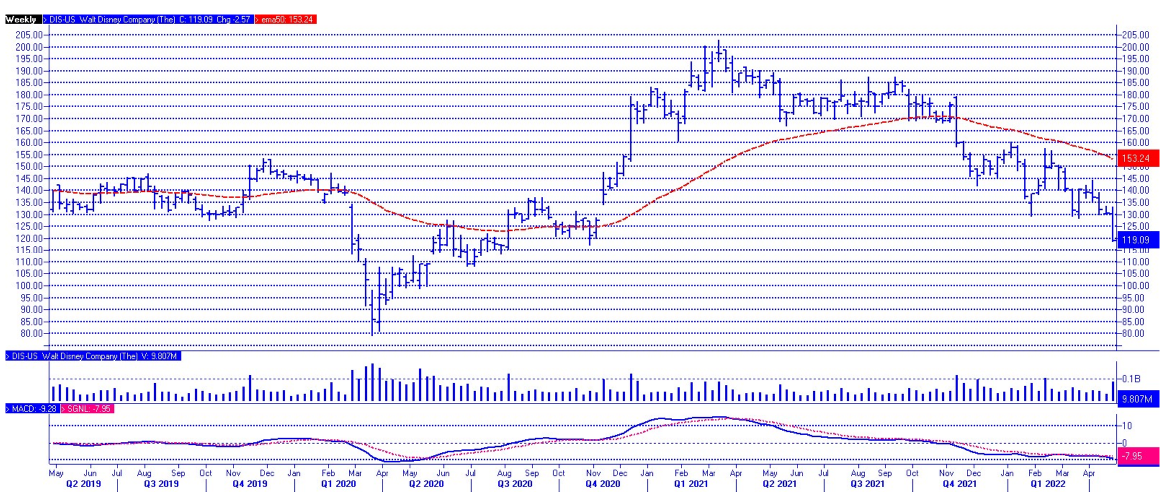


Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: US Treasury & Chicago Mercantile Exchange.

The Happiest Place on Earth?

The weird spat between Florida's GOP Governor Ron DeSantis and Walt Disney Co saw Florida GOP activists claim the Happiest Place on Earth has become an alleged breading ground for pedophiles. You can't make this stuff up. The company's stock hit a new 52-week low on Friday, approaching the Q2/2020 pandemic lows. At 27X forward earnings Disney still isn't cheap. It's close to the S&P500 avg. and nearing it's long-term average fair value ratios. A lack of a dividend (for now) is also a dissuader. I'll reiterate Mr. Buffet's advise: "*It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price"*. Walt Disney is a wonderful company. Anything approaching $100 is also a wonderful price. I'd be surprised to see it there. I'd buy if it did.

Walt Disney Co (DIS-$118.95) weekly ranges – 3 years.



Let’s compare different income sources and find out how much money you really have left after tax.

Watch Anna’s latest video here

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

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Apr 22, 2022

DOW INDUSTRIALS:	34,135
S&P 500:	4,308
S&P/TSX COMP:	21285
WTI:	$101.82
LOONIE IN $USD:	$0.7870 $US

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