



# WEEKEND READING

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

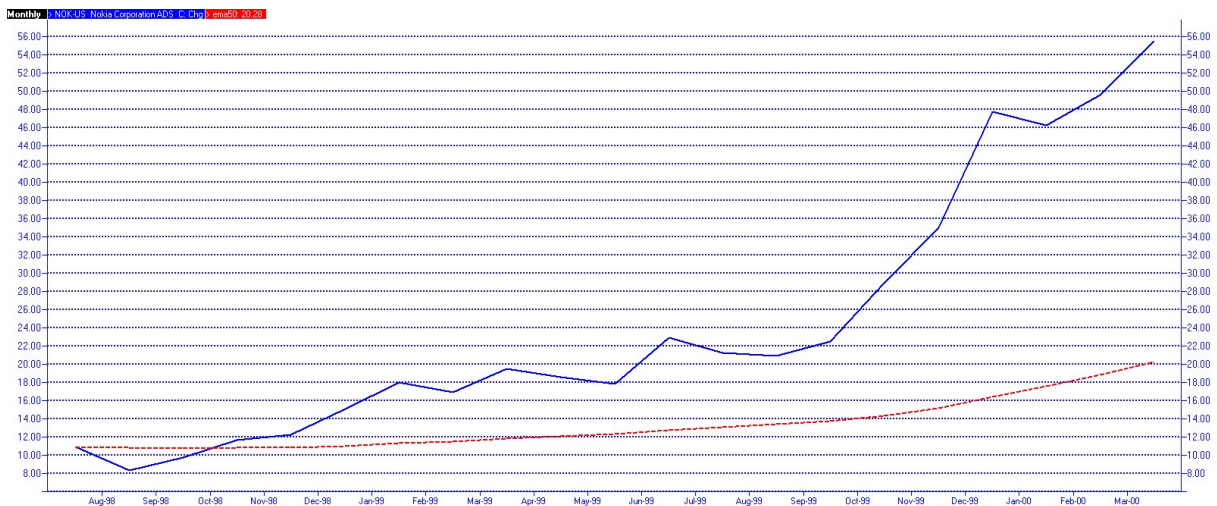
## Beware: ‘Everybody knows...’ Rinse and repeat.

I was granted a license to provide investment advice to clients in 1989. I had no idea what we were all in for. Long term charts said stock markets had gone up steadily since World War 2. Bond yields were 10%+. How hard could it be? Don't do crazy, be balanced. Easy Peazy.

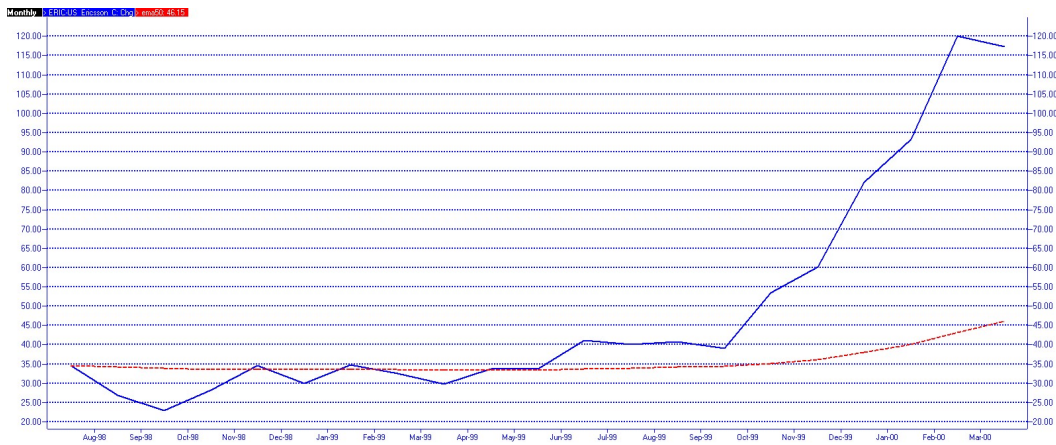
And then I met client expectations. From 1989 to 2000 the S&P500 went up 5.7 times. The majority of the gains occurred 1995-2000. In 1999 pundits said the internet would dominate our lives. Flip phones would replace one's hanging on the kitchen wall. Long-distance calling revenue would collapse. It was a New Paradigm.

They said *“Everyone knows phone calls are changing. Buy the cell phone makers”*

### Nokia Corp. US ADR's monthly - July 1998 (\$10) – Mar/2000 (\$58)

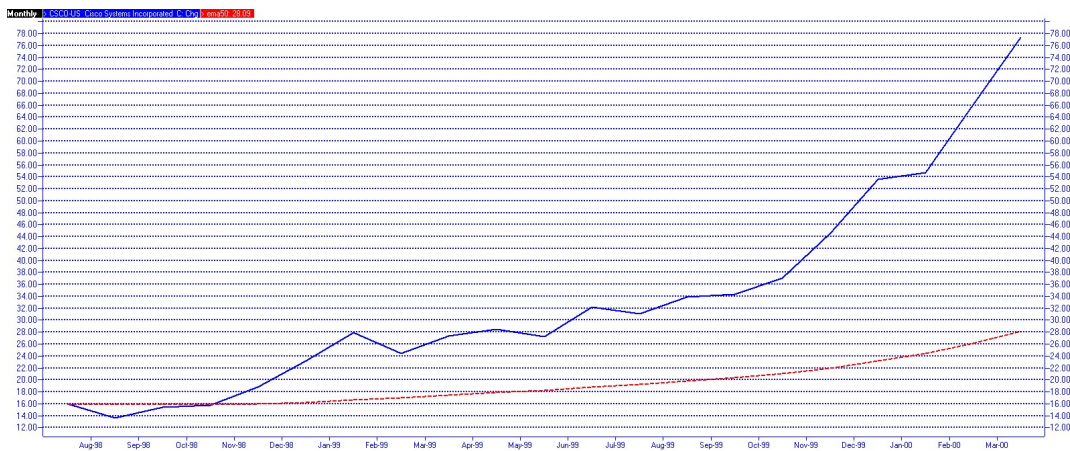


**Ericsson Co. US ADR's monthly ranges July 1998 (\$34) - Mar/2000 (\$131)**



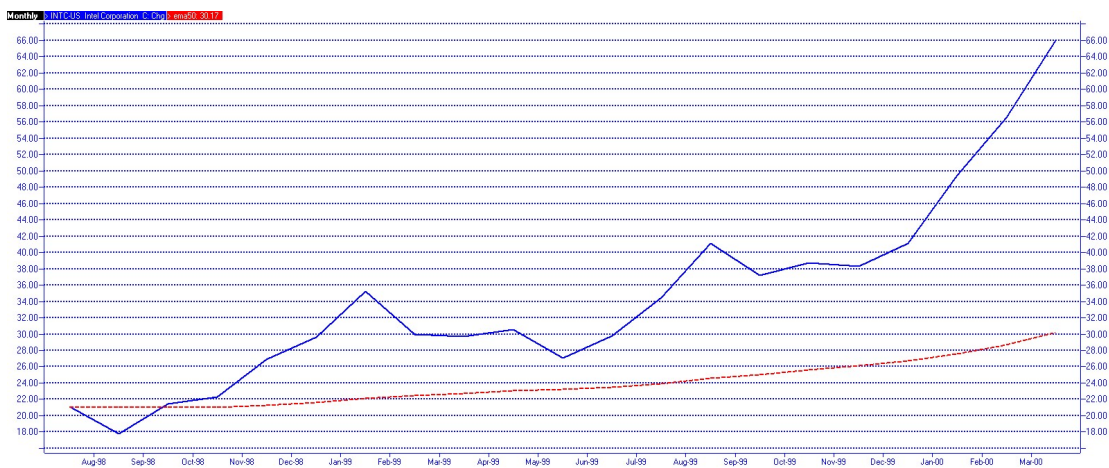
***“Everybody knows the internet is huge. Buy the system hardware makers”***

**Cisco Systems – monthly ranges July/1998 (\$15)– Mar/2000 (\$82)**



***“Everyone knows we’ll need new computers. Buy the microchip makers”***

**Intel Corp monthly ranges July 1998 (\$21) to March/2000 (\$72)**





**Note the ballistic price chart trajectories. Prices soared.**

The *New Paradigm* predictions proved correct. Cell phones are everywhere, Internet use ballooned, corporations spend billions on information tech, long distance isn't a thing. Most houses have multiple cell phones, PC's, I-Pads, Macs, smart TV's, etc. A family of four doesn't read aloud to each other after dinner. They spend their evenings in silence, staring at Facebook, TikTok, and Instagram. An increasing part of our day is virtual. Nobody talks to those funny 'clerks' in stores anymore, buying stuff online. Forget reaching anyone at Customer Service, you're 'empowered' to do it yourself.

Late 90's investors weren't alone in their enthusiasm. The 1998 General Motors Corporation Annual Report assumed long-term future pension fund returns of 10% per year. NOTE: The higher the assumed return, the less money required in the plan. GM believed the SFAS prescribed rate of 6.75% was too low (!).

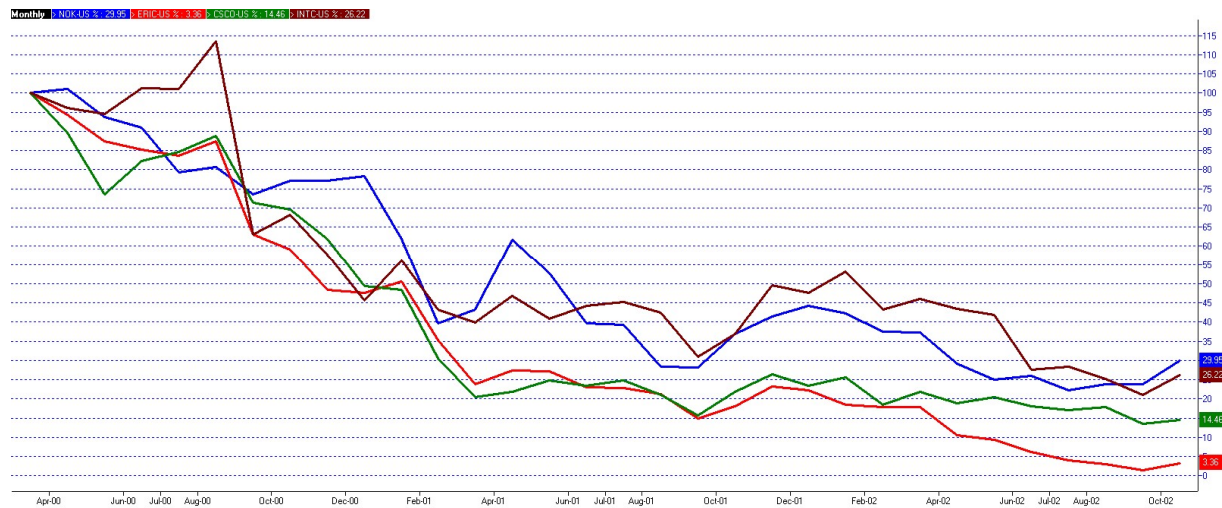
<http://getfilings.com/o0000040730-99-000021.html>

*On an economic basis, GM continues to maintain a fully-funded status for its U.S. hourly and salaried pension plans as of December 31, 1998. The economic basis of measuring the U.S. hourly and salaried pension liability differs from the Statement of Financial Accounting Standards (SFAS) No. 87 basis, Employers' Accounting for Pensions, required by GAAP, but GM believes it to be a better measure of GM's ongoing economic exposure for pension obligations and as such uses this as a measure to determine its funded status. The economic basis discounts pension liabilities at the long-term asset earnings rate assumption (currently 10.0%) rather than at a variable, year-end market rate as required by SFAS No. 87 (currently 6.75%). In periods of low interest rates, as in the current market environment, the SFAS No. 87 liability will generally exceed the liability calculated on an economic basis, whereas in periods of high interest rates the economic basis liability will generally exceed the SFAS No. 87 liability.*

This led to all kinds of trouble. GM went bust, partially due to unfunded pension liabilities.

Despite the *New Paradigm* proving correct...the above proved terrible investments.

**March/2000 to Oct/2002 Base \$100: Nokia (\$30), Ericsson (\$3), Cisco (\$14), Intel (\$26).**

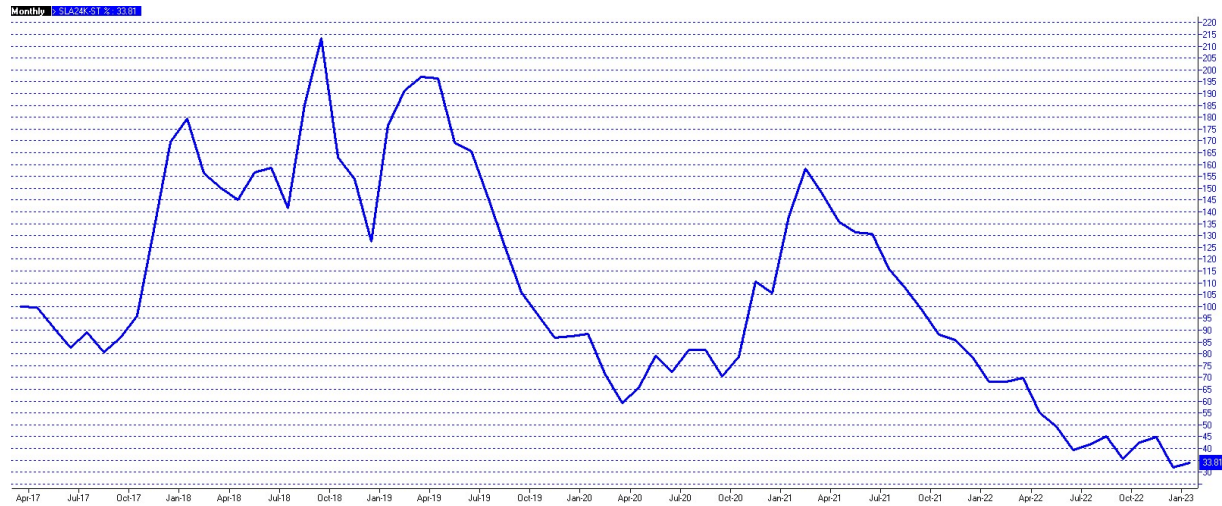


**March/2000 to October/2002: \$100 invested evenly = \$18.**

Lest I'm accused of picking the top, \$100 invested evenly into this group in Dec/1998 was worth \$74.50 by Dec/1998. At this writing, 25 years later, that \$100 is worth \$105. Today's value of \$100 in 1998 invested to each (share prices only – excludes dividends): Nokia \$39.35, Ericsson \$17.55, Cisco \$255.20, Intel \$110.0. Thank heavens for Cisco!

More recently the **Cannabis Craze** ran wild in the streets. From Spring 2017 to Fall 2018, \$100 ballooned to \$210. Today's value = \$33.81.

**North American Medical Marijuana Index April/2017 to Jan/2023 base \$100**



And then it was **Bitcoin**.

**Grayscale Bitcoin Trust Oct/2020-Jan/2023 base \$100 (peak \$487 Feb/2021)**



Followed by **Social-Media 'FAANG' stocks** (Facebook, Amazon, Apple, Netflix, Google).

### NYSE FANG Index Jan/2020 – Jan/2023 base \$100 (peak \$233 Nov/2021)



Taking us to the latest shining star **Tesla Inc.**

### Tesla Inc Jan/2020 to Jan/2023 base \$100 (peak \$1,200 Nov/2021)



\$100 invested in Tesla in Jan/2020 (before the March/2020 COVID crash) was worth \$1,200 in Nov/2021. Tesla's share price peaked Nov/2021, the same month as the FAANG stocks. Everybody knew cruising in a self-driving EV (Tesla) following and texting your bro's (Facebook, Apple), ordering shoes on-line (Amazon), watching 'Game of Thrones' (Netflix), while splitscreening Youtube (Google) meant saving the planet, getting rich. What's not to like!! Insiders certainly thought so, selling record amounts. Amazon's Jeff Bezo's stepped down as Amazon CEO in July/2021, taking a record haul of shares sales with him.





## ***‘Elon Musk and Jeff Bezos have sold \$20 billion of Tesla and Amazon stock this year as insider sales soared to a record high’ – Business Insider Dec 2, 2021***

<https://markets.businessinsider.com/news/stocks/elon-musk-jeff-bezos-tesla-amazon-stock-sales-insider-ceos-record-2021-12?op=1>

Today Tesla trades at \$125. \$100 invested at the Nov 4, 2021 highs of \$414.50 is now worth \$30. As fans will point out, \$100 invested at Jan/2020's close is still worth \$288. Neither result describes the average investor's experience. A better measurement is the 'moving average' being the average of all trade over a given period, telling us what price, on average, investor's have paid. When stocks are above the moving average investors are happy. Life is easy. Prices below the average means the thrill is gone. There will be holders waiting to get 'even and out'. As prices regain back to the average, selling swells, capping price gains.

Tesla current price \$125 vs are moving averages using 50 period measures:

- 50-day avg: \$150.94 = -16.4%
- 50-week: \$226.54 = -44.3%
- 50-month: \$180.55 = -30.1%

Investors who showed up before August of 2020 are still in the black. There may be a few unhappy Tesla shareholders out there. History doesn't repeat it rhymes. Previous bubble charts say Tesla's price may fall further. Going back to the 2000 Dot.Com craze, Microsoft was swept up in the frenzy yet went on to be a great company. In 1999 the company generated annual earnings of 70 cents per share. In 2021 they posted \$9.28. Despite what 'Everyone one knew' in 1999, Microsoft proved a poor investment. In Dec/1999 Microsoft hit a split-adjusted high of \$59.97. The share price didn't break that high again until October 2016. The total return (dividends reinvested) was 50% over 16 years or roughly 2.4% per year. Our first purchases of Microsoft were in late 2013 around \$36. At the time MSFT was priced with a 14X P/E and had a dividend yield of 2.5%. More like it. Patience proved a virtue. The above charts show the same ballistic price pattern. Beware an escalating upward curve, overpaying for 'cash flow' (let alone earnings) and what 'Everyone knows'.

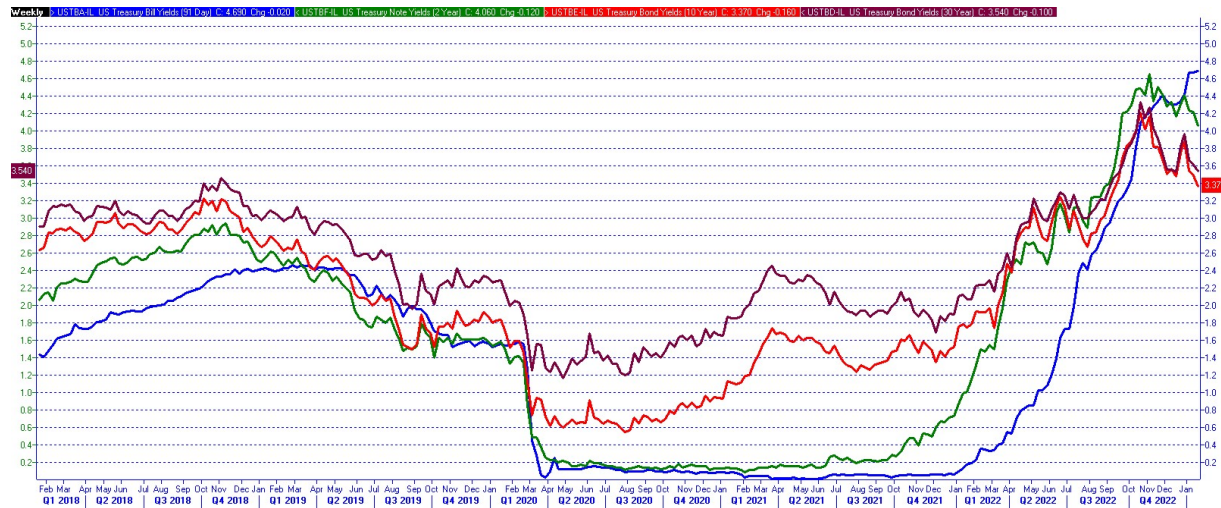
### **Speaking of moving averages: S&P 500 vs 200 day**



Equity investors are nervous. The red line says S&P 500 highs have been in a downtrend since Jan/2022. Lows (so far) were printed in late September and 'retested' again in October. Current prices are retesting that re downtrend line. 'I'm even, get me out' may drag on prices. Further, a break below the June lows confirms the downtrend. Okay, thanks for the trend advice. The problem with trend- trading is trends...well...end. Then what? Trend trading leads to madness.

The bond market thinks inflation has peaked and will fall. We agree.

**US Govt Bond Yields: 90-day (blue) 2-yr (green), 10-yr (red), 30-yr (burgundy)**



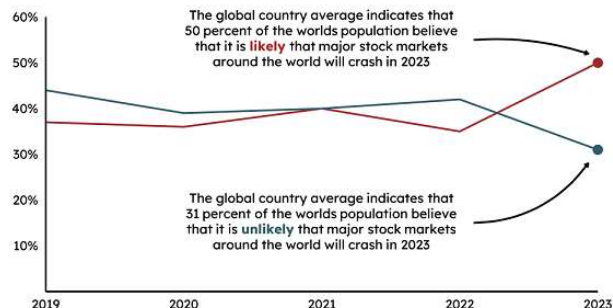
Inflation usually falls in a recession. It's possible to have one without the other. Markets are pricing in a recession. Everyone Knows a market crash is coming. If you find yourself knodding...

***'Survey Results: Will Global Stock Markets Crash in 2023?' – Visual Capitalist Jan 16, 2023***

Global Surveys say over 50% of investors believe the stock markets will crash in 2023.

**Will Global Stock Markets Crash?**

The proportion of the adult population who believe that it is **likely** or **unlikely** that global stock markets will crash the coming year.



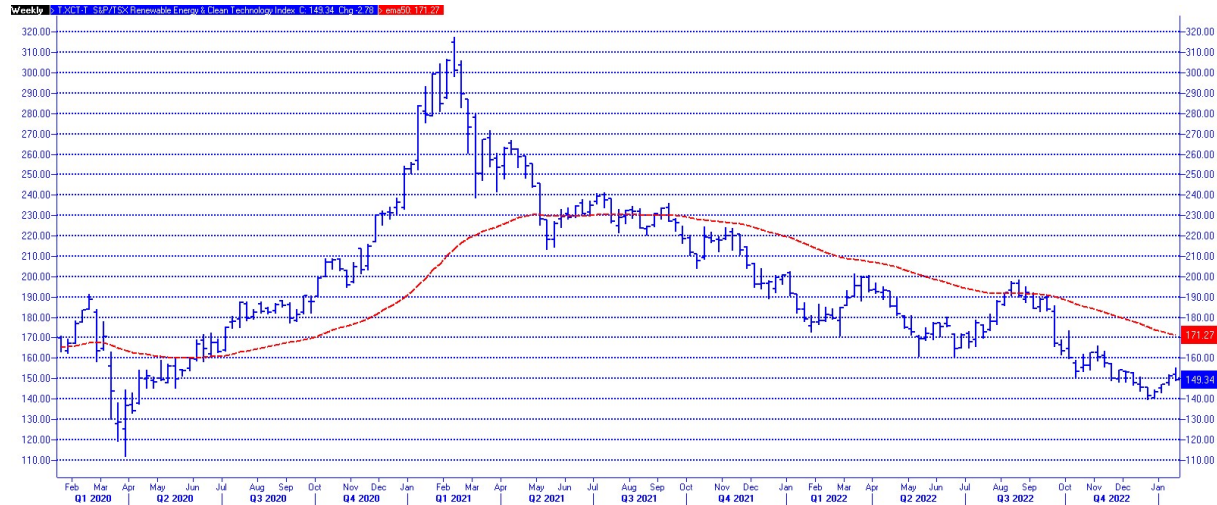
<https://www.visualcapitalist.com/cp/survey-will-global-stock-markets-crash-in-2023/>



Over half Investors are worried. 50% are not bidding at auction = lower prices. We continue to buy the dips. Markets make fools of us all. To ensure future embarrassment see **'For the Record'** at the end of our commentary.

**Moving on to what 'Everyone knows...' about energy**

**TSX Renewable Energy/Clean Technology Index (XCT-149.37) weekly 3 years.**



The XCT index peaked at 317 in Feb/2021. Last 149, down 53%. It wasn't just Canada either.

**ALPS Clean Energy ETF (ACES-US\$48.36) weekly 3 years**

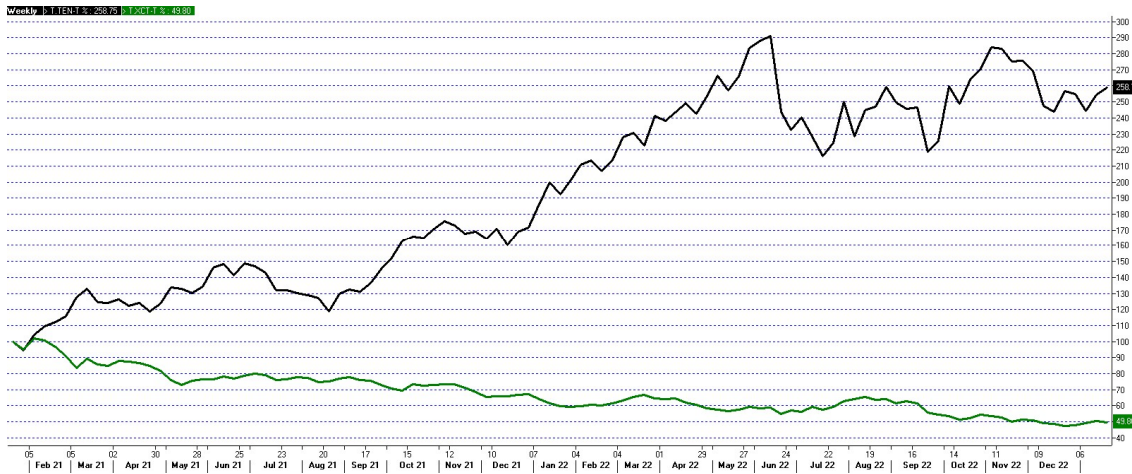


Despite a different currency, taxation and political environment, the ACES index is down a remarkably similar 52%. Clearly, in early 2021 everyone, everywhere, new future belonged to clean energy...and paid a lot for it. They also knew conventional oil and gas was a 'stranded asset' to be shunned. How did that turn out?





## \$100 TSX Clean Tech/Renewable (green) vs. TSX Oil & Gas (black) 2 years



**Per \$100: Green Tech \$48. Oil & Gas index \$258.** Be cautious of accepted wisdom.

Like the internet in 2000, the clean energy story isn't over. At some point, like Microsoft, these companies will make great investments. Like Microsoft in 2000, we continue to follow the sector very closely. Hopefully it won't be 16 years to a buy point!

So where are we now?

### 'The U.S. Has Made Clean Hydrogen a Priority' – RBN Energy Jan 16, 2023

The following link updates US Hydrogen projects. There is also a link to a weekly update report on the page.

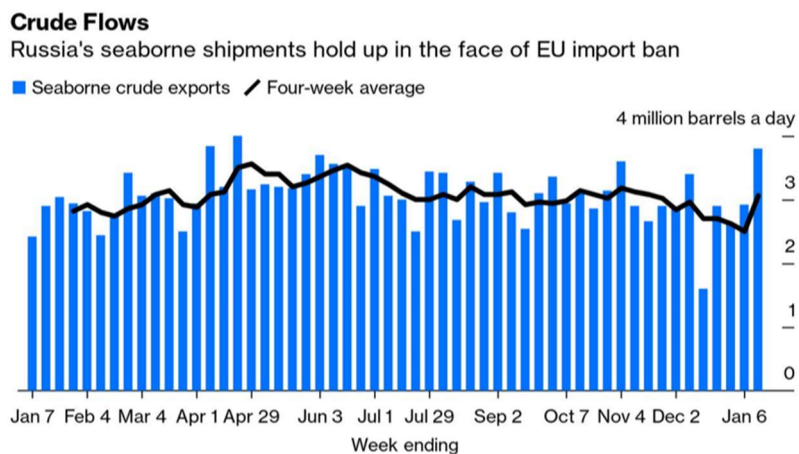
<https://rbnenergy.com/the-contenders-what-we-know-of-the-secret-list-of-survivors-of-does-hydrogen-hub-cutdown>

That's at the US Federal level. But states have their own ideas.

### Wait, what? Wyoming lawmakers push to ban all electric vehicles by 2035

<https://financialpost.com/commodities/energy/electric-vehicles/wyoming-lawmakers-bill-ban-electric-vehicles-2035>

Meanwhile what about that Russian Oil embargo thing?



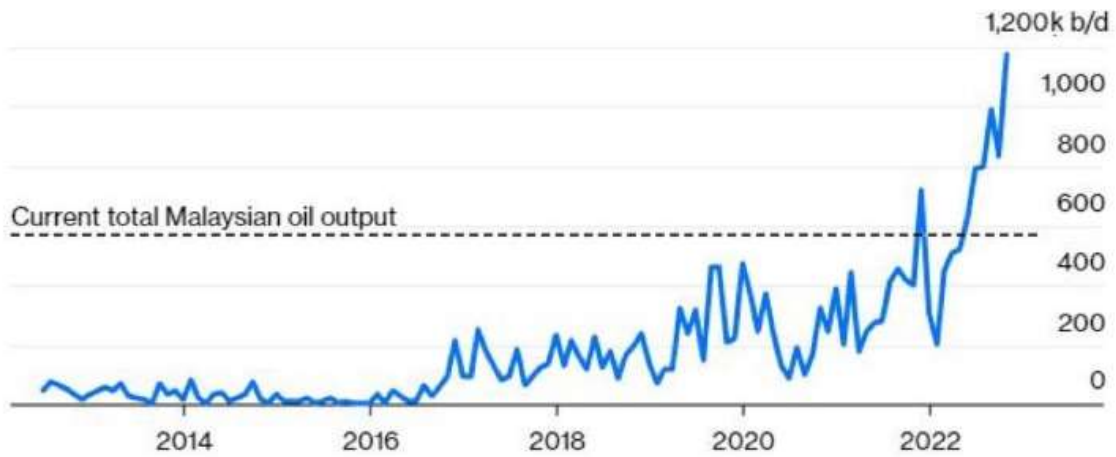
Source: Vessel tracking data monitored by Bloomberg

BloombergOpinion



### Smuggling Oil

Chinese imports of Malaysian oil have surged twice above what the country actually pumps. The reason? Re-branded oil from Iran, Venezuela and Russia



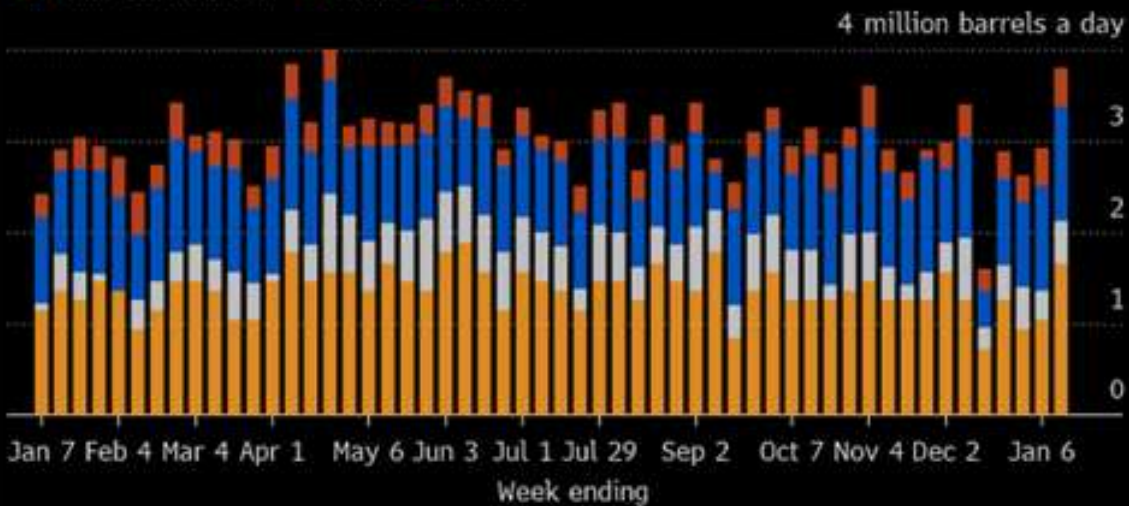
Source: Bloomberg calculations based on Chinese custom data; IEA

BloombergOpinion

### Weekly Crude Flows

Russia's seaborne crude oil exports by origin

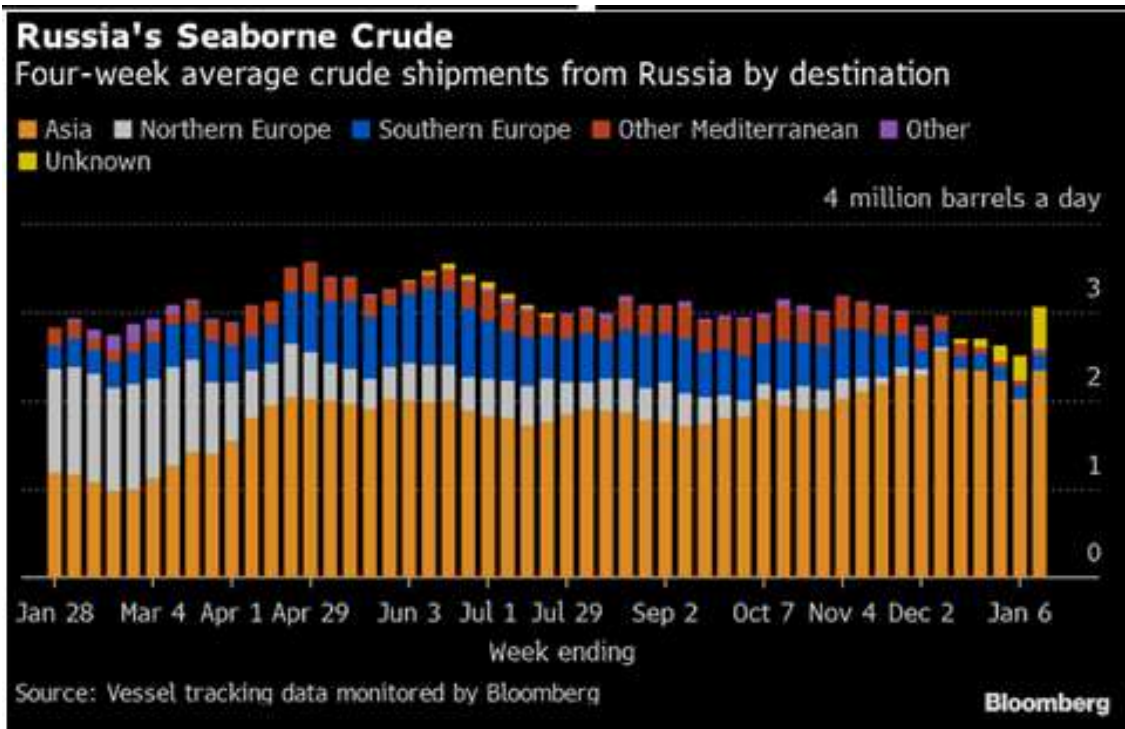
■ Baltic ■ Black Sea ■ Pacific ■ Arctic



Source: Vessel tracking data monitored by Bloomberg

Bloomberg





Funny how that 'unknown' destination thing (yellow) has expanded dramatically. Rising energy costs potentially lead to rising inflation and interest rates.

Vladimir Putin and his minions made loud noises about 'rebuilding Russia's might' this week and going nuclear should the West provide better weaponry to Ukraine. How big is this risk?

The **Institute for Study of War** (ISW) had this to say:

**'RUSSIAN OFFENSIVE CAMPAIGN ASSESSMENT, JANUARY 19, 2023' ISW-daily briefing**

<https://www.understandingwar.org/backgrounder/russian-offensive-campaign-assessment-january-19-2023>

Given Mr. Putin's barking over the fence, Germany is being forced to make tough decisions.

Peter Zeihan brings us up to date on changes at that country's Ministry of Defense

**'A new wave of German Defense Policy' – Peter Zeihan**

<https://zeihan.com/a-new-wave-of-german-strategic-defense-policy/>

Military adventures are expensive. Pondering Russian potential, it's worth recalling the state of their economy.

**'Indoor Plumbing Still a Pipe Dream for 20% of Russian Households' Moscow Times April 2, 2019**

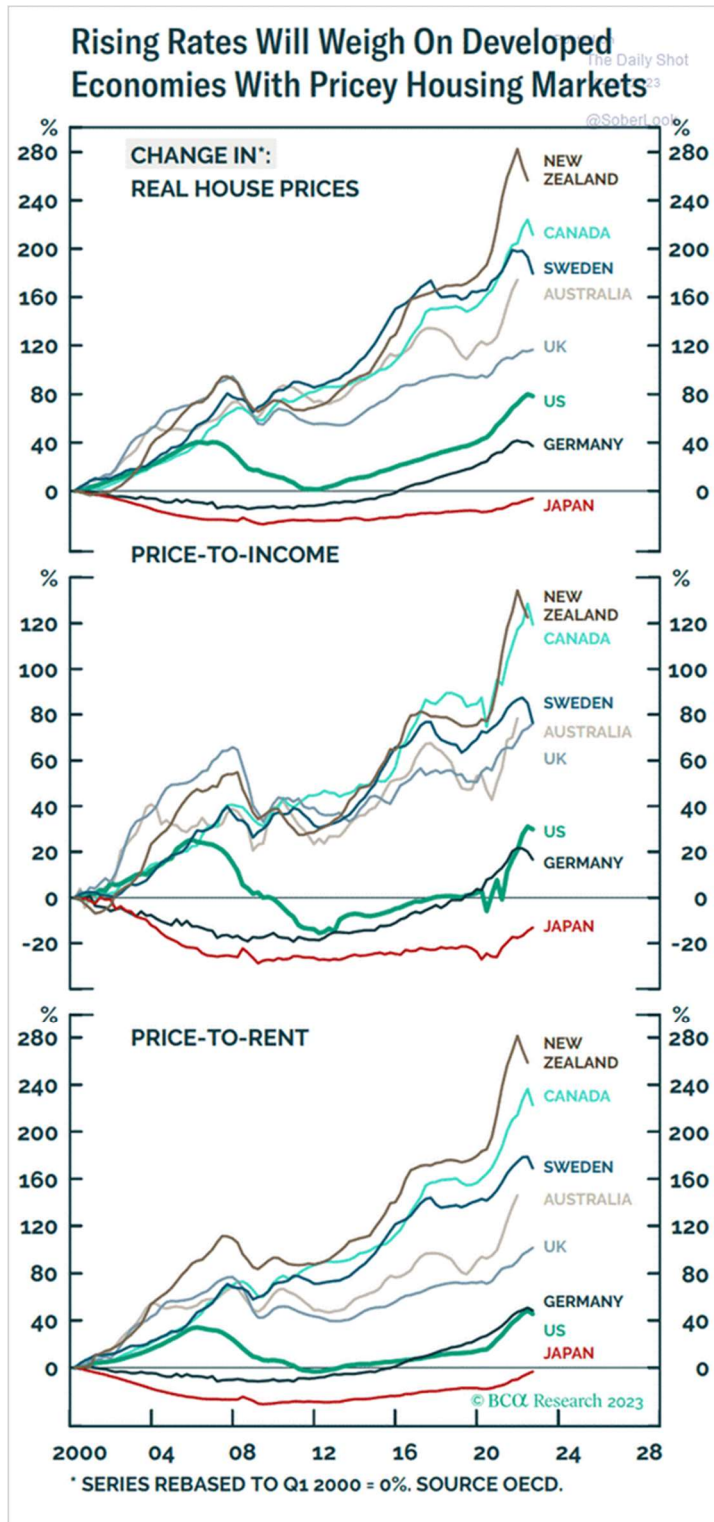
<https://www.themoscowtimes.com/2019/04/02/indoor-plumbing-still-a-pipe-dream-for-20-of-russian-households-reports-say-a65049>





## Bubbles in Canadian real estate

We've warned that rising inflation would mean higher interest rates, affecting house buyer's ability to pay. We've cautioned on West Coast property prices for the past 3 years. Here's a primer.



The chickens may be coming home to roost.

***‘Canadian house price fell 12% last year, new CREA numbers show’ - CBC***

<https://www.cbc.ca/news/business/crea-housing-december-2022-1.6715177>

Channeling Shania Twain, prices down 12% from the crazy highs of 2021 don't impress us much. Most homeowners are still happy with their house values. We don't think house prices will gain much over the next 5 years. As we think interest rates have peaked, we also don't believe prices will crash 30%. We repeat our view that prices will do a lot of nothing for a long, long time. That's why we're happy owning Canadian banks at current prices.

National Bank updated the Canadian Housing market this week in two articles.

***‘Housing Monitor’ – National Bank Jan 19, 2023***

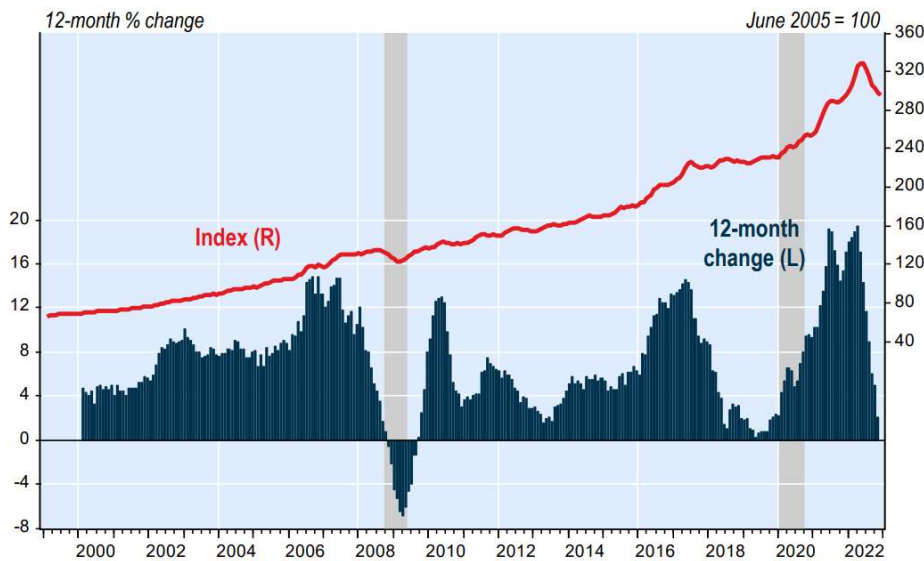
<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=71ae16a9-c996-420a-91e3-1660ab9ba1b1&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

***‘Historic loss of value in the residential market’ –Teranet House Index***

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=79f2161a-2ce6-48e2-a2ff-b159f11f35e5&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Yup. Canadian house price declines have caused a record loss of value – from a record gain in 2021. For most homeowners who didn't buy or sell it was all on paper (not so for municipal tax revenues!). The Canadian average saw \$100 in June/2005 worth \$295 in Dec/2022 **-10%** from the peak. Victoria \$283 = **-7.9%** from the peak...on paper. Hardly a disaster.

**Teranet-National Bank National Composite House Price Index™**



The emotional hit to ‘wealth effect’ should not be underestimated. Flat to falling prices plus rising inflation and interest could see homeowners cease treating their houses as ATMs. Expect to see a focus on saving, paying down debts. Expect to see less appetite for 2<sup>nd</sup> home condos in Mazatlán and Maui, focusing on building retirement assets.



**CONCLUSIONS:**

- Watch out for vertical price curves. Making money is not easy, you will earn it!
- Pay for profits, not ideas.
- Stay with quality, dividend payers.
- Don't panic.

**Have a Great Weekend**

**Steve & Anna Hilberry**



Steve Hilberry  
Wealth Management Advisor, CIM

Anna Hilberry  
Wealth Management Advisor, CIM

**FOR THE RECORD Jan 20, 2023**

DOW INDUSTRIALS:	33,138
S&P 500:	3,932
S&P/TSX COMP:	20432
WTI:	\$81.51
LOONIE IN \$USD:	\$0.7459 \$US

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