The Market in Review

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This week's articles and insights

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"I'm not much into speculation."

- ***Bernie Sanders***

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	31,056	+ 1.48%	+ 1.47%
S&P 500	3,872	+ 2.23%	+ 3.08%
TSX	18,042	+ 2.18%	+ 3.49%

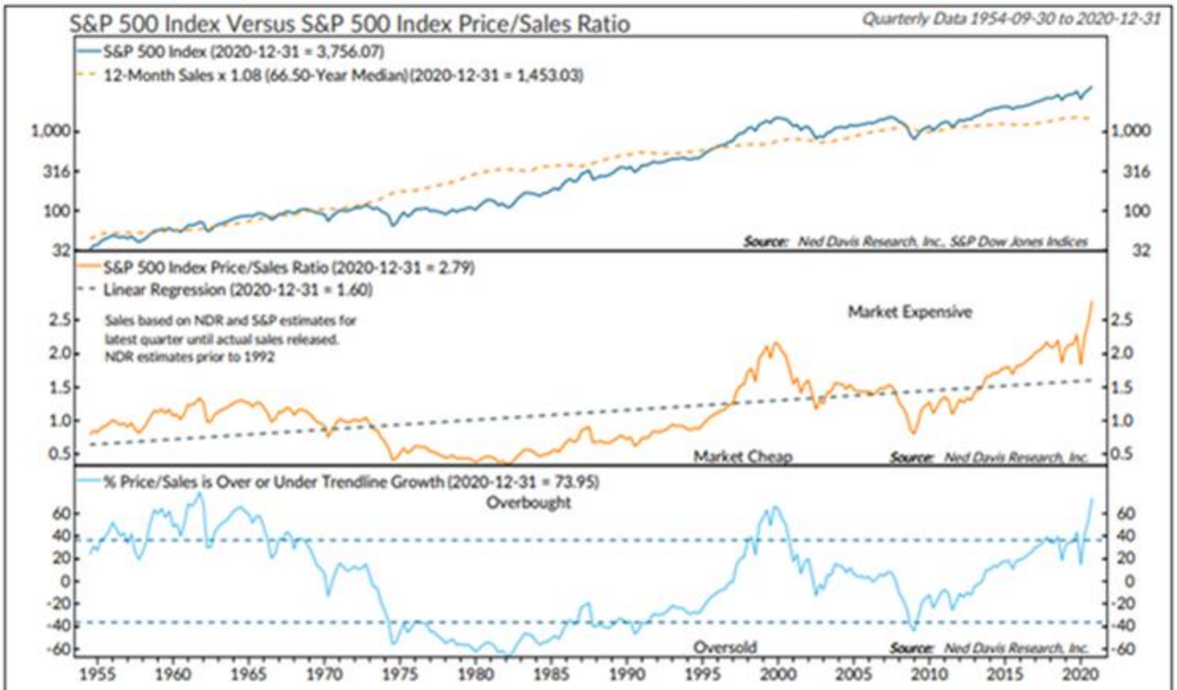
Sign of the Times

This is a photograph of a pedestrian crossing sign in the Dominican Republic from several years ago. What, exactly, the sign is instructing you to do is the subject of some interpretation.

Many of the traditional signs we use to guide us in the market have similarly been turned on their heads. Margin debt is at record highs, for example, suggesting traders feel very safe borrowing to buy stocks today.

This occurs even when the price/sales ratio – which is harder to manipulate than the price/earnings ratio – stands at record highs in the U.S. market:

Incredibly expensive price-to-sales — even with upward bias



S&P 500	Sales	S&P 500	Sales
2008 Actual	$1042.47	2015 Actual	$1127.13
2009 Actual	$908.40	2016 Actual	$1150.59
2010 Actual	$962.71	2017 Actual	$1231.57
2011 Actual	$1052.83	2018 Actual	$1343.00
2012 Actual	$1092.37	2019 Actual	$1415.01
2013 Actual	$1116.81	2020 Estimate	$1346.25
2014 Actual	$1163.32	2021 Estimate	$1440.49

S&P 500 Gain/Annum Performance
Full History: 1954-09-30 to 2020-12-31

% Over/Under Trend	% Gain/ Annum	% of Time
Above 36.5	0.38	21.90
-36.5 - 36.5	7.40	55.85
Below -36.5	14.97	22.25
Buy/Hold = 7.44% Gain/Annum		

DAVIS203

NDR

Even as stocks have climbed since the bottom last March, we had not yet seen small investors pile in to speculate. This is often a sign we are near a top.

Well, we saw it last week with the spectacular rise of GameStop shares (**NYSE GME**).

It is what everyone has been talking about.

GameStop is a company that has more in common with Blockbuster Video than any other modern parallel. Blockbuster was a video cassette rental firm that was put out of business by Netflix (**NASDAQ NFLX**). GameStop is a mall-based retailer that sells videogames, including cartridges for home gaming systems - a technology rapidly becoming obsolete due to games being played on-line with no need for plug-ins. No need for a physical store, either.

It was $2.60 per share in March of last year, even though its assets suggested it was worth maybe $15. When it jumped to $30, a number of hedge funds shorted the shares heavily.

Now, shorting is a very esoteric concept. People borrow shares to sell them, then try to buy them back cheaper. Think of you borrowing your neighbour's car in the morning, selling it, then buying back an identical car *for less money* in the evening and returning it. Your neighbour got his car back, but you made a little money without ever really owning a car. This only works if you can find a cheaper car (i.e. the shares go down while you are borrowing them) and your neighbour doesn't demand his car back during the day (a 'short squeeze').

At $30, the hedge fund vultures were circling. They saw stores shuttering up and the GameStop business model evaporating by the day. At one point, short sellers got so eager, it was reported that there were more shares sold short than existed in the public float. This is illegal and isn't supposed to happen, but it did. It was also a recipe for disaster. Shares that are borrowed and sold **must** be bought back at some point.

"He who sells what isn't his'n, must buy it back or go to pris'n."

- *Daniel Drew*

On the surface, it was a tale as old as time: a classic short squeeze. Retail buyers, spurred on by message boards encouraging the crowd to work together, chased the stock up. This forced the short sellers to buy back the shares they had sold, causing the shares to rise even more.

Underneath this old ploy, however, was a very modern twist. Instead of a couple dozen well-heeled professionals ganging up on others, it was tens of thousands of anonymous retail traders buying a few hundred shares plus options, overwhelming the hedge fund pros in a tsunami of buying unlike anything seen before. It was more like a million hornets swarming. The shares hit $483 briefly, causing one top hedge fund to lose over half of its capital.

A few things to point out here.

- First, this anonymous mob-based behaviour is not new over the internet. We see it all the time on social media. However, the way it amplified buying power through thousands of individuals so quickly was certainly new.

- Second, the losses were not inconsequential. In 1997, Long-Term Capital Management, one of the first giant hedge funds, suffered losses of $4 billion and almost destroyed the global banking system. The GameStop squeeze reportedly caused losses close to $20 billion. Will there be ramifications from this?

- Third, we have to acknowledge the role that social apps like Robinhood, TikTok and Reddit play today. These are smart algorithms that read what you are interested in, then reward, entice, and bombard you with even more of what you like. This “funnels” people into reading and doing even more, such as buying even more GameStop shares by the hour.

Remember the experiment with Pavlov ringing a bell before his dog got a treat, which made the dog salivate whenever it heard the bell? This is Pavlov’s bell on internet steroids. Reddit and other boards became a million bells causing small investors to salivate over one target company at a time. First it was GameStop, then it was AMC Entertainment (**NYSE AMC** - a struggling movie theatre chain). Then silver on Monday.

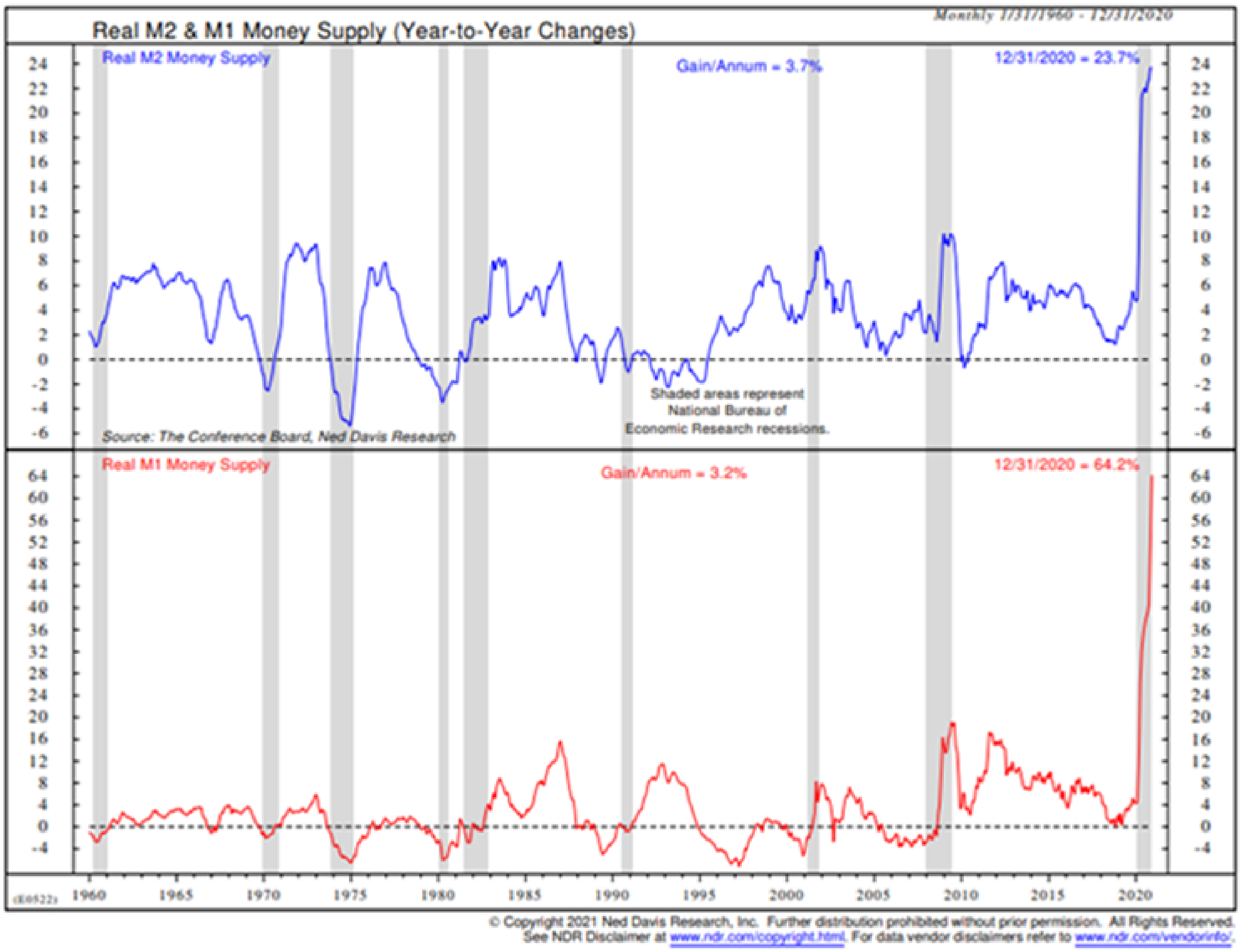
- Fourth, there is a generational element here. The Millennial generation has lived through two financial crises in their brief lives, plus a pandemic. Their futures have been put on hold each time as the Baby Boom generation – that’s most of us, by the way – enact policies to save our own skins. We forced interest rates lower to keep stocks and house prices high, which meant out of the reach of Millennials forever. Mobbing a rich hedge fund by swarming them on the internet is the perfect way to ‘stick it to the man’ and recoup some of those Boomer-hoarded dollars.

By this week, the system had pulled GameStop and silver and all the others back down to Earth. The crisis, for now, has passed. The fabric of the markets is a little torn, however. And the hedge fund giants are now looking over their shoulders at an adversary they can’t see.

- And fifth, central banks around the world have printed money and mailed out stimulus cheques by the trillions to people stuck in their homes with only computers to entertain them. This is a generation raised on point-and-shoot videogames, used to lightning-fast apps on their smartphones. Money is sloshing about everywhere and the small investor is finally excited about investing/gambling. A recent survey showed that a huge number of new investors opened accounts for the first time in 2020. Extremely accommodative monetary policy is creating speculation in many corners of the investing universe, from stocks like GameStop to bitcoin.

This may be the point where a correction finally arrives.

Record high money supply growth since 1960



Hi Ho Silver

In 1979, the Hunt Brothers tried to corner the silver market. Through physical bullion purchases, options, and commodity contracts, they moved the price of silver from U.S. $6 to $50 by January of 1980. They locked up a third of the world's silver supplies causing Tiffany's and other silver users to panic.

We have often said that the worst thing you can do is make money on your first investment. Silver made sure I didn't.

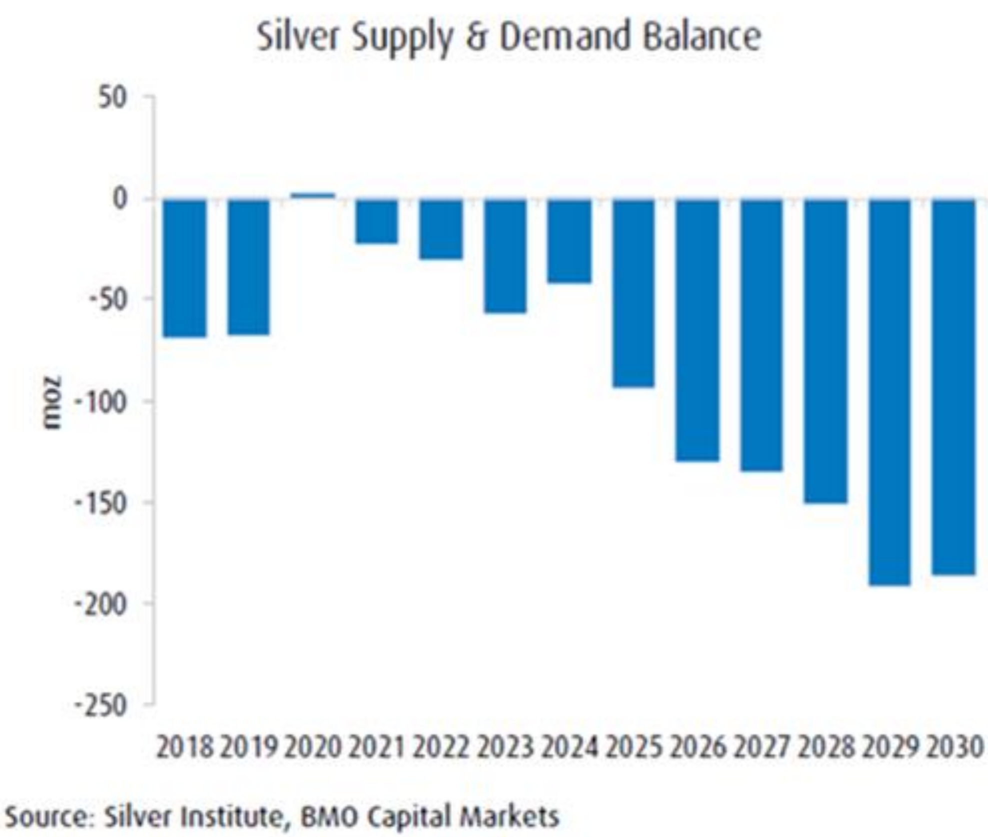
Convinced of its can't-lose potential, my friend Mike and I took our engineering tuition money and bought silver coins right at near the high in late 1979. We looked at the lines of people queuing up to sell their silver cutlery and plates and thought "fools - what do they know!"

A lot more than us, as it turned out. I still own those coins. And I am still underwater over 40 years later.

Back to the present. After their success with GameStop, retail investors thought they could do what the Hunt Brothers couldn't: drive silver up to unseen heights.

Silver is a very big and professional market. Silver miners sell their own production forward to lock in future prices today, and they warehouse bullion that you will never hear about. If the price rises sharply, their hidden 'cutlery and silver plate' materializes quickly to be sold. In other words, you are swimming with the sharks when you speculate in the silver market.

That said, the long-term supply of silver is in deficit and is projected to become even worse over the next decade.



Silver is the best electrical conductor in the world and 10% of the annual supply now goes into the manufacture of solar cells. After it cools off, both silver and gold have strong support today. Inflation is bubbling and demand from solar panels and other silver applications is growing.

Silver prices fell sharply this week after the buying frenzy ended. In the short-term, investors were wrong. In the long-term, they are simply early.

Vaccine News

Even though the world's laboratories have delivered a number of successful Covid-19 vaccinations in record time, we all want it to happen even faster.

The world leader is Israel, which is a small and tightly-ordered country that lends itself well to getting things done quickly. They now have close to 40% of their population vaccinated with the first of two doses, and the initial numbers look excellent (data from Israel Times):

- An initial study of 163,000 Israelis given both doses of the Pfizer vaccine saw just 31 diagnosed with COVID-19 during their first 10 days of full-strength protection. This is a 92% success rate, which is right in line with the 95% number Pfizer reported months ago. It is good to see it working in the real world.
- Of these unlucky 31 fully vaccinated people who came down with Covid-19, all had very light symptoms and none needed to be hospitalized. This suggests that, when Covid-19 presents itself in a vaccinated person, the risk is less than that of seasonal flu.
- Almost 70% of Covid-19 cases in Israel are the U.K. variant that is far more transmissible than earlier versions. And yet, the Pfizer vaccine is showing to be just as effective against the mutated version as against the original version.
- Less than 0.25% of the people receiving the vaccination sought help for post-shot symptoms. Very few of these required medical attention.

In Israel, hospitalizations and infections in the over-60 year old group – the ones who received their shots first - are plummeting. What we don't know yet is what was the tipping point. Did 50% have to be vaccinated for the national curve to decline? 30%?

This has implications for every other country. The U.S. is now at 10% vaccination rates, while Canada sits at 2.8%. This means a complete re-opening from lockdowns likely won't occur in the U.S. until summer and in Canada until the fall, if current rates hold. Hopefully, manufacturing can accelerate and speed this up.

The economic lift of reopenings will collide with the lagged effect of lockdowns, however. A small university in Ontario had to file for bankruptcy this week due to a sharp decline in revenue. Many other businesses, agencies, and charities are hanging on by their fingertips today and won't make it until the vaccines arrive.

In some countries, Covid may burn through on its own. One recent study suggest 50% of residents in Delhi, India have already had the virus.

Corporate Evolution

There's this strange sea-going mammal called a manatee. It weighs several tons and eats sea grass - a lot of sea grass. Most predators leave it alone because of its size and the shallow waters it inhabits.

The funny thing is, it evolved from the elephant.

Somewhere, back in the mists of time, the manatee found more opportunity in the water than on the land. Perhaps there was easier access to food, or fewer predators. Either way, it pressed its ecological advantage (it was big, could float, and was able to paddle about) to its advantage and evolved.

This is something we see in the business world, as well. Not all thrive, but at least they survive. Take Blackberry (**TSX BB**), for example. Once the king of smartphones, Blackberry lost the crown to Apple (**NASDAQ AAPL**). It was forced to evolve toward other markets where it had strengths, namely security (Blackberry was always known for securing its data) and its automobile software division. Blackberry recently signed a contract to assist Amazon (**NASDAQ AMZN**) with its self-driving vehicles.

Other recent examples of evolution include:

- Amazon moving into self-driving vehicles (look out Tesla), a big push into videogames, and flying drones for deliveries.
- Apple announced its new Apple Car this week (look out Tesla).
- Google building flying drones to fight fires (watch out Amazon).
- Alcohol and tobacco companies buying marijuana companies.
- Deere buying wireless spectrum. Deere now sells $2 billion per year of combines, sprayers and planters connected to the internet.
- PayPal adopting cryptocurrencies like bitcoin for payments

Not all evolutionary experiments survive – the manatee is hardly an alpha predator, for example, but it does enjoy the safety of its little niche.

Watch for evolution in the conventional energy company space. The biggest advances in carbon dioxide sequestration are happening at Big Oil and the hydrogen economy won't happen without pipelines. Some of the biggest wind utilities were former coal users. TC Energy (**TSX TRP**), an oil and gas company, bought several nuclear reactors several years ago. They are now some if its best assets.

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