HILBERRY GROUP
WEALTH MANAGEMENT

August 26, 2022

Back from a summer break. School's back in session.

We're assigning some catch-up reading. Oh Goody!

Investors have priced in a recession.

Jan 4, 2022 the S&P500 hit a high of 4818.62. Then the party ended. By June 16, 2022, more aggressive sellers than buyers (takes both to make a trade) drove the S&P500 to an intra-day low of 3639.77, -24.46% from the Jan 4th highs. A bear market defined. We've been tracking the 2022 bear market and 2021's Market Darlings in recent Readings.

Recent US Market Favorites		31-Dec-21	All Time	High	Recent	Low from Hi
	Symbol	Close	High	Date	ANNLOW	% change
Alphabet Inc (Google)	GOOG-US	144.68	$150.61	02-Feb-22	102.21	-32.14%
Amazon	AMZN-US	166.72	$188.65	13-Jul-21	101.26	-46.32%
Apple Inc	AAPL-US	177.57	$182.94	04-Jan-22	129.04	-29.46%
ARK Inovation ETF (Cathie Wood)	ARKK-US	94.59	$159.70	16-Feb-21	35.1	-78.02%
Block Inc (formally Square)	SQ-US	161.51	$289.23	05-Aug-21	56.01	-80.63%
Meta Platforms (formally Facebook)	META-US	336.35	$383.79	10-Sep-21	154.25	-59.81%
Microsoft	MSFT-US	336.32	$349.67	22-Nov-21	241.51	-30.93%
Netflix Inc	NFLX-US	602.44	$700.99	17-Nov-22	162.71	-76.79%
PayPal	PYPL-US	188.58	$310.16	26-Jul-21	67.58	-78.21%
Shopify	SHOP-US	137.74	$222.87	19-Nov-21	29.72	-86.66%
Tesla	TSLA-US	1056.78	$1,243.49	04-Nov-21	620.57	-50.09%
Twitter	TWTR-US	43.22	$80.75	25-Feb-21	31.3	-61.24%
Walt Dysney	DIS-US	154.89	$203.02	8-Mar-2-21	90.23	-55.56%
Zoom Video Comm Inc	ZM-US	183.91	$588.84	19-Oct-20	79.03	-86.58%

Stocks typically start to decline before the economic numbers confirm a recession. After prices flop, the media typically begins posting bum economic numbers weeks or months later. Bear commentators then say *"See! See! It's going to get worse"* predicting the past. Nobody wants to buy. The auction house is empty. Sound familiar? I believe investors have priced a recession into stock prices. The above list certainly has!

What next?

Stock markets typically bottom before the economic data confirms the economy has bottomed out, often during declining results. Market bottoms often see spikes in volatility reflecting investor panic. *"Get me out at any price as long as it's out!"*. The recent blow off in June may qualify. I suspect the worst is past, but I don't have to be correct (more below). Relying on history, Mr. Bilello (kind of/maybe) points to the US being in a recession and that (maybe) there's worse to come for the stock market. I'm not so sure.

7-Chart Monday (8/8/22) – Charlie Bilello

https://compoundadvisors.com/2022/7-chart-monday-8-8-22

As we noted last week, a quick check of the headlines shows *'How to protect yourself from a recession'* type stories. The media is pandering to reader interest (angst). This implies investors have already taken actions that the media is reflecting, not leading. As Mr. Billelo points out, the COVID-19 Govt induced lockdowns saw the sharpest contraction in US jobs in history. Over 22 million Americans were unemployed in a hurry. As the job losses resulted from arbitrary government actions, not organic contraction, once the lockdowns lifted, the rebound was equally unprecedented. To clarify I'm not implying the lockdowns weren't necessary. Stats say governments that enacted lockdowns, and populations who accepted those restrictions, faired better than countries that couldn't/wouldn't. Social scientists will debate the lockdown decisions for years to come. I believe the reverberations from the lockdown/rebound are still being felt. In spring 2020 we reminded readers that the Roaring Twenties followed the Great Influenza Pandemic of 1918. We advised increasing exposure to stocks at the time. We don't think that party is over.

Josh Brown discusses oscillations.

'Why the market is bouncing' – Josh Brown - The Reformed Broker

https://thereformedbroker.com/2022/08/08/why-the-market-is-bouncing/

The Michael Scott Economy – Ben Carlson

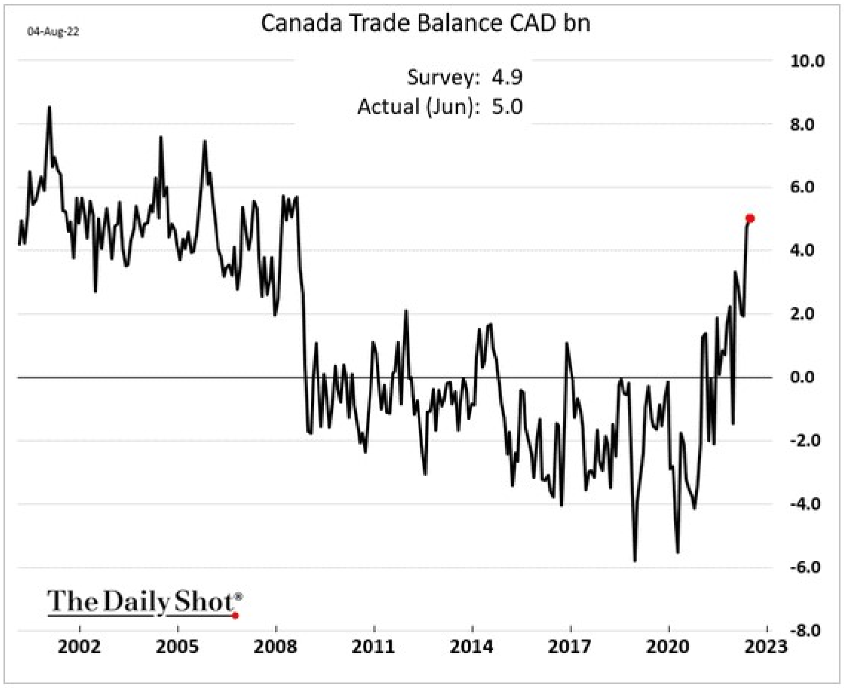
https://awealthofcommonsense.com/2022/08/the-michael-scott-economy/

Moving on to Energy…

Alberta's renewable capacity is expected to reach 10 GW by '23 and then double to nearly 21 GW by '25 vs. Canada at almost 45 GW by '25, according to Rystad. The Alberta advantage: "Alberta's electricity system is unique as companies can ink deals directly with private power producers to buy a set amount of electricity each year, either for use or for offset credits. This is attractive for fossil fuel companies looking to offset their emissions from existing operations in the province. The financial security provided by those contracts helps producers build out more renewable projects with fewer market risks, while purchasers get cheap renewable energy or credits to meet internal or external emissions goals." – Rystad Energy

“Canada is no stranger to renewables, but Alberta has been a minor player until now. That’s about to change. The region’s unregulated power market, minimal regulatory hurdles and abundant natural resources make it an attractive prospect for developers, in addition to an existing workforce of industry professionals increasingly eager to adapt to green energy. Other provinces may want to follow suit if they have ambitions to attract lucrative green investments,” says Geoff Hebertson, renewables analyst with Rystad Energy.

Canada: The trade surplus hit a multi-year high, boosted by energy exports.



Source: Daily Shot

Note the trade deficit during the late ‘teens. Oil prices and Canadian oil exports were low. Those pondering a rapid exit from fossil fuels may wish to consider the potential effect on Canada’s economy. When it comes to energy there is no free lunch.

How does our current Federal Govt view Canada’s potential LNG sales to Europe?

‘Touting clean energy, PM Trudeau questions 'business case' for exporting liquefied natural gas to Europe’ – CTV News

https://www.ctvnews.ca/politics/touting-clean-energy-pm-trudeau-questions-business-case-for-exporting-liquefied-natural-gas-to-europe-1.6037556

Pressed on whether Canada is in a position to export natural gas in a liquid state to Germany, Trudeau said Canada is aware of the need to counter the energy supply crisis, but it would require a significant investment to build the infrastructure required.

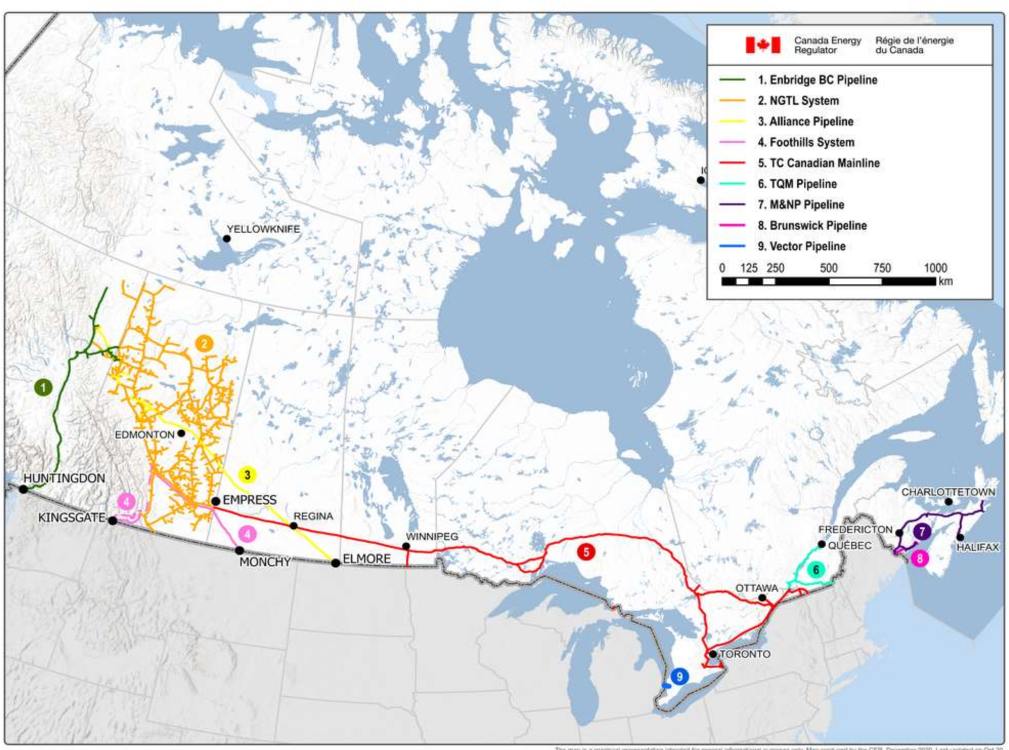
"Conversion plants are usually placed close to the sources of LNG. And, as we look at the possibility of LNG plants on the east coast, able to ship directly to Germany, we find ourselves a long way from the gas fields in western Canada. It's doable, we have infrastructure around that, but we're looking very much at how we can best help," Trudeau said.

I'll add that Irving oil built the first North American regasification LNG plant 30 years ago at their CanaPort facilities in St John, NB. Project was a JV between Irving Oil (25%) and Spanish energy giant Repsol (75%). Irving applied for the permit in 2001. It was granted in 2004. The plant opened in 2008 The business case was overseas LNG could dock at the terminal. Canaport would then regasify the LNG into gas for delivery into the Brunswick pipelines destined for Canada and US East Coast consumers. The terminal supplies 20% of US North-East Coast gas needs today with capacity to heat 5 million houses.

As the USA proved, regasification import plants may be retrofitted to 'liquifaction', converting the regasification terminal to liquifaction of gas for LNG export. The US has become the world's largest LNG exporter. Canaport LNG didn't have much raw gas available when built but surely natural gas from Western Canada would eventually be available to the New Brunswick terminal? TCP Energy (TransCanada Corp before they changed their name) had applied for Energy East, an extension of their existent heavy oil pipeline Alberta to Ontario on through Quebec to the Irving oil refinery terminal in St John.

https://www.cer-rec.gc.ca/en/applications-hearings/view-applications-projects/energy-east/images/mp1-eng.pdf

As a reminder of Canada's pipeline system, the map below shows a gap between the light green (#6) section from Ottawa to the head of the St. Lawrence in Quebec and the purple (#7) M&NP section in the Maritimes. Western Canadian natural gas can't get to the Maritimes without crossing US territory. As a result of the Sable Island gas field's decline, Maritimer's now import their gas from US sources coming UP the east coast to Canada. They are at the very end of the East Coast pipeline system. What happens should the US decide to ration natural gas? As Michigan has proven, Canada's reliance upon US territory to ship product can be problematic.



The St John, NB CanaPort LNG project was completed just before the US Shale revolution and before Canadian climate activist anti-pipeline resistance centered in Quebec caused TCP give up on Energy East. If TCP couldn't extend their heavy oil pipe, what about a natural gas line then?

https://www.cbc.ca/news/canada/new-brunswick/transcanada-corp-natural-gas-alberta-1.5021964

The combination of US shale grabbing market share, no Western Canada crude or natural gas available at Canaport had Irving give up, selling their remaining 25% interest in the LNG regasification plant to Repsol in Aug/2021.

Mr. Trudeau may be correct in expressing doubts about Canada's ability to sell gas to Europe. As he notes, the East Coast is a long way from Alberta. There are many protesters in between. He neglects to add, two who were active against the Energy East pipeline are now in his cabinet, running the Environment and Energy portfolios. What could go wrong?

'More Energy on Less Land: The Drive to Shrink Solar's Footprint' Cheryl Katz – Yale 360 – July 28, 2022

"With the push for renewables leading to land-use conflicts, building highly efficient utility-scale solar farms on ever-smaller tracts of land has become a top priority. New approaches range from installing PV arrays that take up less space to growing crops between rows of panels."

https://e360.yale.edu/features/small-solar-agriculture-technology

On natural gas prices in Europe and Canada:

US exports LNG to Europe / Canada misses out.

Since 2016 the US has gone from close to zero LNG exports to the world's largest exporter. Canada exports zero. With no overseas market alternatives, Canada ships its natural gas south to the US Gulf Coast and Eastern seaboard.

A result…

- Alberta natural gas prices are $4.83 US MMbt.
- US Gas prices at $9.16 US MMbtu
- Asian and European gas $35 US per MM btu in Europe and Asia.

Alberta gas prices are the lowest on the planet. US shippers can sell domestically produced gas via LNG to Europe. LNG in US the trades around $12.33 MMbtu. They can sell at $35 to Europe, replacing it with Alberta gas priced at $4.83.

For more resources on this subject book-mark Oxford Institute for Energy Studies

https://www.oxfordenergy.org/

Here is their section on Canada
https://www.oxfordenergy.org/?s=Canada&post_type=publications

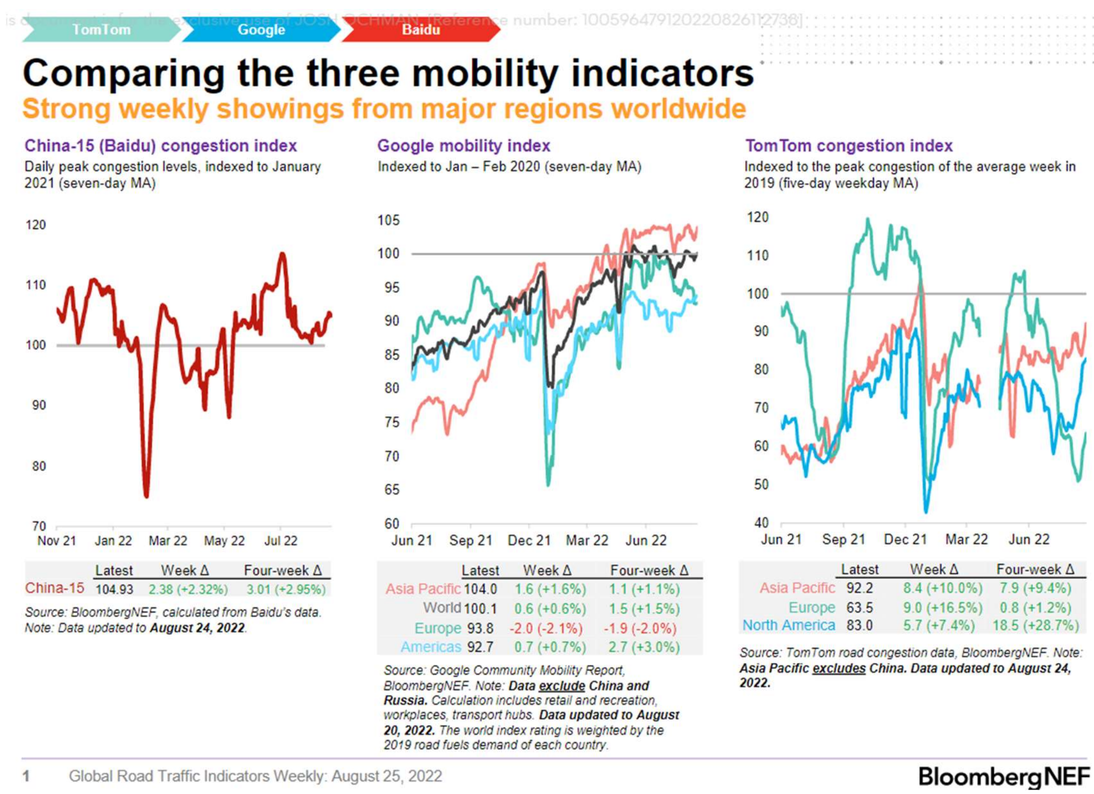
Winter is coming.

While researching the coming winter's heating realities in Canada I came across this 2019 study comparing household heating costs and energy sources Ontario vs. Quebec. The author pokes holes in Hydro-Quebec's claimed home heating cost advantages vs. Ontario regularly touted to Quebecers. The breakdown heat energy sources is interesting. Quebecers rely heavily on electric base- board heat. Ontarians rely on natural gas. What effect would a dramatic increase in electrical power demand for EV transportation do to Quebecer's heating bills? If Europe is any guide…. We used to wear sweaters and wool socks indoors In winter. Time to bust out those knitting needles?

'A closer look at household energy bills in Quebec and Ontario' -

https://www.ivey.uwo.ca/energycentre/news/blog/2019/06/a-closer-look-at-hydro-quebec-s-electricity-price-advantage-over-ontario/

Mobility trends have been improving. Increasing mobility suggests demand for everything (including crude oil) is alive and well. Another reason we're staying with stocks for now.



Moving on to my favorite topic. What to pay for rising dividends, and when to buy.

Canadian Tire Corp (CTC.A-TSX-$162.60) – price history and data geek-out.

Time for some homework. It will be on the test!

We own Canadian Tire Corp for client accounts. In May, 2022 Canadian Tire brought their Q1 earnings. They announced a 25% hiked of the quarterly dividend to $1.625 per share/ $6.50 annual. We were pleased. The market yawned and the stock price went down a bit. Recently analysts have trimmed their CTC targets. Those targets are well above today's prices.

For more details see the attached NBF Research update Aug 3, 2022. Our analyst Vishal Shreedhar reduced his target price from $222 to $215, +32% from recent prices.

Analyst Q2 earnings per share estimates ranged from $3.48 to $3.72. Canadian Tire reported Q2 earnings of $3.61 on Thursday last week, lower than many analyst estimates.

From the Q2 announcement:

Retail segment income before income taxes was $123.8 million, compared to $208.6 million in the prior year. Retail segment revenue was up 12.3 percent, driven by strong revenue growth across all retail banners. This was more than offset by an increase in other expense that included the normalized charge relating to the exit of Helly Hansen operations in Russia, foreign exchange impacts and higher real estate related gains in the prior year, and an increase in selling, general, and administrative expenses. Normalized Retail segment income before income taxes decreased 21.1 percent to $170.0 million. Financial Services segment income before income taxes was $90.0 million, with the $35.3 million decrease mainly attributable to a $57.6 million year-over-year variance in the incremental expected credit loss ("ECL") allowance for loans receivable, partially offset by a 15.0 percent increase in revenue.

On a year-to-date basis, Diluted EPS was $5.46 and Normalized Diluted EPS was $6.16, a decrease of 10.6 percent and 2.1 percent respectively from the prior year. The decline was mainly driven by the year-over-year variance in the incremental ECL allowance for loans receivable and higher other expense. This was partially offset by strong revenue growth in both the Retail and Financial Services segments.

At today's close CTC traded at $161.24, back to the lows around $160 prior to the Q2 numbers. Investors appeared to have anticipated Q2's lower results.

Our history with the stock.

Recent prices around $162 priced the $6.50 annual dividend at 4% cash yield. 5 years ago, CTC paid a $2.60 annual dividend. In 2012, CTC paid an annual dividend of $1.20. The dividend has grown 5.5X over the past 10 years. We didn't buy CTC in 2012. Why not?

CTC closed June/2012 at $68.88. Versus the $1.20 dividend, CTC was priced to yield 1.74% and had gone sideways in price since 2006. The Price to Earnings Ratio (P/E) was around 11X earnings. Not bad, but the yield was too low for us at the time. We didn't buy it. 5 years went by. The stock went up…a lot!

In June 2017 CTC closed at $147.56 (!!). The P/E was 13.8X earnings or 25% higher than in 2012. The 2017 $2.60 dividend represented a similar 1.76% yield as in 2012. Again, we didn't buy. The stock had gone up more than 2X in 5 years, so we missed out on those gains.

From 2006 to 2017 investors were willing to accept sub-2% dividend yields from CTC shares. As earnings grew, investor's excitement grew too. They paid higher relative prices. From P/E's around 11 in 2012 the P/E was closer to 15 by mid-2017. Investors were paying 25% more for earnings in 2017 than in 2012. Yes, the earnings were higher and yes, the stock price had gone up. It was hard not to envy CTC shareholder returns during that period. Over that period operating profit margin was up 14% and gross profit margin was up 10%. Nice but not spectacular and certainly not worth paying 25% more for. Over that period, the number of stores opened climbed 52% explaining the 1.6X fold increase in raw sales. Investors appeared to have focused on that top line sales growth number.

And then…from June/2017 to July/2022 the stock price has gone nowhere. In the spring of 2020 during the COVID lockdowns Canadians stayed home. Conventional wisdom was consumers would avoid Canadian Tire stores and do their shopping online only. Investors fretted CTC's earnings would drop sharply. SELL CTC / BUY Amazon. Yet in March/2020 when I'd go to the Duncan store for hardware and stuff (they have everything) I stood in a 20-minute lineup to get in. Didn't look like online shopping was killing CTC in Duncan.

In the March/2020 during the COVID-19 panic, investors dumped CTC driving the share price from around $180 in June/2018 to a low of $67.15 in March/2020 back to 2012 prices. Comparing the annual dividend of $4.15 to the $67.15 stock price derived a 6.18% yield. Now we're talking! On a rebound with the stock around the $75 range the dividend yield was still 5.5%. P/E was in the 14X range, a bit expensive (reflecting COVID problems that we thought would pass), but that dividend yield was attractive. We liked the idea of paying 2012 prices for 2021's earnings and dividends. We bought the stock aggressively March through April 2020, landing with average prices around $80 for clients.

CTC proactively managed customer in-store COVID risk and enhanced their online footprint. Their inventory management system held up, enabling CTC to deliver retail goods to consumers frustrated by delays elsewhere. Canadian's flocked to the CTC stores. CTC's 2020's earnings ended higher than 2019. A retailer turning lemons into lemonade. Who'd a thunk it? How did they do it? Because there was money it - that's how.

Post COVID panic, CTC's shares soared to highs around $214 in May-June/2021. In May/2021 analysts were projecting annual earnings of $13.75 per share. Investors were pricing CTC at 15X those projected earnings. But investors were probably betting the earnings would be even higher. They were right. 2021 earnings came in at $18.38, meaning the $210 prices ended up being closer to 11X actual earnings – about average over the longer term. At the time those boffo 2021 earnings seemed to us to be a rebound from 2020's declines. We expected the following year would be okay but unlikely to show an equivalent gain in sales and profits again. This wasn't rocket science. We guessed consumers, once released from their back yards, would want to do other things than fill their houses with Canadian Tire products. Comparing the June/2021 $210+ share price to the $4.70 posted dividend derived a 2.24% cash yield. We decided to do some trimming in May/June 2021 around $210, keeping our core holdings. The stock then went down. Paying attention to relative values and dividend yields kept us out, got us in, then helped us trim. Zigging and zagging paid off.

A wag might note a (very) patient investor who showed up 20 years ago in June/2002 (recall this was just after the Y2K/Dot.com melt down) would have paid around $31 per share. By June 2012 the stock had climbed to $68. By June 2022 the stock was a high as $176. The 2002 annual dividend of 40 cents per share now stands at $6.50. Patience is a virtue. What's not to like? BUY and do nothing. Easy-Peazy. Sure. But…much patience was required. From Dec/2005 around $70 the stock price didn't continuously trade above $70 again until Apr/2013. Along the way in April/2009 at the bottom of the Great Recession 2008-09, CTC shares hit lows of $38.12. It took another 4 years for investors to bid up CTCs shares above the Dec/2005 $70 price again.

What about Canadian Tire today?

Over the past 20 years, investors have priced Canadian Tire at P/E's ranging from 10 to 15 X earnings per share. Call it roughly 12X EPS avg. Paying 12X earnings per share means paying $12 for each $1 in earnings. If I pay $12 and get $1, this equates to an 8.3% internal earnings yield (will be on the test). Today CTC trades around 8.4 X trailing earnings and about the same for next year's projected earnings. The internal yield is now 11.90% being 43% above the long-term average. This means the price is 43% below the long-term average. There's no guarantee the price will mean revert, but it's a nice buffer to start with.

2000 to 2017 the average annual dividend yield ranged between 1.1% and 1.9%. Since 2018 the average annual yield has ranged between 2.3% and 3.5%. The recently hiked per share annual dividend is $6.50. At $162, CTC's stock is priced to yield 4%, double the average annual yield from 2006 to 2017 and 38% higher than the 2018-2022 average. The current yield is close to 2020's annual average that spanned the early phases of the COVID-19 pandemic. There's a lot of trouble already priced into the stock.

Despite Q1's good earnings and a 25% dividend bump, investors have largely panned the stock this year. Why? Analysts are trimming their Q2 expectations. The net opinion is still BUY (see NBF's attached opinion for target details). We think the current worries are already in CTC's share price.

Could rising inflation and increased competition from higher bond yields be partially to blame for these higher internal and dividend yields? Will Canadian Tire's reliance on overseas sourced products mean supply-chain issues? If we go deeper into a recession, if China invades Taiwan, if Europe melts in a heatwave, if Russia goes to war with Poland. If…if…if. The media is full of existential ifs. That's how they sell advertising. Meanwhile Canadians will mow their lawns, entertain in their back yards, go to the beach, travel to see family, buy back to school supplies in September, invite family and friends for Thanksgiving, decorate for Christmas, buy snow shovels and salt in January. Canadian Tire will sell them lots of stuff. The stock is not expensive. Historically it's trading at or below the long run averages. It is at least at 'fair value'.

"It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price" - Warren Buffett

We are holders/buyers of Canadian Tire.

When we go these exercises for many of our other holdings we arrive at the same conclusions.

DISCLAIMER: I own Canadian Tire share personally, hold it for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days.

Staying with dividends…

A client asked this question recently.

'Has the Federal Liberal Government changed the tax on dividends?"

The short answer is yes. Prime Minster Trudeau rode to power in Nov/2015 on a Liberal wave of '*Throw Steven Harper Out*'. One of his Government's early acts was to change the tax treatment of dividends, branded as *'We will ask the rich to pay a little bit more, paying their fair share'*. It's nice to be asked. Tax Tips.Ca walks us through the history.

https://www.taxtips.ca/dtc/eligible-dividend-tax-credit.htm

Federal Marginal Tax Rates on Eligible Dividends					
2010 Tax Brackets	Other Income Tax Rate	Eligible Dividends Marginal Tax Rates			
		2009	2010	2011	2012 - 2015
First $40,970	15%	-5.75%	-4.28%	-2.02%	-0.03%
over $40,970 up to $81,941	22%	4.40%	5.80%	7.85%	9.63%
over $81,941 up to $127,021	26%	10.20%	11.56%	13.49%	15.15%
over $127,021	29%	14.55%	15.88%	17.72%	19.29%

I'll clarify the Harper Conservatives had pushed up the tax rate on eligible dividends prior to Mr. Trudeau's election in Nov/ 2015. The Liberals continued the trend.

"In 2016 the tax rate for the 2nd tax bracket ($40,970 to $81,941-sh) *was reduced, and a new top tax bracket was introduced for over $200,000 of taxable income. This reduced the marginal tax rate for the 2nd bracket from 9.63% to 7.56% and created a new marginal tax rate of 24.81% for the highest bracket."*

Note that while the 'middle-class' got a 2.07% reduction, Canadians reporting income exceeding $200,000 in 2016 saw their tax rate on eligible dividends move from 19.29% to 24.81% for a 28% increase in tax. Recall the Canadian Dividend Tax Credit (CDTC) reflects the fact Canadian corporations paying the dividends have already paid tax on the corporate earnings generating the dividends. The premise of the CDTC is to avoid double taxation.

Last week the US Senate passed the 'Inflation Reduction Act'. Lots of subsidies and goodies for various industries including the current conventional US energy patch. Lots of taxes too. Increased subsidies and tax is not a recipe for reduced inflation. **One beauty is a 1% tax on stock buybacks**.

When a corporation buys back their stock, they cancel the shares acquired, reducing the number of outstanding shares. The pie isn't any bigger but there are few slices, meaning each slice becomes (slightly) larger. This should enrich the remaining shareholders. That's the idea anyway. Stock buy backs during periods of extreme stock price cheapness could make sense. I question the efficacy of mechanically buying despite price. Doesn't the corporation have anything better to do with the money?

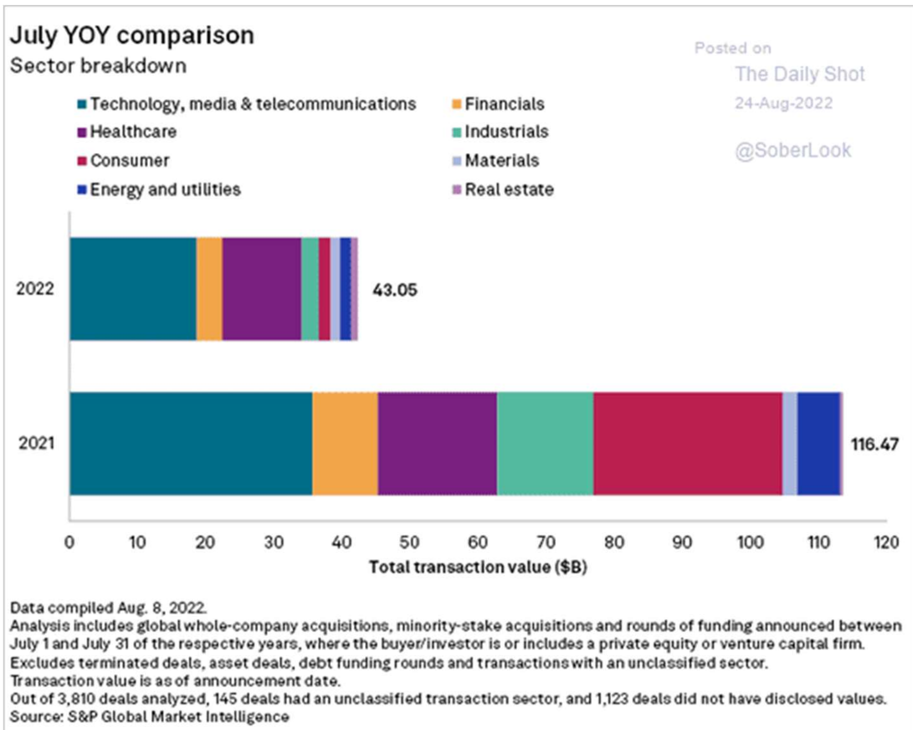
The cash used to buy back stock results from after-tax profits. In 2017, the Trump Administration and GOP-controlled Congress reduced US corporate taxes from a nominal 35% to 20%. Prior to 2017, in practice few large US corporations paid 35%. Some utilized complex foreign ownership strategies to reduce their tax into the low teens (think Apple's incorporation in Ireland). Most were in the 20% range. NOTE: Corporations strictly domiciled in the US, like…oh let's just say…a corporation holding US hotel properties…couldn't take advantage of this strategy. Paired with the corporate tax reduction were alternative minimum tax tools designed to prevent weaseling. Fair enough. The idea was reducing the tax rate, would increase Govt revenues as corporations on-shored their taxes, paying US taxes vs. foreign taxes. The Biden Administration didn't like this idea. The Democrat -controlled Congress has upped the corporate tax rate back to 28% and applied the stock buy back tax. Assuming the rate sticks and corporations don't find other ways out of it, the corporation seeking to spend $1 on stock buybacks must generate $1.3889 before tax.

If a 1% charge is applied to the buyback, this reduces the share's acquired by 1% = 99 cents to spend taking the effective tax rate to $1.3989 to achieve $1.00. To buy stock in the open market requires sellers. The sellers are presumably making a capital gain (why sell at a loss?), upon which they pay tax. Follow the gross profit in the corporation all the way through to the shareholder's pocket. If your thought is *"The Fat Cats must pay their fair share"* the treatment of tobacco products is a good lesson on tax policy. If you want less of something, tax it. Do we want lower corporate profits? Do we want corporations, to protect their investors wealth by raising the prices of what they sell and provide less cash dividends to stay even after tax? To clarify 'investors' means pension funds, university endowments, mom & pop investors, you and me. This idea may be coming to a Canadian politician near you. There is no free lunch and there is only one tax-payer.

Hedge Funds aren't having any fun

In previous Weekend Reading's we've predicted interest rates would rise and that those increases would play heck with 'Alternative' investments (hedge funds, private equity, venture capital, etc). We believe Alternative investments are in essence leveraged bets on something. Leverage is fun when borrowing costs fall. Rates up? Not so much. We have completely avoided the space. How did that call work out?

Alternatives: Global private equity and VC deal values are down 63%. Prices followed. 'Missed out' again. What you don't do matters.



source WSJ Daily Shot Aug 24, 2022

We've also repeatedly warned clients about risks in cryptocurrencies. Missed that one too.

'More Than Half Of All Bitcoin Trades Are Fake' – Forbes Aug 26, 2022

"A new Forbes analysis of 157 crypto exchanges finds that 51% of the daily bitcoin trading volume being reported is likely bogus.

Within the emerging and turbulent market for cryptocurrencies, where there are no fewer than 10,000 tokens, bitcoin, is the great granddaddy, the blue-chip, representing 40% of the $1 trillion in crypto assets outstanding. Bitcoin is crypto's gateway drug. An estimated 46 million adult Americans already own it according to New York Digital Investment Group, and an increasing number of institutional investors and corporations are warming to the nascent alternative asset.

But can you trust what your crypto exchange or e-brokerage reports about trading in the most important digital currency?

One of the most common criticisms of Bitcoin is pervasive wash trading (a form of fake volume) and poor surveillance across exchanges. The U.S. Commodity Futures Trading Commission defines wash trading as "entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position." The reason why some traders engage in wash trading is to inflate the trading volume of an asset to give the appearance of rising popularity. In some cases trading bots execute these wash trades in tokens, increasing volume, while at the same time insiders reinforce the activity with bullish remarks, driving up the price in what is effectively a pump and dump scheme. Wash trading also benefits exchanges because it allows them to appear to have more volume than they actually do, potentially encouraging more legitimate trading."

https://www.forbes.com/sites/javierpaz/2022/08/26/more-than-half-of-all-bitcoin-trades-are-fake

Some closing comments on the markets

Exceptions to the Rule – Ben Carlson Aug 23, 2022

https://awealthofcommonsense.com/2022/08/exceptions-to-the-rule/

Lessons From the Future - Barry Ritholtz Aug 24, 2022

https://ritholtz.com/2022/08/lessons-from-the-future/

Have a Great Weekend

Steve & Anna Hilberry

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August 26, 2022

FOR THE RECORD AUG 26, 2022

DOW INDUSTRIALS:	32,283
S&P 500:	4,057
S&P/TSX COMP:	19873
WTI:	$92.90
LOONIE IN $USD:	$0.7670 $US

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