HILBERRY GROUP
WEALTH MANAGEMENT

December 16, 2022

Ho, Ho, Ho…Oh, Oh?

This will be our last 'Weekend Reading' before Christmas. We'll try to stuff our readers' stockings for the holidays making this weeks commentary longer than normal.

The good news. Human's are problem-solvers.

Of all earth's mammals, human's ability to imagine the future and tell stories about it is unique. Our genetically encoded herd sharing allows us to pool our imaginations. One of us has an idea that works, the herd accumulates the knowledge. Someone else's work means we don't have to reinvent the wheel each week. Imagination has a cost. Our brains represent 2% of our body weight yet consume 20% of our body energy. Mental efficiency matters. Mental efficiency leads to reliance on stories and herd movement without a reality check (laziness). There are also humans inside the herd imagining themselves getting rich at the expense of the herd. Humans are very good liars both to others and to themselves.

The stock market plots the dreamers and liars every day. Today's price is the future imagined. The Hilberry Team spends a lot of time doing reality-checks, attempting to recognize extremes. When prices jump to extremes, the herd is imagining a very bright and very long future, probably paying too much for it. Excess imagination can turn a great company with a truly bright future into a terrible investment. When prices crash the herd imagination shortens. The well of greedy money dries up. Prices fall. The more prices fall the shorter the collective attention span becomes. To repeat Warren Buffett: *'When the tide goes out, we get to see who's swimming naked'.* If the liars have been popular, investor respect turns to anger and revulsion. During such times even an average company can be great investments.

Since our previous posting Dec 2, investors have swapped visions of sugar plums for lumps of coal.

S&P500 $USD Year to Date:

The 2020-2022 mini-business cycle saw the S&P bottom March/2020 at 2191.68 and peak in Jan 2022 at 4,818. Trough to peak = +119.9%. Recall nobody bought and sold at both ends. The 2022 year-to-date price index result is -19.5%. The S&P has been lower in June, September and October, trading in a range since the end of May. Since May the highs and lows have been falling. The herd remains more nervous than excited with the current ranges near the upper end of the falling trend. The problem with following trends is they continue until they don't.

Since our last commentary…

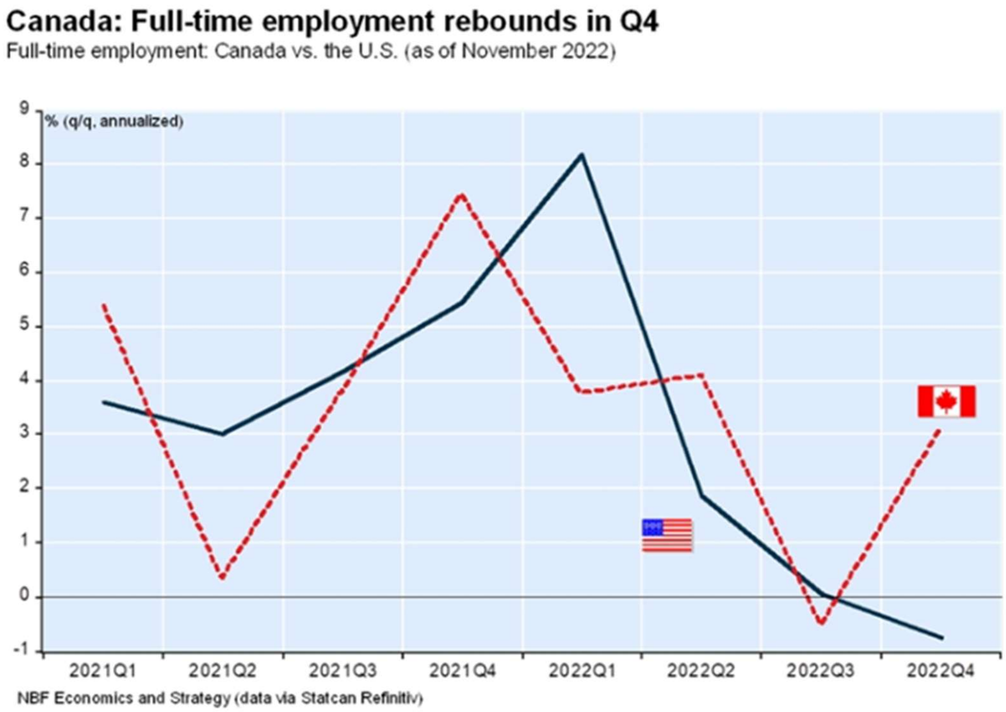
'U.S. Recession Risk – Weekly Monitor' **- National Bank Economics Dec 5, 2022**

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=6af96359-3616-4f69-8623-786c8932b054&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

'Canada fulltime employment rebounds in Q4' **– NBF Hotcharts Dec 5, 2022**

Canada Watch

Although GDP came in much better than anticipated in Q3, currency markets were unnerved by the details of the report which showed final domestic demand retreating for the first time since 2021Q1. Is the Canadian economy starting to crumble and enter a recession? We don't think so. For one, consumer spending grew an unsustainable 9.5% in the second quarter, so a contraction in the third quarter was to be expected. For another, fears that a lull in full-time job creation in the third quarter would precipitate a further decline in consumption should be allayed by a significant rebound so far in Q4. As today's Hot Chart shows, this contrasts with the U.S. where full-time employment is already down close to 1% quarter-to-date.



Steve's Take:

Q: What industries have been hiring enough in Canada but not in the USA to move charts?

A: Conventional energy in Western Canada. Just sayin….

Full commentary link:

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=57acef6e-7894-4506-b699-984b8ea32d59&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

FOREX December 2022 – National Bank Dec 6, 2022

Highlights By Stéfane Marion/Kyle Dahms

- *We have argued for many months that the U.S. dollar was vulnerable to a change in sentiment if inflation began to fall enough to pave the way for a potential FOMC pivot. The trade-weighted U.S. dollar index has suffered its worst monthly depreciation since 2009. This development coincides with a significant shift in speculative activity in the currency markets. At this writing, the U.S. dollar appears oversold and we would expect a partial retracement in the coming weeks. Looking ahead to next year, we still anticipate a policy change from the FOMC in the first quarter of 2023, which would set the stage for a more prolonged decline in the greenback.*
- *Although it has recovered from some of its recent losses, the loonie has performed disappointingly over the past month. Still, GDP came in much better than anticipated in Q3, markets were unnerved by the details of the report which showed final*

domestic demand retreating for the first time since 2021Q1. Fears that a lull in full-time job creation in the third quarter would precipitate a further decline in consumption should be allayed by a significant rebound so far in Q4. We sill see the possibility of a significant appreciation of the CAD against the greenback in 2023.

- *The euro and pound have staged a bit of a comeback, both traversing their 200d moving-average. The struggling currencies found takers on the back of an exodus from the US dollar. A reversal (appreciation) on the back of a Fed pivot was incorporated in our last forecast for the year-ahead but the past three weeks have seen faster and outsized moves. There is little on the data front that suggests a significant improvement in the fortunes on either side of the Channel. Altogether, volatility is to be expected as the Fed lines up for its December meeting.*

Full commentary link:

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=eeff46c7-a2d6-40a5-8447-bd02bd0d496a&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

'Sources of inflation' CBC Radio – Early Edition – *Dec 7*

Guest speaker - from Center for Future Work, attributes inflation to corporate greed of Big Grocery, Big Oil and Big Industry. **6:11 mins**

https://www.cbc.ca/listen/live-radio/1-91-the-early-edition/clip/15953386-new-report-looking-might-driving-inflation

This interview is sadly typical of left wing 'progressive' bias against Big Business or The Rich.

Question: If inflation drives up sees employee wage increases, why are *'workers just attempting to keep up with inflation'*, yet an increase in pre-inflation-adjusted nominal profits is Big (fill in the blank) 'gouging' all of us and should be charged a windfall tax?

Speaking of gouging, if goods rise in cost by 15% over two years, guess what happens to Federal and Provincial Govt Goods and Services tax revenues? Yup. Tax yields balloon, permitting said Govts to crow about 'prudent fiscal discipline'. Where's that Tylenol?

A more likely source of inflation….

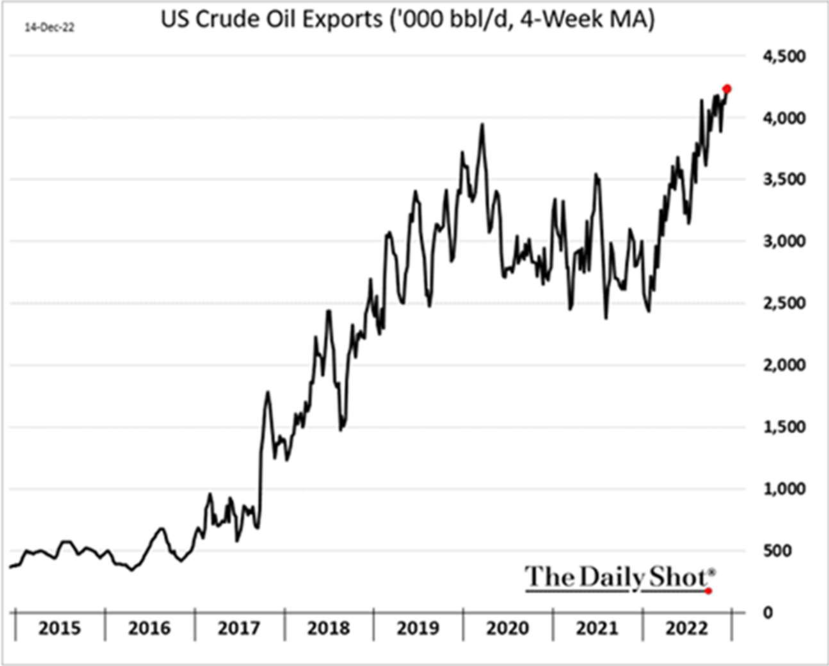
'Russia's attacks on Ukrainian infrastructure - does strategic bombing ever work?' Perun YouTube Dec 11, 2022

Military analyst and YouTube blogger Perun looks at Russia's attempt to pound Ukraine into submission. Be prepared to spend an hour on this one.

https://www.youtube.com/watch?v=CE6RINU8JLg

Moving on to energy and transportation…

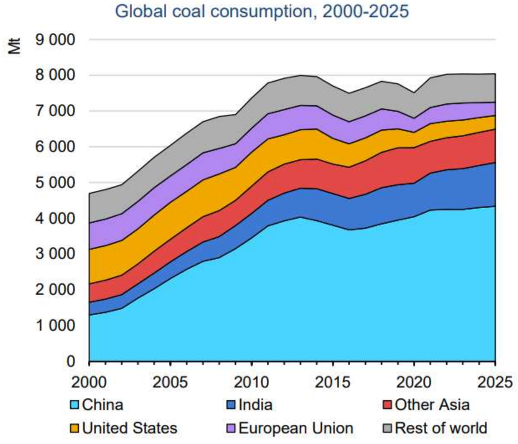
US crude exports hit another record this week.

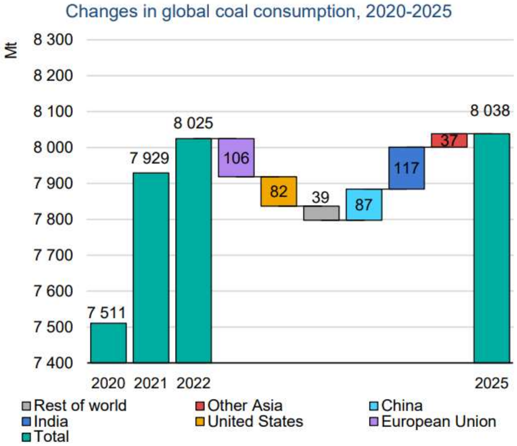


And coal demand in '22 is on track to hit a fresh all-time high. The latest from the IEA notes that coal demand this year is expected to grow by 1.2% to reach 8 billion tonnes for the first time, "*Fossil fuel prices have risen substantially in 2022, with natural gas showing the sharpest increase. This has prompted a wave of fuel switching away from gas, pushing up demand for more price-competitive options, including coal in some regions*".

- While China and India are the two major consumers of coal, the IEA also highlights Europe: *"has been one of the regions hardest hit by the energy crisis, given its reliance on Russian pipeline supplies of natural gas. Lower hydro and nuclear power output due to weather conditions, combined with technical problems in French nuclear power plants, put additional strains on the European electricity system. In response, some European countries have increased their use of coal power generation… Under the threat of gas shortages and potential issues ensuring sufficient power system adequacy, some coal plants that had closed down or been left in reserve have re-entered the market."*

Global coal consumption set to plateau through 2025





Canada's SP/TSX Renewable Energy & Clean Technology Index (XCT-$144.22)

Pollution and future climate change is a problem we've been imagining solutions for. I'm optimistic many are coming. Along the way there have been more than a few liars around. In the above chart, the left-hand starting price is around $150. The spike in the middle of the chart is Jan/2021 at $317 when investors suspended disbelief. At this writing the index trades at $144. Disbelief is back. There may be more lumps of coal to come. There may be opportunity lurking in the dust bin.

Speaking of lumps, client question Dec 12, 2022 "Is Tesla a Buy?"

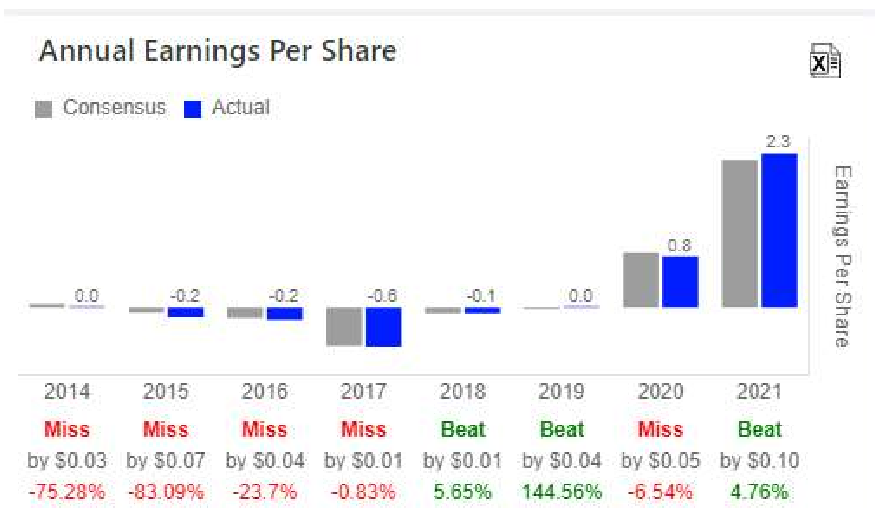
Tesla Inc (TSLA $151.50) weekly ranges Dec/2019 to Dec/2022

The high price spikes on the chart are around $415 in Nov/2021. The stock has been sliding since with lower highs and lower lows. Tesla hit a new 52-week low of $150.04 on Friday. Why? I attempted to answer our client's Dec 12 question in the following reply. The following commentary, prices and valuations reflect that date.

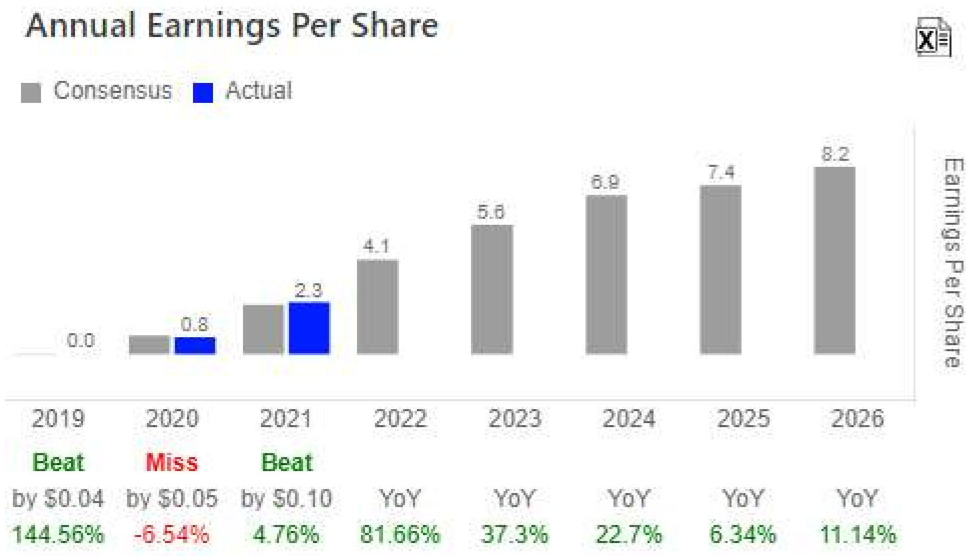
We've been cautious on Tesla for some time. We were very wrong until we were finally right. Tesla is an interesting combination of Big Imagination Ideas blended with political acumen, punctuated with hubris. Mr. Musk has all three. Being neither an auto-industry nor *technology analyst (there appears to be some confusion about which Tesla is) I'll take a shot at a very general view.*

Today's stock prices reflect a best guess on projected earnings. For a given stock's price to rise, investors look for (or should) 'upside surprise' results that beat expectations. If we got what we expected, why pay more? Perversely for market darlings like Tesla, if the company doesn't surprise to the upside, the stock often sells off, implying that the 'whisper' expectation was actually higher than analyst's posted projections. Savvy CEO's know this and often attempt to 'surprise' the market. There's a self-fulfilling, feed-back loop between analysts at major brokerage firms, CEO's of market darlings and investors. Nobody wants the party to end. Mr. Musk is no stranger to this process.

*The next chart plots Tesla's 2014-2021 annual posted earnings per share (blue) vs. what most analysts said they predicted or 'consensus' (grey). Note the large jump in 2021 earnings and the note **'Beat 4.76%'** meaning Tesla's earnings 'beat' street estimates in 2021 by 4.7%. Note the red '**Miss**' entries. Previous years show negative **%'s** meaning Tesla underperformed estimates by those ranges. Net earnings disappointed more than surprised over that period yet the stock price went up. Investors were watching 'cash flow' per share that was rising. Bear analysts challenged those rising cash-flow figures, noting 'cash flow' was significantly impacted from non-sales activity such as free-to-Tesla carbon offset credits, direct and indirect subsidies, State and municipal tax deferrals (Nevada subsidizing the Tesla Gigafactory) etc. As subsidies required government largess vs. net operating cash-flow from selling Tesla vehicles what happens if the political winds change? Mr. and Mrs. market paid up anyway.*



Here is the same format showing 2019 to 2021 annual earnings and consensus, then consensus 2022 to 2026.



Consensus opinion is for a sharp rise in 2022 earnings, moderation in 2023, further moderation in 2024 then unspectacular growth for 2025 and 2026 (green percentages).

Here is General Motors (GM-$39.52) - to 2026.

Ford (F-$13.95)

Stellantis (STLA-14.91)

Nissan (NSANY-$7.07)

And Renault (RNO- 33.39 EUR)

North American-focused car makers, GM, Ford and Stellantis, are projected to see contracting sales in 2023. A 2023 recession would do that.

Nissan is projected to have a strong recovery in 2023 onwards (off a low base) but their recent past has been…lumpy. Renault – has JV's with Nissan - is also projected to see sharp increases in 2023 onwards. The war in Ukraine is weighing on the EURO economy, dragging down Renaults results. The Ukraine conflict ending in 2023 would support improved Renault results. Will the war end in 2023?

Analysts predict Tesla sailing through all of this with little impact. GM and Ford projected earnings percentage growth for 2025 and 2026 are higher than Tesla's.

Let's make a big leap and assume analysts are accurate in predicting Tesla's future. The nearer in time, likely more accurate. Tesla's 2022 EPS is projected at $4.11. Tesla priced at $167 trades at following P/E's vs future earnings per share.

- ***2022: 40***
- *2023: 29*
- *2024: 24*
- *2025: 22.7*
- *2026: 20.4*

Tesla currently is trading at 40 X this years projected earnings and 20.4 X the consensus projected 2026 earnings. That's cheaper than it's been for awhile. Cheap enough to buy?

Here are other auto-makers P/Es based on 2023 projected earnings

- *Ford: 7.0*
- *GM: 5.5*
- *Honda: 7.8*
- *Volkswagen: 5.03*
- *Nissan: 8.47*
- *Renault: 8.37*
- *Stellantis: 2.73 (not a typo)*
- *Toyota: 8.3*

*The average of this group – excluding Stellantis (an outlier) is **7.2X** 2023 projected P/Es*

The market is paying 5.5 times as much for Tesla's 2023 earnings as the rest of the pack. Going out to 2026 (a geological age in the stock market) Tesla trades at close to 3X the current avg Auto P/E. Bulls argue Tesla is a Technology company, not a car company. It's fair to say it's been popular with the technology investors. Tesla's current 40X P/E is indeed closer to major Tech Stocks but is expensive there too. The FAANGs Meta, Apple, Netflix, Google, Microsoft, all trade under 30X 2023 EPS. Only Amazon trades over 40X EPS (84X EPS at this writing). The S&P500 trades around 19X forward earnings. To trade in line with most of the FAANGS Tesla needs to drop another 16-20% - or surprise earnings to the upside by the same 16-20%. A decline to $140 would put Tesla's P/E in line with the FAANGS, $81 matches the S&P500 and $30 prices Tesla in line with the rest of the auto sector. Yikes!

CONCLUSION: Tesla has declined 60% from the high. It is not cheap yet.

Since I wrote that analysis, Tesla has declined 10%.

***'Driving into the Future: Will switching to an EV really save you money?'* Motor Mouth**

https://driving.ca/column/motor-mouth/motor-mouth-these-ev-claims-dont-make-any-goddamn-sense

Did we just witness a breakthrough in nuclear fusion?

***'Nuclear-fusion lab achieves 'ignition': what does it mean?'* Nature.Com**

https://www.nature.com/articles/d41586-022-04440-7

***'Fusion Skepticism Follows a Century of Genius, Fraud and Hype' –* Bloomberg**

https://www.bloomberg.com/opinion/articles/2022-12-15/fusion-energy-skeptics-reflect-a-century-of-genius-fraud-and-hype

How have our portfolio's performed this year?

The following results are derived from our live model portfolios, reflecting all costs. Given individual client parameters and timing of deposits/withdrawals, your results may vary.

2022 Year to date time-weighted returns Jan 1- Dec 15, 2022:

- S&P500 total return index: -16.96% $USD/-9.98% CDN
- SP/TSX Comp Total Return $CDN: -4.95%
- Hilberry Canadian Dividend Growth $CDN: +1.67%
- Hilberry US Dividend Growth: +1.70% $USD/+8.68% $CDN
- **50/50 blend CDN/US Div Growth: +5.17%**

Over the past 12 months the Hilberry Dividend Growth 50/50 portfolio shows 15% higher dividend income. Capital is roughly breakeven after inflation while income is higher. Not exactly sugar plums but no coal yet. Dividends are the gift that keeps on giving.

***How Often is the Market Down in Consecutive Years?'* Ben Carlson Dec 13, 2022**

We think 2023 will be better.

https://awealthofcommonsense.com/2022/12/how-often-is-the-market-down-in-consecutive-years/

We'll close with a bit of optimism in advance of the holidays. Maybe S&P500 delivering 2022 year-to-date lumps of coal will be the gift that keeps on giving in 2023.

'About that Yield Curve Inversion' – Scott Grannis

http://scottgrannis.blogspot.com/2022/12/about-that-yield-curve-inversion.html

Have a Merry Christmas and a Happy New Year

Steve & Anna Hilberry

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FOR THE RECORD Dec 16, 2022

DOW INDUSTRIALS:	32,743
S&P 500:	3,835
S&P/TSX COMP:	19,380
WTI:	$74.32
LOONIE IN $USD:	$0.7303 USD

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