DALIS
DALHOUSIE INVESTMENT SOCIETY

November 2021 | ISSUE NO. 2

The Schooner

November was the first full month of trading for The Maritime Fund this semester. A number of great trades were executed across all the portfolios. However, the trade of the month goes to our Fixed Income group with their short position on the Turkish Lira.

Position: Sold 15.8MM Turkish Lira on 10/25/21, on this date the Lira spot was 9.56. Proceeds from sale of Lira amounted to $2,091,898 CAD. On 11/29/21 the Lira spot was at 12.86; it would take $1,574,170 CAD to cover the short. This makes the current P&L equal to CAD 517,727 or 32.88%.

Rationale: Turkish President Recep Tayyip Erdogan has been pursuing an unconventional rate-cut policy; one in which he believes cutting rates is good for inflation. Him and his party have an ideological bias against high interest rates based in Islam. But this has led to Turkish inflation reaching 20%, and the currency is further getting hammered as more households flee the Lira as they are seeing their purchasing power decrease. As of now about 59% of all retail bank deposits in Turkey are in foreign currency. This is somewhat of a death spiral as a weaker Lira also drives up the cost of importing raw materials and energy, furthering inflation. Overall, we made the trade because Turkey was inherently in a bad economic situation which warranted a drop in its currency.

Shashank Mukundan, Fixed Income PM
BComm'22

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ALUMNI SPOTLIGHT:

Evan Johnson

Head of Economics, Plant Dynamics

Go Outside

Few things in finance and business are more devastatingly pathetic than the lack of general knowledge amongst white-collar professionals. Take investment bankers for example. Sure, they can rattle off industry comps, wax poetically about some proprietarily adjusted CAPM algorithm, or mutter a few words about general strategy. But increasingly they know next to nothing about what happens beyond the realm of Microsoft Office.

What do I mean here? Well, let's take a finance-minded undergraduate student at a grand institution such as my beloved King's – actually, given the hypocritical communism of that student body – let's go with Dal instead. There you have students who are told from day one that they ought to specialize and focus on where they want to work the day after graduation. You have eight months of classes and then it's game time. Wanna work on Bay Street? Buckle up kiddo it's time to start applying for those summer analyst roles.

The fortunate few who land institutional finance roles spend their days – and most of their nights – pumping through models and pitchbooks pertaining to companies and industries they may have never even heard of before. After sixteen weeks that feel like nine years, the summer analysts waddle back to school where they focus their efforts on getting back to the proverbial grind. For those who do not make it to the Great Satan of Ontario on their first try, it's a process of rinse, lather, and repeat. This time with fingers doubly crossed hoping the applicants from Ivey or Rotman biff it this year.

Now, there is often the refrain that while would-be and current investment bankers do, in fact, understand the broader world because their analysis is so star-spangled awesome as to reflect self-education through exposure. This claim is a load of – as Joey B would say – malarky. To think that financial models reflect the underlying operational reality of a given firm is to mistake the map for the country. Sure, I *know* what France looks like because I've seen it on Google maps but once I step out of the arrivals concourse at de Gaulle it hits me that the land is whole lot different from what I saw on my screen.

Allow for a concrete example here. Recently I was on a call with an institutional investment fund whose team of the day consisted of folks with pedigrees from Yale, Barnard, Northwestern, etc… They were walking through their version of analysis regarding an agricultural venture. The model looked like every other model I've seen. These folks were pretty proud of their analysis. Why shouldn't they be? It looked right. Except of course, it was based on pure delusions.

The entire model relied on the assumption that aggregate consumption of a particular staple crop in the United States was going to increase by 5% annually. How is this seemingly trivial assumption delusional? Well, if they had delved into the USDA's databases for all of 12 seconds they would have seen that consumption of said crop has been in decline for over a decade with no reason to imagine a drastic turn of fortune. Not to mention that the American population itself tends to increase by only 1% - if that – per annum. So where was the demand going to come from? Even the ever-expanding waistlines of our neighbours to the south have limits.

What these allegedly well-educated professionals had done was wave their hands in the air, seen that Bloomberg didn't have the data they wanted, and then made a guess that 'seemed right' to them.

The reason why the assumption was so wrong was that they had never been outside. These folks had done nothing in their lives except throw elbows to get into the upper echelons of finance. None of them had been to a farm, let alone thought to themselves that perhaps the USDA is primarily a statistics gathering and publishing entity. They approached agriculture through the lens of finance as opposed to viewing finance from the perspective of agriculture.

For a wonderful example of this failure to learn something outside of Excel look to everyone's favorite scam – Theranos. There you had seemingly galaxy-brained people both investing and sitting on the company's board with no idea what they were doing. Imagine thinking that a Stanford drop-out was going to create a miracle box of blood tests that anyone with the dynamic duo of MD and PhD could've told you was impossible.

Why did they invest? Because the pitch deck looked really good. I imagine the model they shared in terms of due diligence was equally 'dank' – as the kids say. But it was all fairy tales and pixie dust. Just a group of finance professionals and corporate executives acting blindly in the face of reality due to a lack of real world knowledge.

But I get it. The system is broken. Undergrads have to go out and hustle for the analyst gigs because if they don't do it now then the industry will pass them by. God knows MBAs are in an even bigger scam of a hustle – but that's a tangent for another day.

So, what's my advice? Go outside, read a book, or get a part time job doing something other than pushing paper. Perhaps more poetically, go live. Sure, the folks from the institutional investment fund were well compensated, but they're imminently replaceable. Let one of them crash their electric scooter and a thousand resumes will appear. You want to be uniquely valuable? Go cultivate deep knowledge about the real world. Then, if you still want to, go to Bay Street and make the investment bankers look like the empty suits they are. Don't believe me? Go ask Prof. Nason about his time in Fort Mac or his days as a hair model in Abilene.

Book Review: Think and Grow Rich by Napoleon Hill

Quinton Luck

There's a reason Think and Grow Rich by Napoleon Hill often hits those '10 business books you must read' lists; simply put, it's just a great book. It takes the classic motivational concept of "you can do anything if you put your mind to it" and really sells you on it.

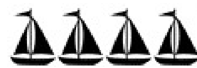
Think and Grow Rich goes over the "money-making secret" that is attributed to Andrew Carnegie. For those who don't know who Andrew Carnegie is, don't fret, the books got you covered. All you need to know about him going into the book is that he's got, as the cool kids say: *bread, lots of bread*.

I don't want to dive into specifics of the book because I think part of the experience is letting yourself apply each concept to your life however you see fit. This, in my opinion, is an area the book excels at. It emphasizes not only what to do, but also how to do it. I will say, however, that the opening paragraph on the power of 'Thoughts' sets the tone pretty well.

Something I found interesting while researching this book for the review is that, as legend has it, Napoleon Hill never actually met Carnegie. Supposedly, Hill was just incredibly good at making stuff up and as a result, he also got that *bread* by writing a wildly successful book. When thinking on it, however, I think even if that's the truth and Hill never met Carnegie, I can't be too mad. It would be hard to say that the book doesn't succeed at what it set out to do, which is sometimes all you can ask for.

In addition to the content of the book being simply, scrumptious, you can become a proud owner of it by shelling out a whopping $8.99 at your local Chapters. Now, that's $8.99 for the mass-market paperback version, which quite frankly is a book format that always scares me. At the ripe age of 22 I already feel like the text is too small, but honestly the length of this book lends itself nicely to the format. It really is a great deal, and all in all I would say there's no reason why you shouldn't buy it.

I would give Think and Grow Rich by Napoleon Hill 4/5 DALIS Boats



Interest in Jeff Dahn's Battery Lab Charges Up

Matthew McKee

To deal with climate change and power the cars of tomorrow, we first need to address the cobalt problem. Most batteries in use today are manufactured with a large reliance on cobalt, a mineral that poses significant environmental, financial, and humanitarian concerns. Over the last decade, Jeff Dahn's lab at Dalhousie University has continued their research into cobalt-free lithium-ion batteries. Recently, Dahn's lab has generated interest from

both academics and industry leaders as the search for a better battery continues.

Dr. Dahn and His Lab

For close to 40 years, Dr. Dahn has been at the forefront of research and innovation in battery technology. His work in the space has contributed at the fundamental level to the batteries that power our phones, computers, and electric vehicles. Dahn's battery lab on Dalhousie's Studley campus concentrates on the physics and chemistry of materials for energy storage. Dahn's lab has focused its research on lowering battery costs while subsequently increasing the energy density and calendar lifetime of the batteries. Dalhousie's battery lab has become the world leader in advanced battery technology and has drawn major interest from other academics and industry leaders.

Growing Interest

Professor Jeff Dahn has been well celebrated in the field of batteries, and with good reason, as he holds more than 73 patents and has co-authored over 730 papers. Dahn and his battery lab have had an exclusive research partnership with Tesla since 2016 and with the extension of their contract this past June, the partnership will continue into 2026. This year has also seen Dahn's battery lab receive $3.1 million in funding from Tesla Motors, $2.9 million from NSERC, and over $1.1 million from the private firm Novonix.

Created by a former graduate student working in Dahn's lab, Novonix has become a leading integrated developer and supplier of high-performance materials, equipment, and services for the global lithium-ion battery industry. After being founded in 2012, Novonix has operations in the USA and Canada and sales in over 14 countries. While Dahn and his team continue to work alongside Tesla, Dahn announced in February that he planned to become the Chief Scientific Advisor at Novonix as the company scales up their research to develop and supply world-leading materials to the lithium-ion battery sector.

Looking Ahead

The transition from internal combustion engines to electric vehicles is coming faster than most would have expected. For investors seeking to ride the influx of money into the EV sector, there are a variety of options depending on what part of the value chain they want to play in. As researchers like Dr. Dahn continue developing cheaper and better performing batteries, investors need to decide whether sentiment has surpassed commercial reality or whether it's merely the early days of a supercharged battery future.

Are EVs Climbing a Never-Ending Mountain or Racing Around the Edge of a Steep Cliff?

Nick Francis

Electric vehicles have undoubtably been amongst the fastest growing industries in recent equity markets. Particularly in the second half of 2021, company shares have reacted aggressively to everything from innovative projections and impressive earnings to CEO tweets and social media hype.

This past year has been a fascinating time in the automotive industry. We see excessive amounts of undeliverable inventory and companies falling short of production targets, but counterintuitively market caps growing at exponential rates. The unsolved question that investors have on the sectors bull market is how attainable the growth is, resulting in uncertainty on short-term trajectory.

Who is in the Race?

Competitive analysis on the sector is by no means a simple process with massive players such as Tesla, Lucid Motors, Rivian, and Ford all experiencing exorbitant returns for independently unique reasons.

We are now seeing Tesla exceed gains of 84% over only 6 months, reaching a market cap of $1 trillion and descended a P/E ratio to 355 from just shy of 1400 at the beginning of the fiscal year. In late October, a $4.2 billion deal involving Hertz to purchase 100,000 vehicles from Tesla generated $119 billion of market value for the EV giant; showing the true effect that even a singular contract has on the current market. These numbers alone demonstrate success for Tesla but do not display the industry doubt of many investors due to levels of uncertainty on true intrinsic value.

Speaking of investor uncertainty, we are seeing companies with little to no revenue skyrocket on expanding hype and management partnerships. For context, 2021 vehicle delivery projections of two industry leading companies Lucid Motors and Rivian are only 577 and 1,000, respectively.

Regarding unprecedented growth performance, the recent IPO of Rivian takes the cake with an initial valuation of $77 billion, but soon trending upwards of $150 billion at its peak in only 6 trading days. In additional to being U.S. largest company by market cap with zero operating revenue, the Amazon backed giant's value surged past several credible automotive manufacturers including Ford and General Motors.

On flip side of things, the EV space is now seeing veteran manufacturers adapt to the environmentally friendly route of transportation. Dating back to 1908, Ford made travel accessible to the middle class by providing comparatively affordable automobiles. After continuing to set and adapt to trends over the years, they have yet again shifted their business plan with attentiveness on development of electric vehicles in attempt to capitalize early on market share. Just six months ago the company set ambitious goals of allocating $30 billion by 2025 into EV development and predicts that by 2030, 40% of Ford vehicles sold will be electric. Ford has also continued to beat earnings as they recently reported actual third quarter EPS at 0.51, 88% higher than estimated. Consequently, shares are up 47.34% semi-annually to date. This demonstrates real returns being created by allocating funds into growth opportunity and how traditional fundamental and technical analysis projections can still be accurate.

Where is the Finish Line?

Predicting the trend of the industry's short-term market is without doubt a slight gamble. The lack of correlation between income and share price returns can cause conflicting mindsets and confusion by analysts who conduct estimates. However, the related equity market will continue to develop as an influx of EV infrastructure companies enter the space. Sustainable improvements in resources such as batteries and charging stations are crucial to the growth of the sector. By 2023, there is an estimated $100 billion of EV related IPOs to hit the market, opening opportunity for bullish investors to capitalize.

Approaching a macro perspective, the push for environmental sustainability will continue to be apparent in today's economy. We can expect to see implementation of government restrictions on the use of emissions, leading to impressive long-term upside potential for this innovative form of transportation.

The Big Tech Breakup

Ben Walch

The calls to break up Big Tech are getting louder, and they're coming from all directions. The main concerns being voiced are that these companies are in custody of large amounts of personal data, that they have excessive sway over the lives of their users, and that they operate in monopoly markets, but is this enough to break up the mega-cap technology companies?

Democrats and Republicans, surprisingly, have been working in unison to do so. In June, a bipartisan group of House lawmakers announced five bills aimed to reinvigorate competition in digital markets by making it harder for dominant firms to acquire other businesses and outlaw certain discriminatory practices, among other measures. Many Americans agree with this. Meta platforms has $2.91 billion active monthly users. Amazon accounts for nearly 40 percent of all e-commerce spending in America. Google gets more than 92 percent of global search engine inquiries. Apple has a $2.64 trillion-dollar market capitalization, which, to put in perspective, ranks seventh largest on the list of country's annual GDP.

Although it is quite clear that these companies have established monopolies, is there anything that can be done at this stage? In America, to do so, they must have violated laws in ways in which an appropriate remedy would be to break them up. The best case against them would be monopolization, yet you're only guilty of monopolization if you've attained your monopoly by means other than providing a better product at a better price, which will be difficult to prove. Look at Google. People want to use it because it's free and provides the best information. Look at Meta platforms. People are addicted to their various social media offerings as they are a part of an online community and have customized feeds suited to their interests.

The only possible basis for monopolization would be if any of these companies violated anti-competitive practices in their respective field, which helped them attain monopoly status.

The best case for this currently lies against Amazon. This suit claims that the company had effectively blocked merchants from charging lower prices for the same products elsewhere online. That, in turn, raised prices for those products not just on Amazon's website but also in other marketplaces. The AG of Columbia states that "It maximizes its profits at the expense of third-party sellers and consumers while harming competition, stifling innovation and illegally tilting the playing field in its favour." Although the case is still pending, if successful, I still don't even know if this would be enough to break up their businesses and may only result in a fine.

For this reason, I don't believe big tech will be broken up unless companies are found guilty of multiple anti-competitive suits that helped them attain their monopolies. However, we will see legislation introduced in the coming years that enhances consumer protection and adversely affects the advertising business model. This route has been pursued in Europe, where they have a privacy policy called the General Data Protection Regulation (GDPR). This piece of legislation treats privacy as a fundamental human right, enhancing protections around personal data and limiting the ability for large tech firms to target advertise. GDPR applies to all data, all forms of personal data, whether it's extremely sensitive, like your health data, or less sensitive, like whether or not you clicked on an ad. These laws have worked out well in Europe as they have established a standard set of rules for all tech-related firms and have enforceable consequences for violators. The introduction of these laws in Europe sets a precedent for North America and I believe that as pressure grows on politicians to rein in the power of these technology firms, we will see similar pieces of legislation being passed here.

Dividend Increases and Buybacks Galore

Alex Saratsiotis

Canadian largest banks have accumulated approximately $30 billion in extra capital since the Office of the Superintendent of Financial Institutions (OSFI) instated its freeze on dividend increases and share buybacks at the beginning of the pandemic. Four weeks ago, OFSI lifted the freeze but cautioned that the banks act responsibly regarding dividend payouts.

Scotiabank started the earnings season party with an 11% dividend increase and a share buyback plan which allows the Company to buyback approximately 2% of its shares outstanding in 2022. RBC announced an 11% dividend increase and a plan to buyback just over 3% of its shares outstanding. National Bank announced a dividend increase of 23% and is awaiting approval to buyback up to 2% of its shares outstanding.

Scotiabank beat EPS estimates by 10%, while RBC and National Bank fell short by 4% and 1%, respectively. TD, CIBC, and BMO are reporting later this week.

Year to date, the Solactive Equal Weight Canada Bank Index has a total return of 34%, outperforming the S&P/TSX Composite Index by 12%, but underperforming the Solactive Equal Weight US Bank Index by 7%.

The Big 6 Canadian banks are currently trading at 1.7x book value and 10x forward earnings, the highest levels since Q1 2018. I believe that there is still plenty of value in the Canadian financials sector as of today.

Rick's Rant
Rick Nason, PhD, CFA

Investment Wishes From The Bald Fat Grinch Who Desperately Needs a Haircut

Firstly, I wish for massive non-operational service disruptions for all discount brokers that advertise that by simply switching to them that you achieve your investment goals solely due to their lower trading fees. I wish for service disruptions that leave investors accounts safe and sound but destroy emails about Christmas parties and send year end executive bonus transfers to an untraceable Bitcoin account. The evidence is clear that the more you trade, the worse your investment results – regardless of fees. Encouraging excess trading helps no one, so this Grinch wants brokers who exist solely from flow payments to receive only coal this Christmas.

For all drunken investors who take their COVID inspired government handouts as free money for investing like they are gambling "with house money", I wish for a lifetime of really bad trips to Las Vegas complete with statistically remote losing streaks combined with food poisoning from too many comped meals. While no one, not even this Grinch, begrudges those receiving government assistance when it is so desperately needed by so many, that does not mean it is "free money" and thus should be trivialized by thoughtlessly investing in #memestocks.

For media pundits who always state with extreme confidence what will happen to the markets I wish a life of really bad hair days and may their expensive ties and scarfs be magnets for mustard stains for all time. I also wish for them to have a permanent piece of spinach stuck in their teeth. (Wait, did I just accurately describe Mad $$$'s Jim Cra%er ?!) Just because you are glib with a toothy smile and a polished look does not mean that you can foresee the future better than anyone else. Investors need thoughtful analysis with humility that lays out possible scenarios that help them make better decisions that explicitly acknowledge the risks and uncertainties that are an inherent part of any investment. False certainty in the moment for the sake of a great media soundbite or tweet (or sound effect) does not make for the construction of a sound investment strategy.

For COVID and all its variants, I wish that it collapses as quickly and as completely as Nortel. Likewise, may climate change go the way of the Vancouver Stock Exchange. (Look them up kids ...)

For all investors who believe that more money in their account is the only thing standing between them and happiness, I wish for them to grow a brain. Confusing investment wealth with happiness has to be one of the most misguided beliefs of the entire investment industry. Admittedly, all else being equal, more wealth is generally better than less wealth. The issue is that all else is never equal, and generally, generally never happens. (After writing that butchered sentence, I wish for better sentence construction skills for me ...)

For the rest of you, I wish for peace, happiness, and mostly green investment statement results, with just a small smattering of red for color and to keep you humble.

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