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The Schooner

After a year online, DALIS is back and so is The Schooner! If you are unfamiliar with the society, DALIS manages a mock portfolio called the Maritime Fund, wherein we execute sophisticated trade strategies involving debt, equity, and derivative instruments across global sectors. In terms of leadership, our society is comprised of a team of executives, eight portfolio managers, and eight analysts. More importantly, our general members, whom we have over two hundred of this year, work extremely hard to develop and execute trades within their respective portfolios. Trades must align with DALIS' investment policy and are backed by original research and analysis. Over the year, hundreds of detailed investment theses will be drafted and submitted. The most interesting and best-performing trades will be highlighted in future Schooner editions.

One of the main goals of DALIS this year is to engage Dalhousie alumni with current students to create a network that both students and alumni can leverage throughout their careers. Keeping this in mind, we will be publishing this monthly newsletter to highlight trades, portfolio and fund performance, research we conduct, spotlighting our most active members, interviewing alumni, and, lastly, seeing what Dr. Rick Nason has to say during his "Rick's Rant". As President of DALIS for the 21/22 academic year, I am excited to strengthen the network of the society within the finance industry while continuing to build our strong reputation and alumni network.

Carter Cranmer-Smith, President
BComm'22

A GLIMPSE OF WHATS INSIDE:

2021/22 Team

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DALHOUSIE INVESTMENT SOCIETY

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Spencer Osborne
EXECUTIVE


Quinton Luck
EXECUTIVE


Alex Saratsiotis
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COMMODITIES


Josh Franchuk


Aidan Wood


Alex van Nieuwkoop


Elias MacMillan

FIXED INCOME


Shashank Mukundan


Emmerson Mcnamara


Ian McKee


Arsh Merchant

DALIS' Macro Outlook on Rates

Spencer Osborne

Rate changes have been a dominant topic in finance as Fed policy has become more important than ever to the current climate of the markets. Because of this, most investors have kept a watchful eye on rates and inflation. Traders made it evident as rates kept slowly creeping up that they didn't believe the Fed's story about inflation being transitory. Today with inflation running wild these traders have been proven right and it seems that it needs to be acknowledged as over 40% of firms in Canada see inflation being in excess of 3% for multiple years into the future. Compound this with the Canadian Fed looking at rate hikes sooner than expected, quantitative easing slowing, a housing market that is (figuratively) on fire, and equities constantly hitting ATH. Throw in a little pandemic supply shortage, a couple energy crises, FOMO (fear of missing out), and TINA (there is no alternative), and we start to see the market as it is today. However, with high inflation and a Fed that is shifting to being more hawkish, an alternative enters again for everyone to place their retirement funds back in bonds.

As rates increase DALIS predicts a transition of funds back into bonds and of course higher loan rates. This will provide downward pressure on equities and the housing market. This increase will also affect the risk-free rate, hurting valuations and especially those of high growth markets as DCFs suddenly give a lower valuation. This creates unique opportunities in both the fixed income and equities space. In equities for example we can look to capitalize off this with long exposure business models that benefit (or are neutral) raising rates and going short growth companies. In contrast there is the opportunity to capitalize on the spread changes and lowering treasury prices as the Fed starts to take their foot off the gas.

In the coming year we can expect increased volatility of equities and bonds around the time of policy and rate changes as the global community attempts to dig themselves out of the hole the pandemic places us in and attempt to go to normal policy. Fortunately for DALIS, this presents opportunities to come up with creative positions to capitalize on the volatility and speculation.

Book Review: The Bonfire of the Vanities by Tom Wolfe

Quinton Luck

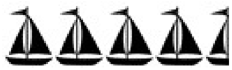
Tom Wolfe drops the reader into 1980s Wall Street with ease in this incredible book that still finds itself relevant today. In this tale about ambition, greed, elitism, and prejudice, it is difficult to sympathize with some of the characters, yet easy to be entirely invested in their story.

We follow "Master of the Universe" Sherman McCoy, a successful Wall Street bond trader, in his downward spiral after an incident in the Bronx leaves a man in a coma. Sherman then has to navigate his relationships with his wife, child and mistress while also facing tension from prosecutor Larry Kramer in court and journalist Peter Fallows; a man looking for his 'story' of a lifetime.

These supporting characters, in addition to District Attorney Abe Weiss and others, all have ulterior motives for their actions. The conflictions of these characters hook the readers further into the story as we see how each of these motives guide their actions over the course of the book, for better or for worse.

Initially I was motivated to read this book as a way to learn more about what Wall Street looked like in the 1980s, but upon reading I quickly realized there was substantially more to this story. I saw reflections of todays social tensions and political climate spread across the pages, and would recommend this read to anyone if they are looking for a good drama to dive into. The only unfortunate thing is that the 1990 movie horribly miscast Tom Hanks and Bruce Willis, and this is coming from a guy who doesn't think Christmas is complete without watching Die Hard.

I would give The Bonfire of the Vanities by Tom Wolfe 4.5/5 DALIS Boats



Replacing Bonds in a Low Yield Environment

Noah Latimer

Ever since worries about COVID-19 rocked markets back in 2020, there's been lots of talk about the 'death of bonds' in the news. I'm not going to argue that such talk is true (let's not forget Businessweek announced back in 1979 that equities were dead), but I thought I'd write a piece about an interesting new security that was recently brought to my attention: structured notes.

What are they?

While there are many different types of structured notes, I'm going to focus on autocallable coupon buffer notes because of their similarity to bonds & their potential attractiveness to students who dabble in investing.

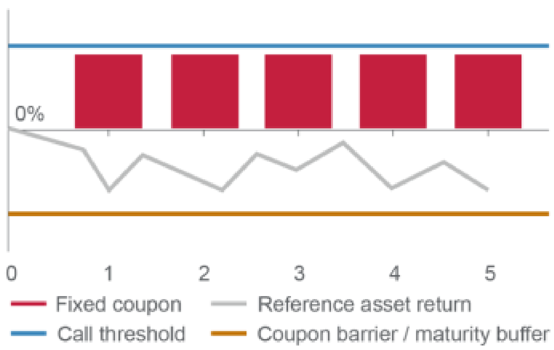


Figure 1: Possible autocallable coupon buffer net return

Autocallable coupon buffer notes offer investors the ability to receive fixed coupons payments that are linked to the performance of a reference asset while also providing contingent principal protection at maturity. Imagine an investor purchased a note with a reference asset of a basket of 5 bank stocks. A possible return schedule is shown in Figure 1. As long as the return of this reference asset (usually dated on a fixed schedule annually) does not drop below the coupon/ maturity barrier shown in orange, the investor will receive a fixed coupon payment even if the return on the reference asset is negative. At the end of the note's term, the investor will have their principal returned & receive their final coupon payment, again assuming the coupon/ maturity buffer is not breached.

If the return of the reference asset were to rise above the call threshold, the investor would receive their coupon payment & have their principal returned and contract terminated; hence 'autocallable'. If for example the return of the reference asset were to drop below the coupon/ maturity buffer in year 3, investors would not receive their coupon payment for the third year. If by year 4, the return of the reference asset had risen back above the coupon barrier; an investor would receive a coupon payment for the fourth year. Assuming the investor held the note until maturity, they would only sustain a loss of their principal investment if the return of the reference asset remained below the maturity buffer. This loss would be relative to the return of the reference asset.

Where's the value?

The value lies in the numbers. On the day of writing this, I could buy a bond issued by Scotiabank for $102.78 with a coupon of 2.29% (maturing in ~ 5 years) or I could buy a Note with a reference asset of Canadian bank stocks for $100 with a contingent coupon payment of 5.5% that has a coupon barrier/ maturity buffer of -20%. I think it would be fairly easy to argue that for many investors there's more value in this structured note than the bond.

DALIS
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Is SPUT the Start?

Aidan Wood

The uranium market has seen a massive run in the last few months with spot U3O8 (yellowcake uranium) reaching a new high of US$51 per pound since the August 16, 2021 low of US$30.16. On August 16, Sprott Asset Management solidified the takeover of former investment vehicle, Uranium Participation Corp, with a US$300 million At-the-Market (ATM) financing prospectus to be used for the purchase of physical uranium. SPUT proceeded to upsize this to US$1.3 billion, and has since helped to propel uranium out of a decade long consolidation.

A Brief History

Uranium prices have been in a bear market for the last decade after Japan's Fukushima disaster in 2011. Prior to this, uranium witnessed a massive bull run from 2005 to 2007 where prices went from US$21/lb to US$139/lb in August, 2007. A smaller bull run then occurred in 2010 as Cameco's Cigar Lake mine suffered from flooding, deeply diminishing global supply expectations.

Flash Forward

The uranium market is tighter than ever as low prices have disincentivized companies from exploration, development and any opportunities for major new production. Global uranium consumption is estimated at around 167 million pounds per year, while production in 2020 was only 124 million pounds (WNA, 2021). This has led to the market operating in a supply deficit of approximately 43 million pounds last year and averaging 30 million pounds annually since 2017 (WNA, 2021). Government and company stockpiles have managed to bridge the gap over this time period but it seems inventories are drying up.

To further throw fuel on the fire, a global push for decarbonization and green energy has rapidly expanded throughout the world. With concerns around renewable energy sources being unreliable, countries are lobbying for nuclear power like never before. The Biden administration has taken a pro nuclear stance with a portion of the US$2 trillion infrastructure bill directed at reactor construction. China is currently developing 18 reactors as part of their plan to become carbon neutral by 2060. Even Japan, who had largely shutdown nuclear since Fukushima, has stated that their carbon goal of reducing emissions by 46% by 2030, involves the restart of 30 reactors.

Sprott Physical Uranium Trust (SPUT)

Now let's take a look at this new Sprott vehicle. Sprott acquired Uranium Participation Corp in July, 2021, and has since rebranded as the Sprott Physical Uranium Trust under the ticker symbol, TSX: U. They initially filed a prospectus for an ATM financing for US$300 million, and less than a month later, upsized the package to US$1.3 billion. This means, on any given day that SPUT trades above a 1% premium to NAV, they can issue new shares to reduce the premium and buy more U3O8. The fund has no policy for the sale of uranium so any pounds bought, are basically stuck in a warehouse and out of access to utility companies and traders. Since launched, Sprott Physical Uranium Trust has increased NAV from US$600 million to US$1.7 billion in less than 50 trading days. This represents an acquisition of 17 million pounds since August 16, or in other words, 90% of France's uranium consumption for the year of 2018—a country that generated 72% of their power from nuclear in 2018. The 17 million acquired, could also be observed as a 39% increase on 2020's supply deficit of 43 million pounds.

What's Next?

As utility companies enter the next contracting cycle, spot prices will serve as a benchmark to reevaluating long term price commitments. Contracts are coming off, and utilities have been taking advantage of short-term prices by buying in and around spot price for next to nothing. Not anymore. The supply and demand fundamentals are incredibly intriguing for anyone long in the uranium industry, and very concerning for anyone not. The news seems to get better everyday with new announcements of reactor construction, and new investments into uranium—such as Kazatomprom's backing of a new physical fund. All of these factors continue to shock supply, while demand grows at an increasing rate creating a massive opportunity for uranium investors.

Monthly Market Recap

Alex Saratsiotis

Equity Markets Push Higher

Equity markets bounced to new all-time-highs following a sluggish September. Inflation fears, concerns on slowing growth, and supply chain issues were shrugged off as the S&P 500 and TSX Composite Index gained 6.7% and 4.5%, respectively.

Winners

Tesla gained gained 43.1% in October, bringing the Company to the elite trillion-dollar market cap club. Outstanding Q3 earnings despite global chip shortages, price target raises from Wall Street, and a large agreement with rental car giant Hertz pushed the stock up.

Spotify gained 27.5% after the Company reported better than expected Q3 earnings. Advertising revenues were up by 75% YoY because of the growing popularity of podcasts and better ad targeting.

Nvidia shares climbed by 23.2% following the announcement of the GeForce NOW RTX 3080 membership, which would allow users to stream over 1,100 games at high video quality and 120 FPS. Facebook also announced plans to boost spending on data centers, servers, and network infrastructure which investors expect to strongly benefit Nvidia.

Losers

Snap Inc. shares fell by 29.7% following rough Q3 earnings and guidance. Apple's privacy changes and global supply chain disruptions hit Snap's advertising business hard.

Virgin Galactic shares fell by 25.2% in October after pushing back the dates of both a crucial test flight and the start of their commercial services.

PayPal fell by 11% in the month after news broke out that the Company was exploring the acquisition of Pinterest. A few days later PayPal said in an update on its website that it is “not pursuing an acquisition of Pinterest at this time.”

Commodities

WTI crude futures gained 21.3% over October on growing confidence that OPEC+ would maintain production cuts. Oil has also been gaining on the global shortages of coal and natural gas.

Steel futures fell by 17.6% in October falling to a 7-month low after investors fear intervention from the Chinese government to cool down rising commodity prices. Economic data from China also points to an economic slowdown within the construction sector, which accounts for 25% of domestic steel demand.

Fixed Income

Canada's 10-year bond gained 23 basis points climbing to 1.7%, a level not seen since January 2020. This rise is attributed to signs of earlier-than-expected interest rate hikes. The U.S. 10-year gained 10 basis points climbing to 1.6%.

S&P's U.S. High Yield Corporate Bond Index gained 20 basis points, now yielding 4.65%.

Chinese property giant Evergrande managed to pay off a last minute interest payment of US$83.5M to avoid default for now. Evergrande's 2022 bonds are now trading for 30 cents on the dollar.

ALUMNI SPOTLIGHT: Christian Thomas DALIS President 18/19

Q: Can you tell us about your role at TD?

I work on the corporate bond desk at TD Securities. In short, we facilitate the primary distribution of corporate credit securities, commonly referred to as new issues. We then provide liquidity in the secondary market for the trading of said new issues. My role specifically on the sales and distribution side of the business is focusing on managing client relationships and acting as the middle person between my clients and our traders. I have a wide mix of clients in both Canada and the US which include everyone from hedge funds, to insurance companies to some of the more traditional asset managers.

Q: What's your current take on the fixed income markets?

In short, the Bank of Canada is a bit of a tough spot right now. They're facing some complicated data shocks including a string of weaker than expected GDP misses while CPI inflation continues to run hot.
What I'm watching at the moment is the output gap. Think back to ECON 101, it's the gap between the real output of the economy and the potential output of the economy. Once that gap closes back to pre-pandemic levels, that's when we'll see what we're calling here at TD "rates liftoff". Our house view right now in terms of the timeline is that we think the first hike will be in July 2022, followed by one hike in October 2022 and one in January 2023. I'd say the street views are varied. One of our competitors just recently called for four hikes in 2022 and another four hikes in 2023. Personally, what I'm watching is for that output gap to close and once it does and the Bank of Canada feels that we're in a sustained economic position where the economy can tolerate rate hikes, we'll see rates lift off... likely in the second half of 2022.

Q: What are three pieces of advice you'd give to current DALIS members?

1) If you have absolutely no idea what you want to do... don't be discouraged. In some ways I feel like I'm still figuring that out for myself which I think is what excites me so much about the job market we're all walking into. I read somewhere that our generation is expected to have 5 separate careers... not jobs, careers. One great place to start if you're trying to figure out where you may want to start your professional career is to look around your professional community which, for the most part, is going to be likely in the Rowe and/or DALIS. Identify people in senior years that you view as a role model or someone you see traits in that you admire and talk to them about their experience/co-ops/where they've worked. It will be a great place to start and oftentimes, they will actually be the "gate keepers" to their previous co-ops jobs so it could be an intro that lands you a job.

2) Do not discount the power of the Dalhousie and DALIS network. I can look around and pick out easily 20 people right now off the top of my head that have what some would consider to be "top jobs" on Bay street across asset managers, investment banking and sales and trading. There are of course the long-standing senior-leader alumni "champions" but for the most part it is a young, hungry and ambitious alumni network that is making serious strides. Key takeaway here is don't ever feel like you don't go to a "target school". I'm telling you, from personal experience, that the Rowe has an exceptionally supportive network so reach out and ask to get a coffee or set up a call and who knows, it might just land you a job. Worst-case scenario, you leave with some great advice and a new connection which brings me nicely into my last point...

3) Bet on yourself. I can remember countless times I would wish/wash between sending that networking e-mail, stopping to shake someone's hand or speaking up. Let me tell you, the only times I have ever regretted doing so, are the times I didn't. Every time I've taken a chance on myself it has been a positive outcome despite how personally challenging and sometimes awkward it's felt – it got me in the door at TD, sent me to work on a trading floor in London right out of school and it landed me a job that I genuinely enjoy. So that would be my number one advice, believe in and bet on yourself because when you do and start, others will as well.

Rick's Rant
Rick Nason, PhD, CFA

What a weird time to be a finance professor. Meme stocks, negative interest rates, NFTs, SPACs, RTOs, trading apps better suited to celebrating the birthday of a 6 year old, crypto volatility and this COVID thing to boot. In case you wanted more, we have the Roger's family giving us a real life made in Canada governance drama that makes the fictional Ewings look like a non-dysfunctional family (a nod to the readers of a certain age).

But some things still make a ton of sense: like DALIS for instance. DALIS is off to a very strong start this year and it is my honour as a finance professor to be along for the ride. It would have been easy for DALIS to waste away during COVID, but actually the opposite happened – it got stronger. Despite COVID (or perhaps because of the ability to watch recorded lectures at double speed) DALIS has thrived, and the reason is the desire of the DALIS participants to learn about this crazy and fascinating industry that we call capital markets and investing.

DALIS gives students a chance to practice and learn finance in a student led environment that is radically different from the traditional textbook / sage on the stage approach. Furthermore, DALIS is radically different from every other student investment fund in several important ways. DALIS is a hedge fund. As portfolio managers and as analysts, DALIS participants study and invest in an incredibly broad and wide array of assets.It is drastically different from the wearisome large cap stocks investing of virtually every other student investment fund. True – DALIS is a paper-based fund, but that is not a limiter; it creates freedom. It is the freedom to not only explore different asset classes, but also different strategies that create much deeper learning than simple buy and hold of large cap stocks (which let's face it, are increasingly being managed by bots or managers acting like bots with only the rare Reddit mob temporarily crashing the party).

The main difference of DALIS though is that it is completely student led, and completely voluntary without the benefit of course credit. It has been that way from the start. The current Executive Team of DALIS has done a fantastic job and it shows in the level of engagement of the students. It also shows in how the investment ideas are getting bolder, better analysed, and more creatively implemented. There is an incredibly high level of enthusiasm at DALIS meetings. It can be quite intimidating as a freshman or sophomore to have a torrent of finance ideas being presented by your older peers as they tell of their co-op experiences on trading desks or their experience gained through extensive independent research. It kind of makes finance class and the CAPM mathematics seem quaint!

So, keep watching for The Schooner. I am highly confident that you will be rewarded! (Another legal finance term that again, only readers of a certain age will appreciate.)

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