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THE SCHOONER

The official newsletter of the Dalhousie Investment Society (DALIS)

DALIS' Philosophy

The Maritime Fund aims to generate outsized returns over an eight month trading period by embodying multi-pronged long/short investment strategies to allocated asset classes. The fund is comprised of a diversified set of sub portfolios including North American Equities, International Equities, Commodities, and Macro Trading. Each group applies its expertise to seek unidentified opportunities, exploit market inefficiencies and hedge market risk in order to generate high risk adjusted returns.

Each group utilizes fundamental analysis to identify securities that are currently priced far below their intrinsic value. We apply low risk strategies to undervalued securities to create a hedge while Portfolio Managers utilize high risk derivative strategies to capitalize on volatility. Investments within equity groups are largely focused on small to mid cap securities that typically present market inefficiencies. We have established that markets around the world are not directly correlated, and as a result we have divided equity groups amongst geographical region, capitalizing on domestic, international, and emerging markets. Our commodities portfolio provides exposure to the extremely large commodities market through trading derivatives on raw materials and other fungible assets. The Macro Trading portfolio invests in a wide range of securities including bonds, futures, options, and currencies in order to provide a return based on the world's macro-outlook. The Macro portfolio also acts as an indirect hedge for the Maritime Fund against unprecedented economic events.

As a result of the short-term approach, the Maritime Fund is exposed to great amounts of risk and must be extensively monitored. To mitigate the risk, we have structured the portfolio to maximize diversification within asset classes and thus reducing the Maritime Funds overall risk. Prior to entering any position, extensive analysis is performed to create a structured investment thesis outlining entry/exit points, investment catalysts, and alternative opportunities, which ensures the quality and soundness of each executed trade. Each Portfolio Manager is responsible for micro hedging their individual positions to reduce the funds risk exposure.

The Maritime Fund has an investment process with a robust management approach that allows us to minimize risk while continue to benefit in volatile market conditions. Our framework combines multiple sources of quantitative and qualitative analysis to establish asset allocation, monitor risks, and to meet our goal of generating substantial returns.

A glimpse of what's inside:

DALIS
DALHOUSIE INVESTMENT SOCIETY

Alumni Spotlight: Stefan Wippel

'20/21 DALIS President

Can you give us a brief overview of the various roles you've had at TD?

My first co-op at TD Securities was in 2019 as a Sales and Trading Associate on the Money Markets desk. It was my first co-op in Dalhousie's Commerce Co-op program. The desk deals with fixed income instruments that mature in less than a year. Some products are banker's acceptances, commercial paper, short-term bonds, and repo products. I then returned to TDS in May 2020 for my summer co-op. I completed my summer co-op on the Money Markets desk, while also working with the Corporate Credit desk. I was offered a full-time position in the Global Markets Rotational Program at the end of the summer. The program provides rotators the opportunity to work on various desks and gives them exposure to many of the products the dealer works with. My first rotation was in Fixed Income Sales on the Vancouver team, which covers Canadian corporate/provincial/municipal/government bonds and money market products. I am currently on the Derivative Solutions desk in Toronto. The desk provides custom solutions to clients by originating various derivative products, such as interest rates swaps, cross-currency swaps, and bond forwards.

When did you know you wanted to work in Sales & Trading? How did you know?

I knew I wanted to work in S&T during my first co-op. The nature of the work is very fast-paced, and teamwork focused. This is something I resonate well with, having played competitive sports my whole life. The products are all interesting, and not a day goes by where I don't learn something new. There was one morning that stands out during my first co-op, where phones were ringing off the hook, and the desk was dealing with tons of client requests (for a lack of better words, the desk was buzzing). I remember thinking to myself how exciting a work environment the trading floor is, and how I was honestly having fun at work - all while being challenged. It's an environment like no other, which I find stimulating. After completing my first co-op, I knew I had just touched the tip of the iceberg, and there was so much more to learn, and I wanted to do so.

What is one thing that surprised you about working in sales & trading?

One thing that stood out immediately was the willingness my coworkers have to teach. We've all seen the movies and heard the stories of working on trading floors, where it's ultra-cutthroat and no one has a second for you. Don't get me wrong, there's a right and wrong time to ask questions. It is an extremely competitive industry, and you have to bring your a-game. But with that said, if you work hard and put your best foot forward, the people around you are more than happy to share their knowledge of the industry and help you succeed. This is something that holds to this day and is one of the things I love about my job.

What aspect of DALIS contributed most to the development of your career?

Sounds cheesy, but the people. Sitting in Rowe 1020 on Mondays as a first year was eye opening. I heard 3rd and 4th year students speak fluently on topics that frankly, I had no idea even existed. This set a benchmark and showed me that it is achievable to be in that position by my fourth year. What is so key about DALIS, and what holds true to this day, is that upper year students with experience in capital markets and finance are more than happy to share their experience and help any member of the society understand a topic or concept. Those upper year students from my first couple years in DALIS had a massive impact on my career, and still do.

If you could give three pieces of advice to a DALIS member looking to pursue a similar career, what would they be?

- Get involved but don't overstate your involvement: 95% of people applying for finance jobs was/is a member of their school's DALIS equivalent. Sure, it shows a surface interest in capital markets, but it can just as quickly work against you. If you're in an interview and have "active member of DALIS" on your resume, when all you've done is sit in a couple meetings and pretended to not scroll on Instagram, you might as well leave it off. Interviewers can tell in two seconds if you participated in the society. If you only have time to sit in on the weekly meetings, that's OK. Just be upfront on your involvement, or you'll dig yourself into a hole.
- Pitch Ideas: Yes, it's intimidating. I get it, I've been there. To my fault, I also didn't pitch as many ideas as I should have. Find a topic/security/industry that you're interested in, research it and bring it up at your next group meeting. Worst case, you get it wrong and learn from it. This is something you can bring to interviews and will pack 10x more of a punch than just attending meetings.

- Broaden your resume: DALIS, reading finance books and pitching the next best stock are all amazing, but get involved in other extracurriculars/hobbies too. Almost all my interview answers in university came from extracurricular experiences, many of which were not DALIS. If someone hires you on their team, I'm sure they'd love to know that you are not only well versed in finance, but also well-rounded. You will bring a unique skillset and experience to the team.
- Talk to upper year students and the DALIS network: DALIS and its alumnus (generally Dal Commerce as a whole) have a fantastic mentorship environment. While it's not structured per se, finding an upper year student in DALIS or an alumni and asking them for a chat to shed some light on their experiences is always welcome. Not only will it teach you something about the industry, but the next time an upper year student or alumni sees a job opening, your name might come to mind.

Are FAANG Stocks Still Bulletproof?

Nicholas Francis, Co-President

Both institutional and retail investors have relied heavily on mega cap tech stocks to generate compounding returns over the past decade. The acronym FAANG was popularized by CNBCs *Mad Money* host, Jim Cramer, and refers to the five tech giants: Meta (FB), Amazon (AMZN), Apple (AAPL), Netflix (NFLX), and Alphabet (GOOG). Despite many critics stating that the bulk of the companies are overvalued, they have all continued to multiply in value as a result of being prominently dominant in industry leadership. The five equities now create nearly one fifth of the S&P 500, and one third of the NASDAQ 100.

With the exception of a correction in the second half of 2018 and a bear market throughout the 2020 pandemic, FAANG stocks have held trustworthy in providing growth to a portfolio throughout the last eight to ten years. However, with Meta and Netflix leading the pack, FAANGs are accountable for more than half of the S&Ps YTD decline and have been experiencing volatility highs, which has caused investors to question if FAANGs are bulletproof after all. Earnings are able to provide insight into company performance regardless of speculation, and has proven to be beneficial to some companies, and not so great for others. Let's focus in on the current state of Meta, Amazon, and Netflix and identify factors that indicate where they may be headed.

Meta Platforms Inc (FB)

Formally known as Facebook, Meta Platforms Inc rebranded in October 2021 and has shifted their focus to innovating the technology space into a legitimate escape from reality. This ambitious goal has already proven to cause market volatility due to common misunderstandings of Meta's intentions. By purchasing many subsidiaries including Instagram and WhatsApp, Facebook has proven its ability to utilize cash flow for expansion. But investors have raised uncertainty on how the fourth quarter's $10bn investment into virtual reality projects will create true value.

For anybody who has been keeping an eye on tech earnings, you will have noticed that FB has reacted harshly to releases. Even with beating revenue estimates, the company fell short of their EPS and had $230bn (-26.39%) of value wiped on February 2nd, following their Q4 2021 release. Outlined were reports of a decline in daily users from 1.930bn to 1.929bn, demonstrating that investor optimism strives from activity growth. The drop in users was largely due to TikTok's capture of market share, specifically targeting a younger demographic which relocated attention away from Facebook and Instagram.

The management team at Meta established that user growth was the key metric of their business and amplified daily activity to 1.96bn users compared to estimates of 1.95bn. Additionally, EPS beat estimates by 8.21% which pumped the share price 17.59%. Since all-time highs in September, FB share price has fell 49% which has caused the lowest price-intrinsic value ratio since its IPO, with analysts stating that it is currently priced 20% below its true value.

I believe that FB will continue to experience inconsistent volatile performance throughout their business model transition. They will have a difficult time retaining users due to the competition's market share growth. This will be the case until Meta can provide a product that customers rely on daily, and investors can understand. Mega cap tech stocks can create risks for traditional investors who rely on aspects of fundamental analysis opposed to speculation and growth projections. I would suggest limiting exposure to FB over the short term if you are a value investor. There is the exception of applying high risk derivative strategies; for example, a straddle option around an earnings release, trusting that the stock will swing largely in one direction. (Warning: As I tell my sports betting friends, know your limit... play within it)

Amazon (AMZN)

Regardless of whether you need an online product at your door the next day or want to complain about profit seeking CEOs, Amazon is most likely the company that you will turn to. Coincidentally, Amazon is also a company that investors have turned to for remarkable returns. Over the past decade, Amazon has generated a 1512.90% return, once again proving the strength of the FAANG frenzy.

Amazon has struggled to overcome economic catalysts such as weak logistics and record inflation over the past year, correlating with missed earnings and poor returns. Despite a great year for growth stocks, Amazon only managed to generate a 2.38% gain throughout 2021. Now this is mainly due to the global supply chain disruptions that have taken large tolls on the e-commerce industry. Approaching 2022, Amazon took a gamble on an Electric Vehicle manufacturer IPO. Rivian went public with a valuation of $68bn, which Amazon made substantial investment into that has since created a loss of $7.6bn. Amazon reported a first quarter net loss of $3.8bn which fell $8.2bn short of estimates. Share price tumbled 13.31% the following day as a large sell off occurred.

Although I have been outlining the poor performance over the last year, I don't necessarily think that Amazon has turned itself into a sinking ship. Amazon currently holds over $36bn in cash with a 1.28T market cap and expects to see further increase once they perform a 20-1 stock split in June. With Amazon currently trading at $2532.01, the stock is only accessible to those with larger amounts of liquid cash, often institutional investors. Following the split, the $127 stock price will open the flood gates for retail investors to get their hands on the equity. This will most likely spike the price of shares up, but often soon falling back down due to a pump and dump approach by institutions.

Overall, Amazon has struggled due to economic uncertainty that has and will continue to impact operations over at least the next quarter. The company continues to create massive amounts of cash flow and remains seeking investment opportunities. With improved supply chain conditions and minimizing high risk equity investments, Amazon will be able to meet the demand of its customers and profit will return to estimated levels.

Netflix (NFLX)

Whether you have used the service to binge watch a series by yourself or have ever needed to count on a wingman, you have most likely thanked Netflix for being there for you. Now if you have been a shareholder of Netflix year to date, being grateful might not be the first thing that comes to mind. Netflix shares generated a decade return of 7060.34% prior to all-time highs in November 2021, contributing to the history returns on the FAANG portfolio. However, NFLX has since taken a 68.32% hit year to date and has many investors contemplating whether the company will ever recover.

When the pandemic hit in March 2020, equity markets struggled as most business' limited operations. Netflix however had the competitive advantage from global communities being forced to stay in their homes, pumping shares 62% in the first four months of the pandemic. Leading the transition from traditional television to streaming services had proven to be beneficial, but admits that competition over the last 24 months has intensified because of the influx of additional streaming services such as Disney+, AppleTV, Amazon Prime, Hulu, etc. Since highs in November, government regulations began dropping and the demand for an online streaming service has correlated. Another point of focus entering fourth quarter earnings was sales projections since the company announced a near 10% increase in subscription price. Netflix had estimated user growth of 2.5m users over the first quarter, but fell short to even create a gain, losing 200,000. And if that wasn't enough to shake investors, they have since warned shareholders of an additional 2 million less users by the second quarter. The stock took a 35.12% hit following first quarter earnings.

So, here's the question, is NFLX a lost cause? With a decline in daily users and consistent loss of market share, Netflix is no longer the streaming monopoly that it once was. Having put Blockbuster out of business in 2014, they have demonstrated their ability to innovate an industry in the past. However, in a saturated market, Netflix needs to provide the cheapest subscription fees to retrieve their market share which is contradicting their current operation approach. I would be surprised to see significant growth within this equity and do not believe that enabling exposure to the stock would be beneficial until they shift their business model.

So What Now?

All in all, FAANG stocks became popular nearly a decade ago and have provided colossal returns to both institutional and retail investors. The issue however occurs when investors have a bulletproof perspective on these mega cap tech stocks, holding too much exposure and feeling repercussions of volatility in a bear market. This has been proven throughout the start of 2022.

I don't believe that passive investors will benefit from obtaining a mass amount of exposure to FAANG stocks over the short term. Passive management creates the most stable returns when the portfolio obtains a diversified asset allocation. Exposing yourself to commodities and fixed income instruments can hedge against tech holdings. Active investors may however be able to apply derivative strategies to equities such as Meta and Amazon, but keep in mind risk correlates with reward and these stocks have proven to be unpredictable at times.

Is it Time to Jump Ship?

Thomas Fallows, General Member

The travel sector has been hit heavily by the pandemic and from that it has been one of the slowest industries to start showing signs of a recovery. Carnival Cruise Lines has been at the top of my watchlist for a while now, however now I feel it may be time to swim back to shore. Travelers are fearless there's no doubt about that. As soon as the Center for Disease Control let the sails free, Carnival experienced the busiest booking week in the company's 50-year history. Despite this, Carnival is still not recommended as a buy. But the question on the table is what shape is Carnival in, and can they get back to their pre-pandemic highs.

Let's dive a bit deeper into past cyclicality of the company's stock, to then truly assess the stock as cyclical or not. Typical to all travel companies, cruise lines hold a lot of fixed overhead costs causing them to be very sensitive to economic downturns. Looking back on the company's history, in 2007 CCL's earnings per share stood at $2.95, the next 5 years post great recession EPS fell -47% to $1.58 in 2013. A decline of earnings per share of that magnitude is substantial, and for that reason I would categorize Carnival as a deeper cyclical stock then it may seem. Differentiating deeper cyclical stocks from cyclical is important. For deeper cyclicals the company will react much more violently to economic downturns. Which is dangerous as companies like Carnival will give off an attractive P/E ratio at the beginning of an economic downcycle, before the company gets hit hard. Back to the example in 2007 Carnival held an attractive P/E of 16 before the stock got hit, then went on to take nine years to recover that EPS later in 2016. The fundamentals don't sell me on the stock; therefore, I'll see what the company's historical price action reveals about CCL's performance.

Carnival currently trades 70% below pre-pandemic highs, a decline similar to what the company saw before the great recession, which noted, took over half a decade to recover. However, during the years of the pandemic 2020, 2021 and 2022 have proven to be the worst years in history for the stock. Carnival is expected to lose a net $17.00 a share from the total impact of the pandemic, a loss of money the company has never encountered before. That loss is nearly equivalent the money CCL made during the five years leading up to the crash in 2020, practically taking away any gains from 2008/09 investors. It looks like Carnival will need half a decade of positive returns just to break even from their loss throughout the pandemic. For buyers now that may be more appealing if Carnival continues to experience high demand, soon profits will turn over, and we may see the stock climb back up to the $40 level. Optimistically that upside would be a 15% compounded annual growth rate which would sound promising, however I feel the stock won't move that fast because of Carnivals debt.

My final concerns lie within the debt the company has taken over the recent years which magically kept their ships afloat. High levels of debt can be a major burden on future company earnings which will slow down the recovery of the stock. Coming out of the 2008/09 recession Carnival collected quite a bit of debt, nearly hitting $10 billion in 2010. The debt levels stayed very steady throughout the following decade until 2020 when debt shot up to over $33 billion within two years. That change in debt brought CCL's debt-equity-ratio from 0.5 to now 3.38. Meaning that Carnival is leveraging a lot of their assets through debt which opens higher risk for investors. What this also means is that Carnival will have a slower recovery from the pandemic recession compared to the 2008 bottom. Now even looking optimistically forward as travel returns, I don't see a recovery taking place until the 2030's. I do believe that travel will stay at its highs for a while now as consumers are released after two years of restrictions however, Carnival took on a substantial amount of debt that will require some time before the stock recovers.

Although CCL trades at a very good discount to previous years, the company can't be valued the same. Carnival took a while to build back from the 2008/09 recession but, 2020 has been much harsher as the company carry's triple the amount of debt. Carnival isn't a complete sell; however, I don't believe it will bring strong midterm returns. Over the long term yes, the company may have potential. Within that time however, I would prefer to find other innovative industries that have better potential in the midterm range that also provide less volatility than Carnival Cruise Lines. Safe Sailing.

Why Companies Should be Allowed to Own your Genes

Noah Hitzig, Co-President

Today's food supply relies heavily on one break through in science, being able to sequence genomes and identify areas to modify. As a result, producers such as Monsanto have been able to provide the world with seeds that are more resilient during a drought, immune to herbicides or even grow rice

that contains more vitamin A, to help avoid vitamin A deficiencies that kills millions around the world every year. The problem with genetically modifying food, is that it is expensive to develop. In order to encourage companies to develop what can in some cases, be life saving food supplies, governments around the world have let food producers to patent the genomes of their seeds. This allowed them to recuperate their investment, as it means anyone who keeps seeds from prior years are abled to be sued, thus allowing them to sell their genetically modified seeds year after year.

The science breakthrough that has taken the food industry by storm also allowed us to sequence the human genome, and identify pieces that could cause problems in the future. For example, in 1994 a group of researchers from the University of Utah, discovered two genes, that if mutated, raised the chance that that person would develop breast cancer during their lifetime, to 80%. However, the good news was that the gene could be tested for, thus being able to increase early recognition and reduce the mortality rate. However, since then, the progress on research to identify problem causing genes has not kept pace with many other areas in the genome sequencing space.

The trailing development in the sequencing of the human genome can be traced back to those researchers from the University of Utah. After discovering the genes that could predict breast cancer, they decided to form a company and patent the gene, literally. They filled a patent that's entire content was a sequence of letters that represented the composition of the two genes. This allowed them to have a complete monopoly on the testing around the world. However, as you can imagine, there was a large opposition to allowing a company to own something, that is part of people's bodies. Following a long court battle, the United States Supreme Court ruled unanimously, that patenting a human gene is not allowed. With this decision, investments and in turn research for the human genome slowed and so did our discoveries of new problem causing genes.

Although having companies own genes is not a perfect solution, it will drive investment in the chase of profit. Whether that is moral or not, it could save countless lives with new discoveries and proactive treatment. Instead, we are too concerned with the details and technicalities, that is ultimately holding us as humanity back form living longer and happier lives. In most cases, letting competition and the pursuit of profit run free will give the best results in the quickest time, and it is time we let that happen in the human genome space.

Recession Warning!

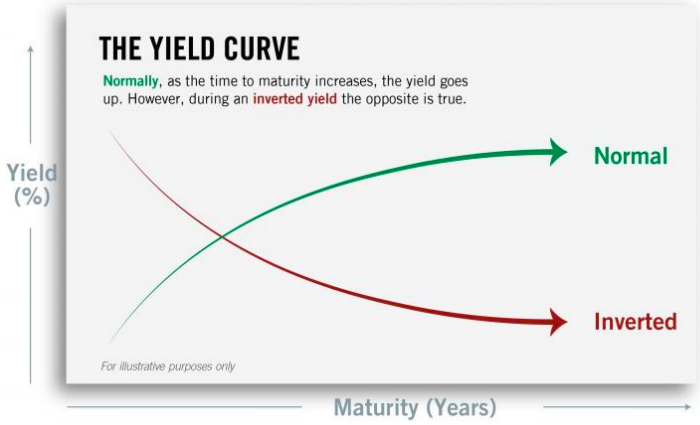
Is The Sky About to Fall?

Max Barrow, General Member

Once again, the recession signals are beginning to flash: yield curves are briefly bouncing in and out of inverse territory. Investors around the globe are bringing many different perspectives to the table and it can be difficult to know who is "most right". An inverted curve occurs when yields on longer-term debt fall below those of the near-term debt. These circumstances often prelude a recessionary period - contradicting the Federal Reserve's alleged "soft-landing".

The Treasury Yield Curve

The yield curve is an upward sloping graph that suggests that over time, the yield of a US treasury bond should increase at a decreasing rate. When inverted, the function appears to have some negatively sloped areas between different maturities, meaning that the longer-term bonds (which are considered higher risk) are less rewarding and the short-term bonds (lesser risk) are more rewarding. Think of it as locking up your money for a longer period, for a smaller return.



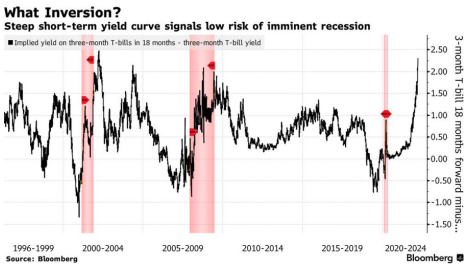
The inverted yield curve became a recognized recession indicator in 1986 in a thesis written by a financial economist at Duke University named Campbell Harvey.
He concluded that the low-risk U.S. treasury bond markets would be the most accurate way to predict upcoming economic movements. These spreads have proven reliable in doing so: yields have inverted before each of the 7 major U.S. recessions since 1960 and have had only one false alarm.
While treasury yields are considered a recession warning system, they do not create nor guarantee that one will occur. Rather, they give investors an idea of the overall market's perception of the economy in the near future.

Recession, Not Depression

On a macro level, a recession is defined as two consecutive quarters of negative growth. The National Bureau of Economic Research defines a recession as "a significant decline in economic activity that lasts for more than a few months". This differs from a depression: an extreme recession that lasts three-plus years or a decline in a country's real GDP of over ten percent. When yields invert, do not assume we are on the brink of the next great depression.

What's Happening Now?

Recently, two-year and ten-year yields as well as the five-year and thirty-year yields have briefly inverted. The Federal Reserve tends to focus on the spread between three-month and ten-year yields, which have not yet inverted. Thus, maintaining a sense of optimism within the markets and the central bank. The negative spread comes as the Federal Reserve lifts rates from the near-zero level maintained throughout the pandemic. This aggressive pace is an effort to fight high inflation since COVID-19's inauguration. Currently, inflation rates are sitting at approximately 8.5% and 5.69% in the US and Canada, respectively; well above the 2% target.



This article is not to suggest that we are in the preliminary stages of economic slowdown, rather, it is to ensure that investors are aware of the signals and are prepared for whatever economic conditions lie ahead.

The Do's And Don'ts

When the warnings flash, many investors tend to overreact and make spur-of-the-moment decisions. It is critical to employ knowledge and experience to back yourself "off of the ledge". Panic and fear can drive one to extremes and force one to make decisions one would not otherwise make.

Take a deep breath – make a plan, think it through, and consider alternative actions before execution.

As Nathan Meyer Rothschild said, "Buy when the cannons are firing, sell when the trumpets are blowing." It may be wise to apply this theory to your portfolio when faced with the possibility of a recession. When the markets begin to decline, investors often make rash decisions and sell sinking stocks, locking in the loss. One tactic is to hold your breath and wait it out – taking the passive investing or 'buy-and-hold' strategy. If possible, one could also attempt to buy the dip. There are a handful of investors who incorporate buy and hold strategies and have proven to outperform the so-called "market timers". Warren Buffet, chairman and CEO of Berkshire Hathaway, is one of the most renowned buy-and-hold investors and has built a fortune north of USD 120 Billion.

Recession-Proofing

The term "recession-proofing" may sound silly to some, but it can be achieved from the very inception of a portfolio. There are multiple approaches to keep your investments as sheltered as possible in the event of a recession, including diversification, rebalancing, a long term horizon, and arguably most of all: patience.

When structuring a portfolio, shares in large companies with steady cash flows, low multiples, and dividend payments, tend to fair well through choppy conditions. Companies with market dominance and pricing power are typically strong as well. Certain sectors tend to be a haven during recessions while still providing returns in normal growth periods. Consumer staples such as food and beverages, healthcare, and household goods, are necessities and will experience continuous demand regardless of economic conditions. It may be wise to avoid higher-risk investments that are highly leveraged or have significant exposure to risky underlying assets.

The Bottom Line

As of now, there are only signals of recession, not a guarantee. As I mentioned previously, this article is not to suggest that we are in the preliminary stages of economic downfall, rather, it is to make investors aware of the signals and how to be prepared. A high-quality portfolio will most likely survive recessionary periods when coupled with passive strategies. The three-month and ten-year yields have yet to invert so the sky is not quite falling. In the coming months, watch for lagging indicators, which are indicators that confirm the inverted yield curve's theory. Regardless: when the recession signals are flashing, DO NOT PANIC!

Is Gold really an Effective Inflation Hedge?

Jackie Clegg, Executive

There is no doubt that over the last two years and notably since the start of 2022, there has been a significant amount of uncertainty within the global markets. A common risk that has been on the top of investors and consumers' minds is the 31-year high inflation levels that have been eating into profits or simply making trips to the grocery store significantly more expensive. Historically, a common hedge against inflation has persistently been to purchase gold.

Gold has been hailed as a hedge against inflation as it is priced against the US dollar. Therefore, many economists believe that as the purchasing power of money declines the value of this real commodity will increase. Nevertheless, analyzing historical data it is found that gold may not be a perfect hedge against inflation as it has a mixed track record during past inflationary periods.

During the timeframe of 1980 – 1984, hedging inflation risk using gold was ineffective as the Canadian economy's average inflation rate was hovering around 8.7%, while the value of gold during this time declined by 10%. Similarly, from 1988 -1991 gold yielded a negative return for investors by approximately 7.6% while inflation rates were averaging around 4.9%. This spotty track record is causing analysts to worry that gold may be an ineffective way to protect investment portfolios from rising price levels, as there is no guarantee that gold will earn sufficient returns to offset the losses faced from inflation. Economists have also found that over the last century, the statistical correlation between inflation and gold has been low, floating around 0.16. These metrics test the statistical extent to which gold and inflation are related. A correlation of zero indicates there is no relationship present, whereas a correlation of one means the variables move together. This positive correlation metric further highlights the basis risk (the risk associated with the mismatches in a hedged position) that is present when using gold to offset the losses from inflation, as they do not have a perfect inverse relationship. This data indicates that it may not be wise for investors to buy gold purely with the intention of protecting oneself or shielding one's portfolios from high inflationary levels.

What about Today?

With all this in mind, the question remains how gold is performing as an inflation hedge in today's high inflationary environment. The answer is clear, gold is an imperfect hedge against inflation. While the price of gold skyrocketed early in the pandemic, as the price per ounce rose by nearly 25% in 2020. Unfortunately, this has not been the case more recently. In 2021, inflation rose above the target, averaging 3.4%, gold; however, declined in value year over year by 3.4%. As of March 2022, inflation was at 6.7%, whereas the annual change in gold prices was a mere 3.43% far below the level of inflation. As of the final week in April, gold has continued to fall to a two-month low and many large banks have pessimistic views on the returns of this commodity while inflation is being forecasted to remain well above target. This poor performance of gold as a tool to combat inflation, is further deteriorating this metals reputation as a hedge against inflation risk.

Other Investments that can be used to hedge Inflation

With inflation still being a prominent issue, as it is expected to be above target for quite some time, it is important to consider other asset classes that have a more consistent reputation for hedging inflation risk. The most notable being investments in REITS (real estate investment trusts) and the commodities market. During the 1980 - 1984 as well as 1988 -1991 era when gold underperformed it was found both REITS and the overall commodity market on average yielded returns above that of inflation, meaning that they were a more effective inflationary hedge.

As a result of the booming real estate market in 2022, many of the top performing REITS are offering dividends to investors above 6%, proving it to be still a strong investment that can contest losses from price level changes. Additionally, the commodity market has been extremely volatile throughout the year with many commodities reaching record high prices and increasing in value at rate faster than inflation. Some commodities to keep an eye on throughout 2022 is Nickel which has increased by 91%, Crude oil up 63.78% and Uranium up 81.99% year to date.

While inflation is posing a major challenge to investors as well as the public, there is still a significant amount portfolio managers can do to hedge against this risk, as well there are still many profitable investment opportunities that can be leveraged within the market.

Cheaper Childcare: First Appearances can be Deceiving

Abby Desveaux, Vice-President

Childcare is not a Luxury Good

It's without question that childcare in Canada is crazy expensive. To get a feel for just how expensive it's getting, let's look at the median annual fees for childcare across Canada. Even in smaller cities, like Fredericton, childcare costs are burning holes in wallets.

Median Annual Fee of Childcare (2020)

Toronto - $22,394
Halifax - $11,481
Vancouver - $13,980
Edmonton - $12,600
Fredericton - $10,020

To give context to these numbers, consider the median market income for Canadian Economic Families in the same year (2020), which was $84,200.

Childcare is not a luxury; It is a necessity. Given the 2020 numbers, it's understandable why the Liberal government proposed a plan to reduce the costs of childcare and provide equitable access to quality care across the country. The message is promising but I fear that the results, at least from an economic standpoint, won't deliver.

Trudeau's Plan to Deliver $10-a-day Childcare

On Monday, March 28th, Ontario signed a national child-care agreement with the federal government to bring $10-a-day childcare to every province and territory by 2026, making it the last jurisdiction to do so. The Liberals have promised to deliver a 50 per cent cut in childcare fees next year and deliver $10-a-day care in five years or less.

They urge that the policy will kill two birds with one stone – a social issue and an economic issue. From a social perspective, they promise that by reducing the cost of care, more children will attend out-of-home programs, ensuring that every child in Canada has the "best possible start in life". From an economic perspective, they say it will allow parents, mostly mothers, who otherwise can't afford to work due to the high cost of childcare, enter the labour force.

I think we can all agree that every child deserves the best start in life. But when it comes to increasing female labour force participation, I don't think subsidizing childcare is the right approach. After learning about Quebec's $5-a-day childcare policy in an economics class this semester, I've realized that the relationship between politics and economics is like that of a garden and a gardener. If the gardener (politician), left the garden (economy) to grow on its own, it would become tangled and unkept. The flowers may even die as the weeks go on. For the garden (economy) to flourish, that gardener (politician) needs to tend to it actively and responsibly.

At first appearance, things can be deceiving. If I would have read about this policy four months ago, I would have thought about it differently.

A Lesson from Quebec

In 1997, Quebec introduced a new set of family policies – childcare for ALL children ages 0-4 at $5 per day. The policy change in Quebec gave researchers the ability to evaluate the effects of publicly funded childcare.

In respect to mother's labour supply, the results were underwhelming. The key finding of their research was that there was only a minimal rise in employment of women. This phenomenon can be attributed to two factors; unemployed women using childcare, and a shift from unreported informal childcare to reported formal childcare.

Food for Thought

I do not have a PhD in economics, and I do not have all the answers. The headline of the Liberals plan struck a nerve with me because it related to something I was currently learning in school, and it got me thinking.

- Is 10 the magic number – Could a lower subsidy ($10-$5) work better? Would some of the unemployed mothers who jumped at $5 refrain from jumping at $10? If so, the second factor of why mother's labour wasn't significantly impacted would be reduced; there would be a lesser shift from unreported informal childcare to formal childcare.
- Is the social benefit worth the economic cost? For the average Canadian family who spends over 10% of their income on childcare, would lowering the cost of childcare improve their quality of life? Could the extra money in their pockets help stimulate the economy in other ways? Or would the increase in taxes resulting from the program write-off any potential benefits?
- Is it even achievable given the supply? The plan involves hiring 40,000 more early childhood educators but without increasing wages, how will that be attainable? Canada is already experiencing a country-wide shortage of early childhood educators with many leaving the sector.
- A counterpoint, perhaps the study of Quebec's five-dollar-a-day policy observed in my Women and the Economy class was not extensive enough to make accurate predictions of the future impacts of a similar policy. The policy in Quebec was introduced in 1997, and A LOT has changed since then. Maybe the economic landscape in Canada (and social preferences) have changed enough to make it work this time around.

Japanese Collectable Car Investment

Tac Chatterson, Executive

Drive it off the lot and lose 30% of its value. A liability, responsibility, and only used to get from A to B. While the new car smell may be nice at first, it wears off soon after the excitement of leaving the dealership. The wait time for a new F-150 is over a year, with already built shells awaiting their microchip implants to finally come alive. Even worse, the used car market is massively inflated, with cars selling at prices like the Canadian Black Book doesn't even exist. There is still hope and potentially a worthwhile investment opportunity tailored to those who love boosted engines and a lot of fun.

Apart from learning how to drive on the right-hand side, painfully filling with premium, and searching for parts, Japanese import cars are worth a look. Firstly, Canada has a significant advantage in accessing the Japanese Domestic Market.

Unlike the USA which restricts imports under 25 years of age, in Canada, vehicles that are 15 years or older are exempt from the Registrar of Imported vehicles program. This means Canadians have a 10-year window to import iconic Japanese cars over Americans, giving us the upper hand when re-pricing cars. This market has been booming in recent years and has the whole car industry interested.

Not only do Japanese cars offer best-in-class engineering compared to their USDM peers, but many are auctioned off with low mileage in near-perfect condition. In Japan, the Shaken Law requires car owners to surrender their vehicle for inspection once every two years to meet the most rigorous criteria. Unlike America, Japanese cars are often de-commissioned after four or five years and are set aside for auction. Popularly, out west, enthusiasts have set up businesses that handle the selection, shipping, and paperwork, making it easy to import cars to the Vancouver and Halifax ports.

Historically, car collection has favored American muscle, mainly for the affluent. Now, a new era of collection has formed a less expensive, highly profitable means of flipping cars. For instance, a Nissan R34 GTR sold for $45,000 in 1999, and in recent years, it has been nearly impossible to find one for under $130,000. Now that's on the pricey side, but other Nissans, Subarus, Toyotas, and Hondas are more reasonably priced but are in high demand. Still, any car between 1997 and 2002 is popular among importers and can only be owned within Canada.

Recently, I imported a 2000 Subaru Legacy GTB with 100,000km on the odometer for a mere $5,300. The interior is near perfect, and it runs beautifully. After sitting in the auction lot for a decade, there are some exterior imperfections, but if you're looking to get your hands dirty on the weekends, working on cars is particularly satisfying. Subaru Legacies are currently selling for around $10,000-$12,000 and are expected to appreciate more as they become legal in the states. Japanese cars are super fun, great projects, and an excellent investment.

Rick's Rant: Oops!

Rick Nason, PHD, CFA

Well, that didn't work. Need to try something else. I now know something else that doesn't work. These are all wonderful phrases that lead to progress. We learn through our mistakes. We grow not through success, but through our goofs.

We all know the story of Edison who tried a gazillion different elements for the filament for the light bulb, all of which failed. (Yeah – I know, the number was not a gazillion, and I also know that gazillion is not even a real number, but if you research the quote – which I am much too lazy to do - then you will realize that there are a gazillion different versions of the story with a gazillion different number of different filaments stated and so I am simply going to go with a gazillion. I am sure that Schooner readers will be quick to correct me.) Back to the story, when asked if he was discouraged that he tried so many things that all failed, Edison replied "Heck no! I now know a gazillion things that don't work!" (Or he said something like that.)

Intelligent mistakes lead to learning. We all know that the only people who do not make mistakes are those who do nothing. Actually, that previous sentence is crap. People who do nothing, and thus do not make mistakes, are in fact making the biggest mistake of all; they are dull, intellectually dead, and as full of light as one of Edison's failed lightbulbs and missing out on the excitement of growing and developing as a person and as a professional.

DALIS is a wonderful laboratory for making mistakes.It is an extracurricular activity for those who have a passion for finance and for growing as a professional.It is a club for those enlightened students who want to do things, rather than just know things. DALIS is putting theory into practice and for putting theory to the test.

As a professor it has been a week of grading.Yup, a week of using red pen for highlighting mistakes (and for praising insights). However, as opposed to the classroom and the exams, DALIS is a place where mistakes can become good things (to borrow a phrase from Martha).Mistakes on exams simply fade into a distant memory – quickly forgotten as soon as that first job offer comes in.Mistakes made in DALIS become lifetime guideposts on a lifelong journey of progress and success.

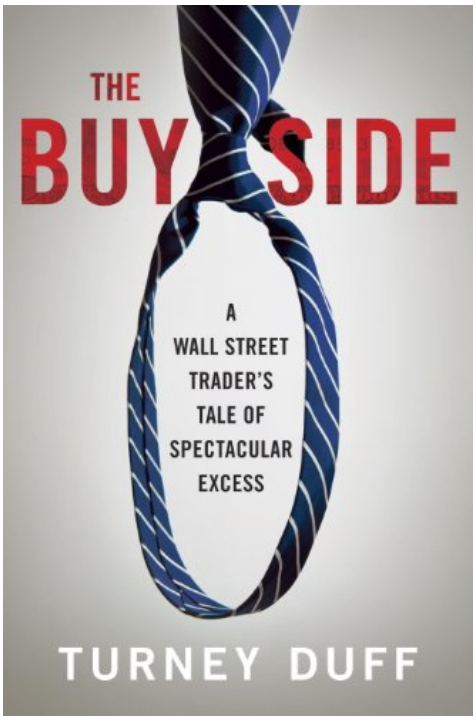
This rant may simply be a self-serving rant, as probably no student has made (or will make) as many mistakes as I have – some of which are truly cringe-worthy. It may also be a self-serving rant as I am "highly confident" (technical finance legal term made famous by that little investment bank DBL that shone a bit too bright a few decades ago) that I will continue to goof up.Feel free to criticize.

I am so excited to start yet another chapter with the new executive team of DALIS. I cannot wait to see the wonderful mistakes they will make and that they will inspire DALIS members to make. Won't you join us in making intelligent mistakes?

Book Review: The Buy Side by Turney Duff

Quinton Luck, Executive

The Buy Side details author Turney Duffs experience on Wall Street. However, it differs from the finance book norm, as Duff meticulously details his excessive partying and ridiculously high drug intake that would even make Pablo Escobar proud. Now, I do want to preface by saying that Duffs stories of partying are not interesting to me just because I am a uni kid and the knowledge of local drink specials could be considered one of my greatest budgeting strengths, but rather they are interesting because they all signify how Wall Street culture played a very real role in substance abuse and addiction.



The Buy Side truly is one part finance book, one part anti-drug PSA, and that spin on the classic formula really hooked me in. There were multiple parts of this book that I genuinely could not believe were real, ultimately, it allowed me to see where Wall Street got its reputation from. All this being said, the book only truly excels because Duff is self aware. He undoubtedly had high confidence in himself, and although it seems like that would result in a book fueled by ego, it somehow remains incredibly grounded. There is a chapter where Duff describes how he fell in love with his future wife which is one of the first times in the book that we see him really open up to the reader. This is just a precursor to his openness to talk about drug addiction. His battle with his cocaine addiction impacts every facet of his life, and at this point it's clear that Duffs drive to succeed on Wall Street is greatly overpowered by his desire to do drugs. It reminded me of a less extreme version of Requiem for a Dream, and man was it frustrating to see Duff make some choices in this book that obviously were not in his best interest. But maybe that frustration is just a testament to how invested I was in this book.

I can't dive, and quite frankly don't want to dive, into more specifics on where Duffs downward trajectory leads him. I don't want to do this because I want you to experience this for yourself. This ones a pretty quick read, but it really is one of the most entertaining finance books I have read in a long time. It's a big recommendation from me, and because of that:

I am giving The Buy Side by Turney Duff 4.5/5 DALIS Boats

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