LIBERTY
International Investment Management

MARKET UPDATE

Q4 | January 1 to December 31, 2021

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The favourite question I like to ask my staff is, "What's the most important thing to understand about the stock market?" To which their correct reply is, "Never Fight the Fed."

When interest rates fall, stock markets do well. Conversely, when interest rates rise, stock markets may suffer.

The logic is that when the U.S. Federal Reserve Bank cuts interest rates, it wants corporations to borrow money cheaply, build new factories and hire employees. This should result in higher revenues, lower interest expenses and higher profits, thus propelling stock market valuations higher. When interest rates rise, however, the opposite should occur. The economy should slow, along with revenues and profits.

This is the story of what happened in 2021 and is illustrated in the two tables below. I broke down, on a quarterly basis, Canadian-dollar total returns (dividends included) for the various stock and bond indexes.

Quarterly Total Returns for Various Stock indexes (in Canadian dollars with dividends re-invested)

STOCK INDEXES	Q1	Q2	Q3	Q4	2021 TOTAL RETURN
S&P 500 Index (United States)	5.30%	7.88%	3.60%	10.70%	27.48%
TSX 300 Composite Index (Canada)	8.68%	9.17%	0.80%	6.50%	25.15%
MSCI Global Index (World)	3.92%	6.93%	2.83%	7.56%	21.24%
Nasdaq Index (U.S. Technology)	1.81%	8.67%	2.46%	8.13%	21.07%
Stoxx600 Index (Europe)	2.90%	6.52%	1.08%	5.60%	16.10%
Russell 2000 Index (U.S. Small-Caps)	11.04%	2.99%	-2.20%	1.88%	13.71%
MXEF Index (Emerging Markets)	0.61%	3.67%	-6.07%	-1.59%	-3.38%

Data Courtesy of Bloomberg L.P.

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In 2021, the big returns came in Q2 and Q4 as interest rates fell, caused by the emergence of the Covid19 Delta variant and then later in the year when the Omicron variant took hold.

A few things to note about the stock market indices in 2021:

- The TSX Composite Index had a great year, up 25%, with the rise of oil prices and other commodities. 35% of the TSX stocks are resource names.
- The Nasdaq Composite Index did well, up 21%, in a lower interest rate environment. These companies need rates low so they can borrow money cheaply to cover their cash burn rates. More than 80% of the listed stocks on Nasdaq have no profits to grow their business, forcing them to borrow more.
- The Russell 2000 Small-Cap Index had a good start to 2021 but faded as the year progressed (up only 13%) because small businesses suffered more during Covid lockdowns. If the index continues to struggle, this may indicate a sluggish year for stock markets in 2022 because small businesses fuel the U.S. economy.
- The stocks in the Emerging Market Index suffered (down 3%) for two reasons – Covid lockdowns prevented any economic growth and a rising US Dollar / falling domestic currency made debt payments more expensive.

When interest rates rose in Q1 and Q3, bond returns fell and stock markets were relatively weaker, thanks to the belief that the Federal Reserve would first taper its Quantitative easing program, followed by an expectation that it would start raising interest rates in 2022 as inflation began to raise its ugly head.

A few things to note about the bond and preferred share market indices in 2021:

- While vanilla bonds had negative returns in 2021, inflation-protected bonds, or real return bonds (ZRR in the table) were up. Liberty actually doubled its holdings in March in inflation-protected bonds and the investment worked out favourably.
- Rate-reset preferred shares (ZPR in the table below) jumped because they did well as interest rates rose in 2021. Investors bought these securities on the expectation that coupons would rise when these preferred shares reset after their fifth year.
- However, rate reset preferred shares are unlikely to enjoy 2021's performance as they trade near their par values of $25. Expect more muted returns in 2022.
- Canadian perpetual preferred shares had slightly positive returns, similar to their US

Quarterly Total Returns for Various Bond indexes (in Canadian dollars with interest re-invested)

BOND INDEXES	Q1	Q2	Q3	Q4	2021 TOTAL RETURN
Canadian 10-30 Year Bond Index (ZCM)	-3.78%	1.45%	0.03%	0.05%	-2.25%
Canadian 30+ Year Bond Index (ZLC)	-8.75%	2.81%	-1.40%	4.23%	-3.11%
U.S. 30+ Year Bond Index (VCLT)	-9.91%	4.82%	1.47%	0.96%	-2.65%
Canadian Real Return Bond Index (ZRR)	-7.47%	2.78%	-0.72%	6.93%	1.52%
PREFERRED SHARE INDEXES					
Canadian Rate Reset Index (ZPR)	12.64%	6.12%	2.81%	2.18%	23.75%
U.S. Perpetual Index (ZUP)	0.45%	1.27%	1.76%	1.29%	4.77%

Data Courtesy of Bloomberg L.P.

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brethren (ZUP in the table above). They perform better when rates fall, not when rates jump.

- A lot of U.S. preferred shares are perpetual in nature with high coupons around 5%. They were called by the issuers throughout the year to save money, with the proceeds paid for by issuing bonds with coupons below 5%.

As shown in the chart below, the belly of the U.S. Yield Curve (2 to 7-year maturities) rose in 2021 on the anticipation of higher interest rates amid temporary inflation. The blue curve represents interest rates at the beginning of 2021. The orange line shows where they ended the year.

If the bond market thought inflation would persist in the longer-run, the 30-year rate would have risen last year to yield closer to 3%. However, it barely moved.

U.S. Bond Yield Curve

Data Courtesy of Bloomberg L.P.

This view is corroborated by many bank economists. At the top right of this page is a chart of their inflation expectations for the coming two years.

The forecast decline of inflation rates by 2023 is predicated on the expectation that interest rate hikes should cool inflation, along with a return to normalized economies with the evisceration of Covid cases.

Expected Inflation Rates by Country according to Bank Economists using Consumer Price Index (CPI)

	2021 INFLATION RATE	2022 FORECAST	2023 FORECAST
United States	4.7%	4.4%	2.4%
Canada	3.4%	3.4%	2.3%
EuroZone	2.5%	2.5%	1.5%
Germany	3.1%	2.7%	1.7%
United Kingdom	2.5%	4.0%	2.1%
China	1.0%	2.2%	2.2%
Japan	-0.2%	0.7%	0.7%
Australia	2.7%	2.5%	2.3%
New Zealand	3.7%	3.3%	2.1%
Venezuela	2389%	925%	345%

Data Courtesy of Bloomberg L.P.

The economy could then re-open fully and we could see the return of disinflationary forces such as an ever-increasing use of technology (causing lower prices) combined with an aging population (retirees don't spend much) and a declining birth rate in many western countries.

Market Summary

While most predictions are wrong 88% of the time, here's what we believe could happen in 2022:

There is an 80% chance the Federal Reserve hikes rates by 0.25% in March. The yield on the U.S. 10-year note climbed to 1.68% after a second Federal Reserve purchase operation and a private jobs report indicated a strengthening labor force, giving traders conviction the Fed will raise rates three times in 2022. This would hurt bonds and long-duration, growth stocks that have no earnings.

The U.S. economy should be able to hold its own this year, but with lots of volatility. Lisa Shalett, chief investment officer at *Morgan Stanley Wealth Management*, said, "The period of declining Fed Funds

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rates which began in early 2019 is ending, which should allow real rates to rise from historic negative lows. This shift is likely to unleash volatility and prompt changes in market leadership," she added.

In 2022, value stocks (companies with real profits) could outperform growth stocks (technology and small-cap names). The growth stocks could face a Price-Earnings (P/E) multiple contraction. Small cap companies, which typically have a market value of about $2 billion or less, tend to have less diversified lines of business than their larger peers, making them a riskier bet in times of economic uncertainty.

Value stocks, meantime, have real profits, rising dividends and lower P/E multiples. For Liberty investors, that's about 85% of the stocks in their portfolios and those names should continue to provide decent growth and performance in 2022.

INVESTING FOR MILLENNIALS: MORTGAGE 101 FOR FIRST-TIME HOME BUYERS

By Alice Park

Among Millenials, owning a house is often at the top of their list of goals. When it comes to applying for a mortgage, unfortunately, a lot of them don't know what to consider. Below, we cover the mortgage basics to help you understand what you are signing up for.

The 20% down payment rule

In order to buy your first home, the down payment is crucial. That's because the banks want you to put equity into your home to show that you have a vested interest in paying off the mortgage. The last thing the bank wants is to see you walk away from the property because of an inability to make house payments, leaving them with a house they don't want to own.

If you put less than 20% down, you will have to pay mortgage insurance on top of your monthly mortgage payments. For example, putting a 10% down payment on a home purchased for $800,000, with a 25 year mortgage amortization requires mortgage insurance of an additional $22,320 tacked on to the purchase price. This amounts to an extra $100 of monthly costs that would be absent if a 20% down payment was made.

Make use of the Home Buyer's Plan

Did you know that you can tap into your RRSP to cover the down payment or/and closing costs on your first home? The Government of Canada lets you and your spouse borrow up to $35,000 each from your RRSP to do so.

To qualify, the funds must be in your RRSP for at least 90 days before withdrawal and you have to remove the money no later than 30 days after the closing date. The advantage is that as long as you pay it back within the next 15 years to your RRSP with annual payments, starting no later than the second year after the date of withdrawal, the withdrawal is tax-free.

The mortgage rate dilemma: Variable vs. Fixed

There are two types of mortgage rates: Variable and Fixed.

A variable rate mortgage usually has a lower rate compared to a fixed rate. However, if the Bank of Canada decides to raise interest rates, the rate and subsequent payment also rises.

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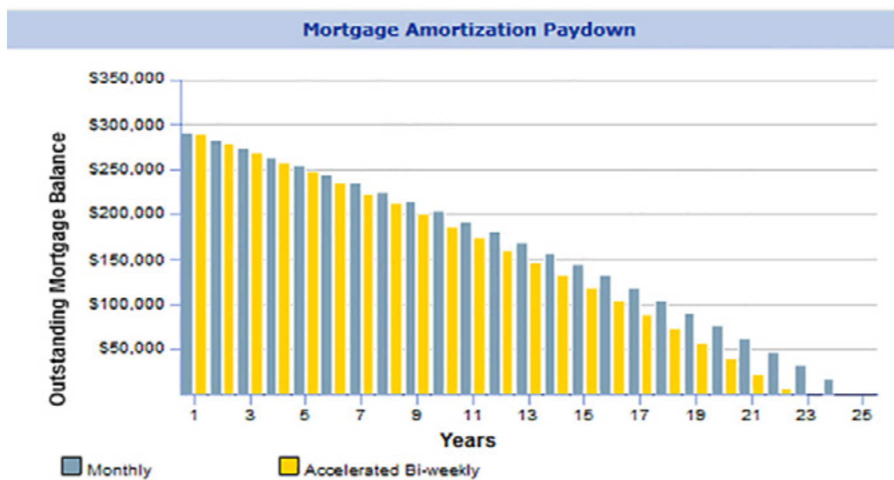
A fixed rate mortgage, meantime, guarantees you the same rate for up to 10 years during your contract period but is exposed to a drop in interest rates. In this case you would pay more than a variable rate holder. If you want to re-negotiate your rate, the banks charge penalties to do so.

Increase your mortgage payment frequency and save money

The most important thing to factor when choosing the mortgage payment frequency is to select the one that reduces the amortization as quickly as possible. That way, the mortgage is paid off sooner and you can stop paying the bank and start paying yourself.

Choosing accelerated weekly/biweekly payments is better than paying a flat, monthly rate because you can save thousands in interest charges.

For example, choosing accelerated bi-weekly payments instead of monthly on a $150,000 mortgage would save you more than $22,000 in interest costs, and cut more than 3.5 years off the life of your mortgage. See the graph below.



https://canadianmortgagepro.com/accelerated-biweekly-payments-vs-semi-monthly/

Breaking the mortgage before renewal. Is it worth it?

When the pandemic hit, interest rates dropped to record lows and those who held a mortgage over 3% just before the lockdown considered renegotiating a new one at a lower rate to help pay off the mortgage faster.

Unfortunately, there are costs involved when breaking a mortgage. You may not only pay penalty fees but also other fees such as a discharge fee, administration fees, appraisal fees or reinvestment fees.

In this case, you should consult your mortgage broker or check an online mortgage penalty calculator to find out the penalty amount. Even an estimate amount should help you decide whether or not it's beneficial to break the mortgage.

Take advantage of pre-payment opportunities

A pre-payment on the mortgage is an additional payment you make towards the principal of the loan to pay down your mortgage faster. If you have some money left after expenses and savings at the end of the year, this is the way to go. It helps you pay off more principal, thus reducing the amount of interest you pay over the life of the mortgage. Some lenders charge fees for a pre-payment so make sure not to exceed your allowable prepayment privilege. In most cases, the pre-payment amounts are between 10% and 15% of the mortgage balance.

A Tax Opportunity to Help Reduce the Mortgage

One way to reduce current taxes is to make an RRSP contribution. If this leads to a tax refund, the refund should be used to pay down the mortgage as part of a pre-payment privilege. That way, you can save for retirement and pay down your mortgage at the same time.

Purchasing a home is one of the biggest decisions and financial investments you will make in your lifetime. It's important, therefore, to consider all the options available before you make the purchase.

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FUN WITH MATH: STOCK OPTIONS – JUST ANOTHER WAY FOR EXECUTIVES AND BOARD MEMBERS TO SCREW THE SHAREHOLDERS

By David Driscoll

I'm a pretty simple guy. I don't live a lavish lifestyle because I'm not a "Me" person concerned with keeping up with the Joneses. Growing up, I didn't come from money. My father had to support a family of 6 on just $40,000 a year. My weekly allowance was 5 cents times my age.

At age 16, I umpired baseball games two or three times a week. The pay depended on whether or not I umpired the bases ($10 a game) or behind the plate ($15 a game). My income grew from an 80-cent weekly allowance to as much as $45 a week, a 56-fold gain. It made me feel like a millionaire.

By age 18, I started to work regularly, first building bicycles at the minimum wage of $3 an hour. Eight weeks later, I started work as a bank teller for $4.50 an hour and again, I felt like I was going places. It didn't sound like much but it was enough to pay for my annual college tuition ($863 a year in 1979).

When I started Liberty, I didn't take a salary for the first six years so that the company could stand on its own and, also, at my age, I didn't want or need more. I prefer that my staff be the beneficiaries of the company's success. I want to make them millionaires in their own right.

So, it turns my stomach when I see not just corporate executives but even board members get over-compensated with ever-growing stock options to pad their lifestyles at the expense of their workers and the shareholders.

It's especially pathetic because the strong stock market rallies of the past five years were caused by U.S. corporate tax cuts and low interest rates, not by much that the executives did. But hey, if it's there for the taking, why not fill the satchels with ill-gotten gains?

Apple Inc. boss Tim Cook's pay in 2021 was 1,447 times that of the average employee at the tech giant, fuelled by stock awards that helped him earn a total of nearly $100-million.

"Apple Inc. boss Tim Cook's pay in 2021 was 1,447 times that of the average employee at the tech giant, fuelled by stock awards that helped him earn a total of nearly $100-million."

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A report by the Economic Policy Institute showed that during 2020 in corporate America, CEOs were paid 351 times as much as a typical worker. How much is enough?

The best way to recognize how charitable corporate boards have been to company executives (and themselves) is to consider the percentage of stock options granted relative to the public share float.

I did similar research about five years ago and found that the average percentage of stock options to a company's float was between 1% and 2%. I considered that 1% of the float used to issue stock options was acceptable because it didn't waste a lot of hard-earned capital. It gave the executives a reason to stay and rewarded them if they performed well.

Today, corporations have replaced cash bonuses with stock options to put more emphasis on longer-term performance. That's great, except that the charity has gotten out of hand. During those five years, stock option grants among TSX Composite Index and Dow Jones Index companies doubled or tripled. This has become a serious red flag for us.

For the TSX companies, between 2015 and 2020, option grants rose to account for 2.54% of the issued shares of those companies. Even worse, the Dow 30 stocks' share options now make up 3.36% of the outstanding float.

We feel this is excessive because that cash should be used in the business to invest in plant construction and upgrades, tuck-in acquisitions or research and development, not into executives' pockets.

The table below shows the top 10 companies for each index according to the percentage of the float that goes toward stock options.

Percentage of Stock Options to Outstanding Shares (O/S)

TSX COMPANY	STOCK SYMBOL	% OPTIONS TO SHARES O/S	DOW JONES COMPANY	STOCK SYMBOL	% OPTIONS TO SHARES O/S
Nuvei Corp.	NVEI CN	15.25%	3M Co.	MMM US	6.13%
Onex Corp.	ONEX CN	14.49%	Procter & Gamble	PG US	5.69%
NexGen Energy	NXE CN	10.16%	NIKE Inc.	NKE US	4.96%
Dye & Durham	DND CN	10.07%	Chevron Corp.	CVX US	4.69%
Kinaxis Inc.	KXS CN	8.12%	Johnson & Johnson	JNJ US	4.34%
Aritzia Inc.	ATZ CN	7.55%	Travelers Cos.	TRV US	4.00%
Canaccord Genuity	CF CN	6.47%	UnitedHealth Group	UNH US	2.96%
Jamieson Wellness	JWEL CN	6.27%	salesforce. com Inc.	CRM US	2.50%
Osisko Mining	OSK CN	6.22%	Honeywell Int'l	HON US	2.38%
Tourmaline Oil	TOU CN	6.17%	Coca-Cola Co.	KO US	2.05%

Data Courtesy of Bloomberg L.P.

Many of the TSX names were recent Initial Public Offerings (IPOs) where corporate executives monetized their private equity. However, some have been abusing the system for years like Onex, Canaccord and Tourmaline. There are no excuses for those firms for the stock option grants to be so grandiose. Greed is not good.

The worst abusers from the Dow Index are long-standing companies such as 3M (6.13% of its share float are stock options) and Procter & Gamble (5.69%).

For example, at its current $163 share price, Procter & Gamble has 138.3 million stock options outstanding. If all are in the money, they're currently worth

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$22.5 billion. That compares with its 2020 capital expenditures of $2.7 billion.

That's a lot of money going to executives that could be used instead to find ways to create bio-degradable products instead of plastic consumables such as Pampers diapers, Swiffer mops or GUM dental floss that end up in landfill sites for a thousand years.

I still consider 1% to 2% of the float is fair. For the Liberty companies that we own, the average stock option issued is 1.6% of the float, about half what the other businesses issue in stock options.

We prefer to own good companies that generate consistent free cash flow because they don't have to play accounting games and abuse their power. Those who mismanage businesses and feel the need to be paid more won't become one of our holdings. They're an investment we can do without.

CLIENT QUESTIONS

My children and grandchildren would like to invest with Liberty but their portfolios aren't large. Is there a way to get them involved?

I've heard from peers in the investment industry that they're not interested in taking on second or third generation accounts for two reasons: First, when the parents die, they believe the kids just take the money away from the firm to pay down debt or make home renovations. Second, the accounts are too small to manage because the costs are too high and the fees can't cover those expenses.

This line of thinking, to me, is ass-backward. At Liberty, we want second-and-third-generation investors because:

- It provides us an opportunity to teach the younger generations how to invest the right way.
- The kids get to pay the same fee as the parents so it gives them a better opportunity to grow their money faster.
- The assets stay at the firm for more than one generation.

Liberty has a unique way of charging fees, something we call the Friends and Family plan. For example, if a mother, her son and his friend have $2 million to invest separately, they would pay a 0.95% annual fee.

But because they're either related or friends, the fee is based on the aggregate amount invested. In this case, the fee, based on $6 million in assets, would be 0.75%. As time passes and more family members and friends are brought into the fold, the fee falls further.

In the industry, client referrals average about 33%. At Liberty, the referrals are running well above that level, which saves us the cost of marketing and the time spent trying to find new clients. That's just another reason why we've been happy to cut our fees and why we consider working for the same cause with our clients is the best way to run our business.

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You don't own energy stocks. Why would you ignore this sector? Hasn't it hurt your performance?

Most investors only consider ***nominal returns*** but the more important numbers are ***risk-adjusted returns***. For every 1 unit of risk you incur, how much return do you earn?

The simplest way to consider risk is to look at a sector's beta. Beta is the measure of a sector's volatility relative to the underlying index, in this case, the TSX. The energy sector's beta is 1.58. That means that for every $1 that the TSX Composite Index moves up or down, the TSX Energy Sector moves up or down $1.58. Therefore, the greater the spread in the beta (from +1.58% to -1.58%), the greater the risk.

Meantime, the TSX Utility Sector beta is 1.01, meaning the utility stocks move more in line with the underlying index and, therefore, are less risky than the energy sector equities.

In economic parlance, energy stocks are elastic businesses, meaning they make all their money in the good times but lose it all in the bad times and end up making no money for investors in the long-run.

Contrarily, utility stocks are known as inelastic businesses, whereby they make money during both good and bad cycles. That's because consumers must pay their utility bills every month to keep the lights on.

Next, we compare the total returns of each sector over various time horizons to erase one-year phenomena.

In the chart below, two things stand out: The nominal returns of the energy sector are lower in any time-period except the one-year period.

Second, the risk-adjusted returns (total return divided by beta) of the energy sector are, at best, only half of the long-term returns of the utility sector. And in the last 5, 10 or 15 years, owning oil and gas stocks have been worse than holding cash. The risk-adjusted returns were 0.11%, 0.79% and 0.61% respectively.

For investors in Alberta, where the oil and gas economy is important to the provincial coffers, we suggest they own a portfolio that diversifies away from energy names.

Think of a dentist in Calgary. When oil prices drop, their business slows down as the economy slows. The value of their home depreciates. The situation is made worse if they also own oil and gas names in their investment portfolio – a virtual triple whammy of losses. This occurred in the period between 2006 and 2016. Ten years of no returns is a lost decade and doesn't help investors get to a happy retirement.

This is why Liberty doesn't invest in the resource sector. We pay attention to risk-adjusted returns – so should you.

TSX Returns: Energy Sector vs. Utility Sector

ENERGY *STENRS*	TOTAL RETURN	BETA	RISK-ADJUSTED RETURN	UTILITY *STUTIL*	TOTAL RETURN	BETA	RISK-ADJUSTED RETURN
1-year	48.50%	1.58	30.69%	1-year	11.45%	1.01	11.33%
5-year	0.17%	1.58	0.11%	5-year	12.23%	1.01	12.11%
10-year	1.25%	1.58	0.79%	10-year	8.86%	1.01	8.77%
15-year	0.97%	1.58	0.61%	15-year	7.88%	1.01	7.80%
20-year	6.74%	1.58	4.27%	20-year	9.92%	1.01	9.82%
30-year	8.15%	1.58	5.16%	30-year	8.92%	1.01	8.83%

Data Courtesy of Bloomberg L.P.

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What do you think of Cathie Wood's ARK Innovation Fund?

Perusing the fund, here's what I found:

- The average beta of the fund is 1.26, meaning it's 26% riskier than the S&P 500 Index. If the Index drops 40%, ARK should fall 50%.
- Of the 43 names listed, 21 have no profits and aren't expected to have earnings for at least the next 3 years.
- Twenty-eight of the names have more than 100 million shares outstanding, meaning they've already burned through a lot of cash. Since they're not yet profitable, they'll have to issue more shares to raise more cash. This dilutes the outstanding shares, reducing future earnings per share. That's not a good sign.
- The Price-To-Sales ratio is 27 times. If interest rates rise and there's an overall price-sales contraction, the fund could easily mimic the sell-off of high growth names in 2018 and drop 50% in value.
- ARK owns a large percentage of the outstanding shares of many of the companies. In a major market sell-off, the bids would disappear and the fund would have difficulty getting out of the positions because there'd be nobody to sell to.
- There is high correlation in the portfolio within technology and biotech.
- Ms. Wood states that these companies could enjoy compound share growth of around 40% a year. However, if the market declines and ARK receives redemption requests, the fund may not survive the next five years.

  This occurred with many technology funds when the tech bubble burst in 2000. Many stocks fell up to 75% from the top to the bottom of the market. As a result, many tech mutual funds went bust, leaving multiple fund managers (some whom I knew) without a fund to manage or a job to go to.
- The rule of thumb with concept stocks such as in the ARK funds is to hope that two stocks do well enough to pay for the other eight that go bankrupt. If that occurs, the fund will do poorly.

Ms. Wood needs to focus not only on picking the right stocks but managing the portfolio risk so the fund will still be around if and when her stock selections pay off. It's for these reasons that we have no interest investing in an ETF like this.

What's wrong with paying high Price / Earnings multiples? Isn't that just the way of the world today?

Rather than just blindly buying stocks because of current fads like cryptocurrency or investing in Tesla because of a love affair with Elon Musk, it's important for investors to step back and think about the true value of a company. That's because stock markets inevitably move higher in the long-run, not because of momentum, but because of growing profits.

We wrote in our last newsletter that, according to its CEO, Scott McNealy, paying 65 times earnings for SunMicrosystems in Year 2000 was silly and made no sense. However, it appears few have paid attention as market darlings Tesla (172 times earnings), Nvidia (89x) and Amazon (66x) currently trade at elevated multiples.

The way to think about P/E multiples is this way:

Consider a stock that trades at $50 and has $1 in earnings. An investor is paying $50 for $1 of profits. Its P/E multiple would be 50 times.

Next, consider the company's profit growth is 50% in Year 1, 40% in Year 2, 30% in Year 3, 20% in Year 4 and 20% again in Year 5. At this rate, the Earnings Per Share

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(EPS) would grow to $3.93 and, based on a 50x multiple, the stock should trade at $196.

The question an investor has to ask when making projections about future growth rates is, "Is this sustainable?". If the answer is "Yes", buy the stock. If the answer is "No", don't buy it.

Remember that few companies grow forever at the pace described above. This is known as the "***Law of Diminishing Returns***". As a company grows larger, the potential market for its goods and services diminishes.

Amazon is currently facing that dilemma. That's because its AWS cloud business has seen revenue growth decline from a 50% rate it enjoyed in previous years.

Its e-commerce business, while large, has huge capital outlay commitments (think warehouses and delivery costs) and generates paltry profit margins. Across the entire company, Amazon's operating margins are a feeble 6 per cent, similar to a supermarket like Kroger. However, Kroger only trades at a P/E multiple of 13, not 66 times.

Recently, Amazon's latest quarter missed all analyst expectations. The stock price struggled in 2021, up only 2.38%. This was the worst performance among the FAANG stocks and well behind the 21% Nasdaq Composite return.

In Tesla's case, below are the earnings forecasts of 36 brokerage analysts expected for the next four years (YOY stands for year-over-year):

TESLA FORECAST EARNINGS	2021	2022	2023	2024
Adjusted Earnings	$6.38	$9.08	$12.04	$15.27
GAAP Earnings	$4.62	$7.66	$10.05	$12.37

Data Courtesy of Bloomberg L.P.

As interest rates rise, there should be some P/E multiple compression which is why I considered using both a 50 P/E multiple and a lesser 30 P/E multiple, shown in the table below.

	2021	2022	2023	2024
YOY Earnings Growth Rate	184%	51%	32%	27%
P/E Ratio at $1,100 Price On Adjusted Earnings	172x	121x	91x	72x
Value at 50x Adjusted P/E	$319.00	$454.00	$602.00	$763.50
Value at 50x GAAP P/E	$231.00	$383.00	$502.50	$618.50
Value at 30x Adjusted P/E	$191.40	$272.40	$361.20	$458.10
Value at 30x GAAP P/E	$138.60	$229.80	$301.50	$371.10

Data Courtesy of Bloomberg L.P.

The first thing to note are the declining year-over-year growth rates, illustrating the "Law of Diminishing Returns". Profits may have grown 184% in 2021 but that number fades to 27% by 2024.

Next are the price targets based on P/E multiples at 50x and 30x using both adjusted earnings and the more conservative GAAP earnings (Generally Accepted Accounting Principles).

Using adjusted earnings for 2022, Tesla is expected to earn $9.08 a share; $7.66 a share using GAAP. At 50x earnings, this gives us a value range of $383 to $454 a share, not its current $1,100 a share.

At 30 times earnings, the numbers are even lower with a stock value range of just $229.80 to $272.40.

While this is just a simplistic, "back-of-the-napkin" calculation, nowhere does the stock price get close to $1,100 a share, with the best estimate at $763.50 a share.

In my opinion, Tesla may have a 3 to 5-year window of opportunity against its competition to grow at a premium rate but the stock just isn't worth its current share price.

And if Elon decides to turn his attention to space travel and take his eye off the electric car business, the stock could realize an even larger P/E multiple contraction. This is why we have no interest in owning Tesla shares.

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IN OTHER NEWS:

One of the biggest negatives since Covid began in 2020 has been the lack of charitable giving by companies and individuals alike. It's understandable, given that many people lost their jobs or were temporarily laid off or furloughed.

Liberty has decided to do its part to change the narrative. We asked our employees to each choose a charity that was close to their hearts. We then took a percentage of our profits and pooled it among the charities on a pro-rata basis, making donations on behalf of our staff, the first for many years to come.

Those charities are:

- Black Youth Helpline
- Canadian Cancer Society
- Centre d'Entraide Racine-Lavoie
- Circle of Home Care Services (Toronto)
- Red Shawl Community Organization
- Canadian Athletes Now
- Soroptimist Club of Toronto Trust
- SOS Children's Villages Canada
- Special Olympics Canada
- The Hospital for Sick Children
- Water First

Finally, we wanted to congratulate Scott Kerkhof (CPA, CA). He recently passed both the CSC and CIM programs in just 3 months. He is our Director of Financial Planning and is working with Brett Girard (CPA, CA, CFA) to put together life plans for clients.

If you have any questions, let us know.

David Driscoll CIM
President & CEO

Brett Girard CPA, CA, CFA
Portfolio Manager & CFO

Annie Bertrand CIM
Associate Portfolio Manager

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