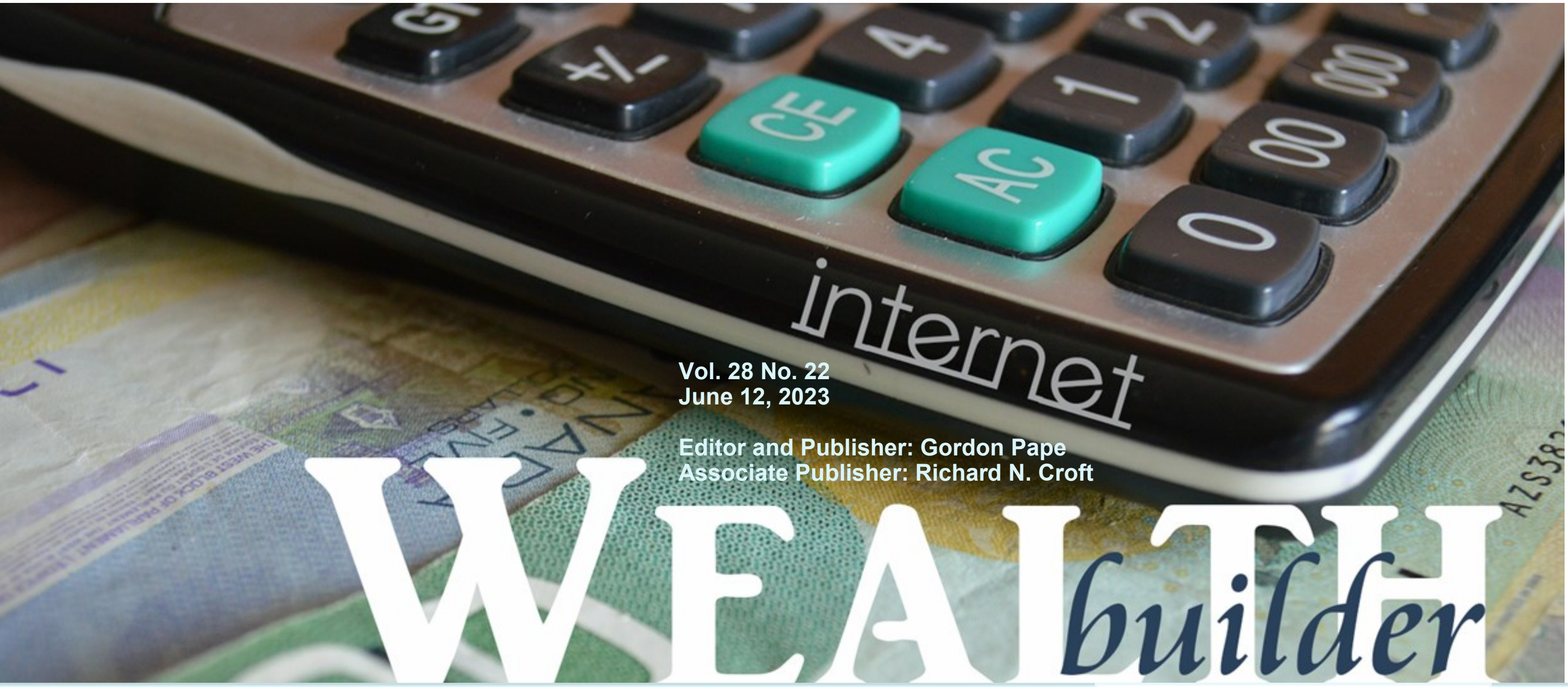

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DON'T LAUGH AT EMERGING MARKETS

By Gordon Pape, Editor and Publisher

In a recent column on diversification, I mentioned adding a position in emerging markets (EM) if an investor wanted broader global exposure.

That comment elicited a few responses including one from a reader that consisted of a string of ha, ha, ha's. Not exactly a well-reasoned answer but it made his point. No EM's in his portfolio!

Is he right? Several years ago, EM's were regarded as the future of investing. China was going to replace the US in terms of global economic dominance. Brazil and India were on the rise. Russia, back before President Putin opted for empire-building over GDP growth, was attracting more foreign capital. Emerging markets funds became a standard component in portfolio building. Now they elicit laughter. How the mighty have fallen.

But things may be changing. The iShares MSCI Emerging

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Markets ETF (NYSE: EEM) is up 19% from its 52-week low of US$33.49, touched last October. Given that 30% of its portfolio is in China, which has been slow to recover from the pandemic setback, that's not a bad performance.

When you look at the fund's results in recent years, they appear discouraging. The five-year average annual compound rate of return to May 31 was -1.32%. But that was largely due to a loss of over 22% in 2022. The fund's average annual return since its inception in 2003 is a respectable 8.21% and it has gained 5.24% year-to-date.

As with the rest of the world, emerging markets were hit hard by the sudden and rapid rise in interest rates as central banks took drastic action to fight inflation. That battle isn't over, but the banks have slowed their pace.

In a recent analysis of the prospects for emerging markets going forward, Lazard concluded: "We believe that emerging markets may be one of the most mispriced asset classes, with valuations reaching some of their most attractive levels ever… Barring a major global recession, emerging markets are likely to enter a period of economic recovery beginning in the latter half of 2023".

The International Monetary Fund expects growth in emerging markets of 4% this year and 4.3% in 2024. In contrast, growth in developed markets is forecast to be 1.2% this year and 1.4% next year.

One emerging market to watch closely is India, which has overtaken China as the world's most populous country. We have an ETF on our recommended list that tracks stocks in that country. Here's an update.

BMO MSCI India ESG Leaders Index ETF

TSX: ZID *Originally recommended on April 10/17 (#21715) at $22. Closed Friday at $37.53.*

BUY

Background: This ETF tracks the MSCI India ESG Leaders Index, which in turn is based on the MSCI India Index of mid- and large-cap stocks. The index aims to capture the performance of securities that have been assigned higher ESG ratings by MSCI relative to their peers. It excludes securities of companies that earn significant revenues from tobacco, alcohol, gambling, conventional weapons and civilian firearms, any controversial weapons, significant generation of nuclear power, as well as companies involved in severe business controversies.

Performance: This fund held up quite well in 2022, losing only 4.43%. It's down

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0.43% so far in 2023 (to May 31), but it's been gaining traction in recent weeks. The 10-year average annual compound rate of return is a healthy 12.93%. The market price is up about 70% since the first recommendation.

Portfolio: The fund holds 41 stocks, weighted by market capitalization. The largest positions are in Reliance Industries (20.1%) and Infosys (11.4%), which together make up almost a third of the portfolio. The largest sector holdings, which are unchanged since our last update, are information technology (29.5%), financials (20.3%), and energy (17.9%).

Key metrics: The fund was launched in January 2010 and has $97.5 million in assets under management. The management expense ratio (MER) is 0.67%.

Distributions: Payments are made annually, and they are normally negligible. In December 2022 investors received a cash payment of $0.11 per unit. Of that, most was received as foreign income, which is fully taxed in a non-registered account.

Risk: BMO's risk rating on this ETF is medium to high.

Outlook: The International Monetary Fund expects India to grow by 5.9% in fiscal 2023–24 and by an average rate of 6.1% over the next five years. That's a lot less than China at its peak, but much faster than the projections for North America.

Action now: Buy. The fund stood its ground in a terrible year for global equities. It should do better going forward.

AI COULD BE A GAME CHANGER – OR NOT

By Glenn Rogers, Contributing Editor

For the past several months every tech company reporting earnings has emphasized their interest in, and progress on, artificial intelligence (AI). During some of the earnings calls I listened to, AI was mentioned 30 or more times.

So, we thought it was appropriate that I follow up on Gordon's column last week and recommend a stock that's a key momentum name in this area. It's a company that is at the forefront of the highly volatile AI discussion.

As an aside, if you want to know more about artificial intelligence in general, I would point you to a recent 60 Minutes interview with the president of Google. It will certainly give you cause to reflect on whether this is all rolling out too fast.

The company I want to discuss today is C3.AI Incorporated (NDQ: AI). It was co-founded initially by, who else, Elon Musk. He claims to have given it its name and provided a significant amount of the original funding. This stock is really a

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pure play on artificial intelligence. Many of the major tech firms have been deploying AI in various forms for some time, in fact Tesla claims to be a leader in the field using AI to power its self-driving initiative.

Musk claims he stepped away because he saw this as an open-source nonprofit. His partner disagreed and has sold a significant portion of the business to Microsoft, which has integrated it into its various office and search engine products.

This is very early technology. There's the scary sci-fi version along with an exciting productivity claim that could revolutionize work, much as the internet and the invention of the steam engine did. It's still too soon to know whether this will turn out to be the most overhyped subject in history or a true game changer. I thought it would be an interesting idea to use AI to help write this column. Hopefully you will agree that the results are impressive.

C3.AI is a leading artificial intelligence company that provides software solutions and services to businesses across the globe. The company is known for its end-to-end enterprise AI platform that enables digital transformation across a wide range of industries. It's an impressive mandate but there are several factors to consider in deciding if the company is a good investment or a potential flop. These include the current financial condition of C3.AI and its growth prospects going forward.

C3.AI went public in December 2020 at an opening price of $42 per share (figures in US dollars). This debut was successful, and the stock reached its peak in January 2021 at $170. That was 300% growth in just a month. However, the stock declined in the second quarter of 2021 and further declines this past year took it down to a low of $10.16. It has since rebounded and is currently trading at $36.97 per share.

Despite this decline, it is important to note that C3.AI is a young company that is yet to hit its full potential. As of now, the company's revenue streams come largely from software licensing and consulting services. However, C3.AI is well-positioned to benefit from the rapidly growing AI industry as more businesses look to integrate AI into their existing platforms.

One of the company's key competitive advantages is the flexibility and scalability of its platform. It can be tailored to meet the specific needs of businesses operating in various domains such as oil and gas, healthcare, manufacturing, and financial services, to name a few. This not only provides a unique selling proposition for the company but also helps to diversify its revenue streams.

Another factor that has contributed to the success of C3.AI is its strong partnership ecosystem. The company has partnered with several leading technology firms such as Microsoft, Amazon, and Intel to provide a seamless experience to its

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customers. These partnerships have also helped C3.AI expand its global reach and gain a foothold in new markets.

In terms of financial performance, C3.AI reported revenue of $70 million in the latest quarter, and projects 2024 revenue of between $295 and $320 million. It plans to be profitable by the end of this year.

It is important to consider that C3.AI is a high-growth company that is investing heavily in research and development to improve its AI platform. The company has also been expanding its sales and marketing teams to capture a larger share of the market. This growth-oriented approach, while potentially volatile in the short term, could pay off handsomely in the long run.

According to a research report by Markets and Markets, the AI market is expected to grow at a CAGR (compound annual growth rate) of 33.2% between 2021 and 2026. This represents a significant growth opportunity for C3.AI, which is already a leader in the space. Additionally, the report highlights that the healthcare, automotive, and manufacturing industries are expected to be the key drivers of this growth. C3.AI is well-positioned to capitalize on this trend with its industry-agnostic AI platform.

In conclusion, C3.AI is a young, high-growth company that is poised to benefit from the ever-growing AI industry. While its financial performance may be volatile in the short term, its potential for long-term growth cannot be overlooked.

Potential investors should consider the strong partnership ecosystem, the flexibility of the AI platform, and the growing demand for AI services across industries. The company's competitive positioning, coupled with its expansion plan, makes it a potentially lucrative investment opportunity for those with a risk appetite for growth stocks.

This is not a widows and orphans’ stock but if you want to have a toe in the AI revolution, if that what it turns out to be, then this is the one for you.

Action now: Buy, with a target of $50. The shares closed Friday at $36.97.

Contributing editor Glenn Rogers has worked with private equity and venture groups on a variety of projects leading to successful exits for investors. Previously he held senior executive positions in both Canada and the US and is a successful investor himself. He lives with his family in southern California.

GLENN ROGERS'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Palo Alto Networks Inc. NYSE: PANW

SELL HALF

Originally recommended on Jan. 26/15 (#21504) at $42.27 (split adjusted). Closed Friday at $220.10. (All figures in US dollars.)

Background: The company is one of the leading cyber security businesses in the US and serves thousands of clients worldwide.

Performance: This cybersecurity stock has had a huge run this year, nearly doubling in price over the past six months. Recently the company was added to the S&P 500, which opened it up to more buying by mutual funds and ETFs that buy the indexes.

Stock split: The shares split 3 for 1 on Sept. 14, 2022. So, if you originally bought 100 shares, you now own 300.

Recent developments: The company reported adjusted earnings per share of $1.10, which beat the consensus estimates of $0.93. Revenue came in at $1.72 billion, which also beat consensus.

The company also raised guidance for the rest of the year. It now expects adjusted earnings per share of between $4.25 and $4.29, which is up nicely from their previous guidance. Revenue should range between $6.88-$6.91 billion, which is also up from its prior guidance.

Outlook: This is best in breed in the cybersecurity field, but it is now trading at a p/e of 338.62, so it's very pricey. Depending on the size of your position, I would recommend taking some chips off the table, which is easy to do because of the stock split. Pigs get fat and hogs get slaughtered, as the old saying goes. If we get a pullback of any significance, you can always add back in.

Action now: Take part profits for a gain of 420.7%.

Devon Energy NYSE: DVN

BUY

Originally recommended on Aug. 8/22 (#22229) at $56.65. Closed Friday at $49.87. (All figures in US dollars).

Background: Devon is one of the largest US onshore oil drillers. The company produces approximately 300,000 barrels of oil, more than 125,000 barrels of natural gas liquids, and about 920 million cubic feet of natural gas every day. Devon aims to produce 5% more total volume year-over-year going forward.

Performance: The shares fell sharply in March, touching a 52-week low of $44.03. The stock has since rallied but is still down from the price at the time I recommended it.

Recent developments: First quarter results showed oil production at an all-time high of 320,000 barrels per day. However, total revenue of $3.8 billion was virtually flat compared to the year-ago period and down from the last three quarters. Net earnings were up slightly from the year before at $1.53 per diluted share, but that was due in part to a reduction in outstanding shares due to buybacks.

Dividend and buybacks: The company pays a variable dividend which is adjusted according to financial performance. It hit a high of $1.55 with the September payment but has been declining since. The next payment, on June 30, will be $0.72 a share. At that rate, the yield would be 5.8%, but since the dividend changes each quarter, there is no way to predict that will actually happen.

Devon repurchased 12.9 million shares during the quarter at a total cost of $692 million. Since the inception of the buyback program in late 2021, the company has repurchased 38.5 million shares, at a total cost of $2 billion. As a result of this buyback activity, the company increased its share-repurchase authorization by 50% to $3 billion, which is equivalent to 9% of Devon's market capitalization. This expanded authorization extends through the end of 2024.

Comments: This stock was one of my largest positions last year and was a real winner. It pays a nice, but fluctuating, dividend and is one of the better run producers of oil and natural gas.

The company has significant holdings in the right parts of the US and the stock soared last year. Obviously, oil and gas have not been doing as well these last few months and most of the companies have sold off hard. Devon is now trading at a very modest p/e of 5.44x so it's not expensive.

Whether you should own this stock

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Airbnb Inc. NDQ: ABNB

SELL

Originally recommended on June 21/21 (#21123) at $152.52. Closed Friday at $117.86. (All figures in US dollars.)

Background: Airbnb is a leader in the category that it virtually invented. The company has grown from three guys renting out mattresses in San Francisco to an international giant, with a market cap of $75.4 billion.

Performance: We recommended this stock in June 2021 when it was trading at $152.52. Covid hit it hard, but the stock has bounced back since, getting as high as $144.63 in the past year before pulling back to where it sits today at around $118.

Recent developments: First quarter results looked good at first glance. Revenue was up 20% year-over-year to $1.8 billion. Net income was $117 million, a significant increase compared with a net loss of $19 million in the same quarter of 2022. The gain was primarily driven by substantially higher revenue and interest income.

But I have some concerns. Currently the stock is suffering from concerns about inflation and the possibility of an economic recession. The company I work with owns several properties in Hawaii and it has seen a noticeable slowdown of customers from the US and Japan in the last few months. That's just one market but it gives an indication that people are starting to become a little more careful with their discretionary spending.

Conclusion: Fundamentally this is a good company, but this is a bad time for anyone that isn't making lots of money or has a cloud hanging over them regarding future revenue. If you're a true believer, you could hold, but my recommendation would be to sell and turn this into cash.

Action now: Sell.

Devon Energy—continued from page 7...

depends on where you think oil and gas prices are going to be over the next year or so. Opinions are divided on that question. Personally, I like to have some exposure to the industry, the stock seems to have stabilized, and you are getting paid to wait. I recommend having a small position that you can add to if it appears that oil and gas are starting to accelerate. It's more likely that oil will improve faster than natural gas since we have plenty of the latter and less of the former.

Action now: Buy, with a target of $80.

Cheniere Energy NYSE: LNG

HOLD

Originally recommended on March 7/22 (#22210) at $139.63. Closed Friday at $147.14. (All figures in US dollars).

Background: This company is one of the largest distributors of liquefied natural gas based in the US (Houston). A lot of this growth has been driven by Russia's war in Ukraine, which has left Europe and other countries around the world scrambling for alternate natural gas supplies. LNG was in the right place at the right time.

Performance: We recommended this stock last March when it was trading at $139.63. The share price has bounced around since and is now trading at slightly above the original buy price.

Recent developments: First quarter income was $7.3 billion, down 2% from the same quarter in 2022. But net income was approximately $5.4 billion compared to a loss of $865 million in the corresponding 2022 period.

Interestingly, the favorable change had little to do with the company's business. Rather, it was primarily due to a gain of $4.7 billion in the fair value of its derivative portfolio. This compared to a loss of $3.4 billion in the prior period. As well, the company increased its margins on LNG delivered.

Dividend: The shares pay a quarterly dividend of $0.395 ($1.58 a year) to yield 1.1%.

Comments: The shares did well when the war in Ukraine began and Europeans were freaking out about where they were going to get gas. Cheniere is one of the few companies that can offer US exports of natural gas at scale. That's still true but national gas prices have pulled back so it's unlikely that Cheniere will see the kind of volumes they were enjoying during last year's peak.

That said, this is still a company that you should keep your eye on. Many analysts believe this is a $200 stock, but the company has a lot of debt to deal with and interest rates are still on the rise. Long term, though, the world is going to continue to need natural gas The US has more than it can use so over time this will be a great global play.

Action now: Hold. I'm maintaining a small position.

ROKU NDQ: ROKU

BUY

Originally recommended on Aug. 17/20 (#22030) at $146.85. Closed Friday at $69.48. (All figures in US dollars.)

Background: Roku was spun out by Netflix back in 2007. Since then, it has morphed from a device maker to a platform company that hosts all streaming services with the exception of NBC's Peacock.

Performance: We recommended Roku when it was trading at $146.85 in August 2020. The stock benefited from the pandemic as people were forced to remain at home and the shares topped $450 in June 2021. But that was the high-water mark. The price fell all the way to $38.26 in December but has moved steadily higher since. It has gained 81% since that low, I think somewhat in sympathy with Netflix's positive outcome from clamping down on password sharing.

Recent developments: The company reported 17% growth in active accounts and a 20% increase in streaming hours in the first quarter, but it had a 5% decline in average revenue per user.

The company has launched a series of smart home products, which is a new business for it. These include security cameras, video doorbells, etc. It's not clear how this ties in with the original mission but it will be interesting to see if these products catch on with consumers.

Roku is on track to achieve EBITDA profitability by the end of this year or the middle of next, so I think over time this is going to be an interesting play.

Comments: The company has some real growth opportunities in that it has lagged in terms of international roll overs compared to Netflix. It also has much lower content costs than some of its competitors, as it is primarily a platform as opposed to a content creator.

Analysts are divided on Roku's prospects with several hold and sell ratings, and some outperform ratings as well. So, there's no clear consensus on where the stock could go but right now the market is telling you it wants to go higher.

Action now: I think this is a good entry point so I'm going to suggest establishing a position and keeping a close eye on it.

Buy, with a target of $80.

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Okta Inc. NDQ: OKTA

SELL

Originally recommended on Oct. 18/21 (#21137) at $255.02. Closed Friday at $71.40. (All figures in US dollars.)

Background: Okta is based in San Francisco. The company describes itself as "the leading independent identity provider". Its "Identity Cloud" enables organizations to operate securely in cyberspace, including companies like JetBlue, Siemens, Slack, Takeda, Teach for America, and Twilio.

Performance: Like most tech companies, the shares took a beating in 2022, falling at one point to the $44 range. They recovered to $88 last month but have retreated again.

Recent developments: The company's fiscal 2024 first quarter (to April 30) saw improvement in the financials. Total revenue was $518 million, an increase of 25% year-over-year. Subscription revenue was $503 million, an increase of 26% year-over-year.

Net loss was $119 million (-$0.74 per share), compared to -$243 million (-$1.56 per share) in the first quarter of fiscal 2023. But on an adjusted basis, Otka posted a small profit of $38 million ($0.22 per diluted share). Net cash provided by operations was $129 million compared to $19 million in the previous year. Free cash flow was $124 million, compared to $11 million last year. Cash, cash equivalents, and short-term investments were $2.37 billion as of April 30.

During the quarter, the company repurchased $366 million in principal amount of the convertible senior notes due in 2025, resulting in a gain on early debt repayment of $31 million.

Dividend: The stock does not pay a dividend.

Outlook: The company is forecasting total revenue of $2.175 billion to $2.185 billion in this fiscal year. That represents a growth rate of 17%-18% year-over-year. Adjusted net income per diluted share is forecast to be $0.88-$0.93.

Action now: The improvement in the financials is encouraging, but the market isn't taking much notice. Your money would probably do better elsewhere. Sell.

American Water Works NYSE: AWK

HOLD

Originally recommended on April 19/21 (#22116) at $160.12. Closed Friday at $146.66. (All figures in US dollars.)

Background: This is the largest and most geographically diverse US publicly traded water and wastewater utility. It's been around a long time, with a history dating back to 1886. The company employs more than 6,400 people who provide regulated and market-based drinking water, wastewater, and other related services to more than 14 million consumers in 24 states.

Performance: The stock was recommended in April 2021 for its modest growth potential, low risk, and sustainable dividend. It's had more ups and downs than expected, but the current trendline is up.

Recent developments: The company reported steady growth in the first quarter and announced an 8% increase in the dividend.

Revenue for the three months to March 31 was $938 million, up from $842 million in the same period last year. Net income attributed to common shareholders was $170 million ($0.91 per diluted share). That was up from $158 million ($0.87 a share) in 2022.

"We're off to a great start to the year," said CEO M. Susan Hardwick. "Our investments in infrastructure and our success signing new purchase agreements for regulated acquisitions has set the stage well for achieving our expected growth in 2023 and beyond."

Dividend: On April 26, the company declared a quarterly cash dividend of $0.7075 per share ($2.83 per year), paid on June 1. That was an 8% increase from $0.655 previously. The yield at the new rate is 1.9%.

Outlook: The company affirmed its 2023 earnings per share guidance range of $4.72-$4.82. It also affirmed its long-term financial targets for the 2023-2027 period, including its long-term EPS and dividend growth rate targets of 7-9%.

Action now: Hold. The stock is performing as expected.

Canadian Utilities TSX: CU, OTC: CDUAF

HOLD

Originally recommended on May 20/19 (#21919) at C$37.06, US$27.48. Closed Friday at C$36.12, US$26.95.

Background: Canadian Utilities is based in Calgary. Its operations include electricity generation, transmission, and distribution and natural gas transmission, distribution, and infrastructure development. It also provides energy storage and industrial water solutions and has been heavily investing in green energy projects for over 20 years. It owns 87,000 km of electrical transmission lines and 64,500 km of pipelines. CU also has natural gas and mining interests in Australia and Mexico.

The company has approximately 4,600 employees and assets of about $20 billion. It is 52.3% owned by ATCO, which is also Alberta-based.

Performance: Rising interest rates are bad for utility stocks, and we've seen the impact here. The shares hit a 52-week low of $33.24 in October, then rallied when the Bank of Canada paused rate hikes. But it recently slumped again in advance of last week's quarter-point increase.

Recent developments: CU's first quarter results showed the company is just marking time right now. Adjusted earnings were $217 million ($0.81 per share), which was down $2 million from $219 million last year. However, on a per share basis, adjusted earnings were the same.

Dividend: The company increased its dividend by a fraction of a cent at the start of the year to maintain its half-century record of annual hikes. The current rate is $0.4486 per quarter ($1.7944 annually) to yield almost 5%.

Outlook: The dividend is safe but don't expect much in the way of share price appreciation until the BoC rate hikes come to an end.

Action now: Hold.