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ARK ETF STILL STRUGGLING

By Gordon Pape, Editor and Publisher

First, the good news. The tech rally this year has given a lift to the controversial ARK Innovation ETF (ARKK-N).

The bad news is that it's still down more than two-thirds from its all-time high, reached in early 2021.

Three years ago, investors couldn't pour money fast enough into ARK, which is managed by the formidable Cathie Wood. Her focus on disruptive technology was piling up huge profits. After a gain of 35.2 per cent in 2019, ARK soared 152.5 per cent in 2020. Between cash flow from investors and capital gains from the portfolio, assets under management reached the $30 billion range (figures in U.S. currency). The fund was the talk of Wall Street.

With most of the world under various forms of lockdown restrictions, stay-at-home technology stocks were booming. Shares in companies like Roku, Zoom, and Teladoc Health doubled and then doubled again. Ms. Wood was hailed as a genius.

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We added ARK to the Internet Wealth Builder recommended list on Feb. 22, 2021, at $151.73, with a warning that it was high risk/high reward security, only suitable for aggressive investors. Talk about bad timing! The fund was almost at its peak at that point. It started to slide soon after and by autumn of that year the units were in freefall as the Covid pandemic began to wind down and people emerged from their homes. The fund lost 23.1 per cent in 2021 and followed that with a 67 per cent plunge in 2022. By December of that year, units were priced below $30. At bottom, ARK was trading at its lowest level in five years.

Not surprisingly, investors bailed out. Combined with huge capital losses in the portfolio, the cash drain reduced the value of assets under management to $7.8 billion.

Ms. Wood was quoted as saying: "Corrections are good, they keep us all humble". But no one wanted to be *that* humbled! Still, some investors held on, hoping for a dramatic turnaround.

They've been modestly rewarded. As of June 30, the fund was showing a gain of 41.3 per cent for 2023. It gained an additional 8.6 per cent between July 1 and July 21. That's a lot better than another hefty loss, but the units are still down 69 per cent from their all-time high.

The fund's strategy is to place big bets on stocks that Ms. Wood believes will outperform the market. Right now, her largest holding is Tesla, which constitutes 10.9 per cent of the portfolio. It's been a big winner, having more than doubled year-to-date. The number two position, Coinbase Global (9.4 per cent of assets), has also done well this year, with a gain of about 180 per cent.

But there have been some misses too. Ms. Wood sold ARK's position in chip maker Nvidia early in the year. Then the AI craze hit and Nvidia's stock price tripled. It's lost ground recently but it's still ahead 203 per cent year-to-date.

If Ms. Wood had held on to Nvidia, the fund's turnaround would have been more impressive. Yes, that's second guessing, but she had the Nvidia position and dumped it.

The bottom line is that ARK's portfolio is better suited for gamblers than long-term investors. The positions are highly concentrated and some of the major holdings are money-losing companies. Coinbase, for example, lost $2.6 billion in its latest fiscal year. Plus, you pay a lot of money to carry this bet: the management fee of 0.75 per cent is about double the average for U.S.-based actively managed funds, according to The Wall Street Journal.

As one of my brokers told me years ago, "If you want to gamble, go to Vegas". Good advice.

If you hold units, be aware of the volatility involved. If you can live with it, and you believe Wood still has the magic touch, then retain your position. If you're having trouble sleeping at night, head for the exit. The units closed Friday at $47.94.

THE BOOM/BUST PARADOX

By Richard N. Croft, Associate Publisher

Central banks have been in a battle with inflation, playing a never-ending game of whack-a-mole against the consumer price index where the constituent components rise and fall like a teeter-totter.

Since bankers are not politicians, they exist in a no-pain-no-gain world where any solution that wrestles inflation into submission involves the "R" word. The trick is to dispense enough pain to take the edge off the inflation trajectory while keeping the economy from descending into a recession.

Mastering the soft-landing two-step requires an exact strategy that, unfortunately, is developed using a series of imprecise dot plots. Like trying to dodge inflation/ recession raindrops in a thunderstorm.

I think a better approach to working through the boom/bust paradox is to step away from the forces of supply and demand and focus instead on the output side of the economic equation. That means drilling down on the tool that measures the collective well-being of a nation: Gross Domestic Product, or its' acronym: GDP.

GDP is the rock star in the economic arena, the heartbeat of the modern economy. It is what makes economists, and their econometric models, shake rattle and roll.

Effectively GDP is a measuring tape that determines the size of a nation's biceps. But unlike the specificity of a measuring tape, there is a certain quirkiness built into the GDP calculation. Economists plug in reams of complex data and apply statistical interpretations and seasonal adjustments to make certain the output is as accurate as possible. But, in the end, GDP is not about numbers and decimal places. It is a nation's economic gauge that ebbs and flows on a foundation of unpredictable variables and unintended consequences.

Looking at the numbers, Canada's real month-over-month GDP was flat in April, falling short of consensus expectations for 0.2% growth. Production in goods-producing industries was up 0.1% during the month, which was too little to offset the slowdown in the services sector.

According to National Bank Economics, there were "healthy gains in mining/ quarrying/oil & gas extraction (+1.2%) and construction (+0.4%) [that] more than offset declines in agriculture (-0.8%) and manufacturing (-0.6%). The utilities sector, for its part, stalled in the month.

"On the services side, gains in arts/ entertainment/recreation (+2.0%), accommodation/food services (+0.6%), and transportation (+0.4%) were fully offset by declines in management (-2.2%), wholesale trade (-1.4%), and public administration (-1.0%)."

Eleven of the twenty sectors that National Bank follows were higher during April (the

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latest available full dataset). Part of this weakness could be explained by strikes in the public sector. To that point, GDP excluding federal government output grew only 0.1%, which is well below the level of the first quarter of 2023, when Canada's GDP grew by 3.1%.

The modest performance in April reflected significant declines in the private sector, specifically management, wholesale trade, and agriculture. Interestingly, some interest rate sensitive sectors outperformed, as activity in the housing market and non-residential construction rebounded.

Notes National Bank: "According to Statistics Canada, GDP rebounded rapidly in May (+0.4%), with increases in federal government public administration, the manufacturing and wholesale trade, the latter possibly ending a three-month streak of declines. Given this early estimate, and assuming a flat print in June, this would imply a 1.4% annualized increase in Q2 GDP, a moderation from Q1 but slightly above the Bank of Canada's most recent forecast of a 1.0% increase."

One could argue that strength, notably across the interest sensitive spectrum, is what made it possible for the Bank of Canada to raise rates by a quarter point on July 12. On the other hand, this economic growth must be set against a demographic backdrop that is having a pronounced impact on the housing sector.

Residential property values, a key component in the CPI calculation, are rising because of sector specific issues, i.e., limited supply and outsized demand propelled by Canada's aggressive immigration stance. Because residential real estate holds sway over much of the Canadian economy, the BoC's campaign to manage inflation with limited growth is shaping up to be the classic battle between a rock and a hard place, with the Bank of Canada and economic tailwinds interacting like two statues engaged in a staring contest.

If the twists and turns associated with the growth versus inflation outlook were not enough, consider the fact that softer employment and fading inflation (2.8% in June) after the last rate hike seems to imply that the current tightening cycle is having the desired effect on the economy (see the Bank of Canada second quarter 2023 Business Outlook Survey). That is why I think there is a 50/50 chance that the BoC's recent quarter point rate hike may be the last in this tightening cycle.

The challenge is that we are operating in the whimsical realm of scenarios spun in different directions. The idea that the July 12 rate hike may be the last is, at best, tenuous. While the ten rate hikes since March 2022 are clearly having an impact, the economy remains resilient.

Notably in the tight labor market that despite showing some cracks (overall hiring plans are moderating and wage demands have declined modestly), it may not be enough for the Bank of Canada to step aside. The issue is the 4.5% average expected wage increase that

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remains well above the 2010 to 2019 average of 2.9%, which is inconsistent with sustainable 2% inflation.

Further, private enterprise surveys generally don't see normal wage settlements returning until sometime in 2025 or 2026. That is why the probability of a future rate hike rests on two sides of the same coin, with "halt and evaluate" on one side and "better-more-than-less" on the other. The 50/50 assessment then comes down to the proverbial coin flip.

Implications for the financial markets

While I share investor angst that things may get much worse before they get better, the objective is to formulate a probability-based strategy that avoids the warts on the economic landscape.

Take the financial sector as a case in point. Commercial banks have been the laggard among large cap equities. The question is should we sell because the sector is underperforming, or do we assess the impediments within the sector and ask if these challenges are permanent or transitory? I take the latter position because the main problem in the banking sector is the impact an inverted yield curve is having on margins. I believe the inversion will begin to normalize when central banks hit their terminal rate.

More importantly, I expect a recovery in 2024. Historically, commercial banks lead an economic upswing. The other constructive factor is that you are being paid while you wait. Canadian banks are not only paying above average dividends, but they have also been increasing those payouts on a regular basis. As examples, consider Bank of Nova Scotia (currently yielding 6.307%) and CIBC (6.153%).

As for the upbeat performance within the US stock market, it is important to understand it has been propelled by the "magnificent seven." The mega-cap technology stocks (Meta Platforms, Apple, Microsoft, Nvidia, Alphabet, Tesla, and Amazon) are generally inflation resistant and are benefiting from the rise in artificial intelligence.

That gives rise to a couple of questions: 1) have the magnificent seven got ahead of themselves, or 2) will the rest of the market play catch-up? I believe that, with a couple of exceptions (Nvidia and Tesla), the magnificent seven are not yet experiencing irrational exuberance and the underperforming sectors will become engaged as we get into the third and fourth quarter of 2023.

That said, I do not expect to see any revival among the laggards until market participants believe that interest rates have peaked. The base case is two more rate hikes by the US Federal Reserve and, in a worst-case scenario, one more rate hike by the Bank of Canada. The rate hikes should conclude no later than September 2023. I do not expect any rate cuts in 2023, but that is of less importance, than a normalization of the yield curve.

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And now the caveat emptor. This investment thesis hinges on the view that the impending recession will be closer to a soft landing than a splat on the economic pavement. In fact, we may already be experiencing a rolling recession, which I will talk about in my next installment. For now, my approach is to maintain positions in Canadian banks, where the pay-while-you-wait dividend flow will act as a shield against a potential splat and produce above average price appreciation when the inevitable recovery takes hold.

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MEMBERS' CORNER Babylon Holdings

Member question: Can you tell me what's happened to Babylon Holdings? It seems to have stopped trading. – Sam C.

Adam Mayers responds: Babylon may rank among the worst IPOs of 2021. It went public on the Nasdaq exchange at exactly the wrong time as the tech boom faded and the love affair with telehealth stocks ended. Interest rates started to rise, along with inflation, and the global economy contracted following Russia's invasion of the Ukraine.

It is now being taken private by its major shareholders. They hope to merge it with an affiliated startup called MindMaze, a digital neurotherapy company. MindMaze offers therapies for patients with impaired motor functions.

Babylon was founded in 2013 and is a telehealth pioneer, offering services that connect doctors, patients, and pharmacists via their phones or computers. It also sells software that helps medical offices with records and bookings management. It operates in 15 countries with partners that include the British National Health Service, Telus Corp., and Microsoft Inc.

Babylon's shares fell steadily in 2022 even though the company met its projections and losses as a percentage of revenue fell. To avoid delisting, it authorized a 25-1 reverse split last October. The shares continued to fall to penny stock levels, so its major shareholders decided to go private.

Babylon would have seemed to be a good bet. It has been in business for more

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RICHARD CROFT'S UPDATES

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

The Goldman Sachs Group NYSE: GS

HOLD

Originally recommended on Jan. 17/17 (#21703) at $341.66. Closed Friday at $351.92. (All figures in US dollars.)

Background: Goldman Sachs is a leading global investment banking, securities, and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments, and individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centres around the world.

Performance: The shares took a deep dive in March. They have been working their way higher since, but progress has been choppy.

Recent developments: Second quarter earnings released on July 19 disappointed as profit declined 58% from a year ago. Earnings per share was $3.08, which was below analysts' reduced expectation of $3.18. Quarterly revenue was $10.9 billion, slightly above analyst estimates.

EPS was impacted by a $504 million impairment charge tied to GreenSky (a financing company that provides loans for business expansion and commercial real estate), and $485 million in real estate write downs.

GS reported weakness in proprietary trading and, of course, investment banking. The latter will be the principal division to benefit from the conclusion of rate hikes and could generate substantial profits if the Fed is able to orchestrate a soft landing. I think the soft-landing or rolling recession scenarios are the most likely outcomes within this boom/bust paradox.

Dividend: On June 30, the company announced a 10% increase in the quarterly dividend to $2.75 per share ($11 annually). The shares yield 3.1% at the current price.

Outlook: I don't expect this stock will generate significant upside until the Fed adjusts its hawkish stance.

Action now: Hold.

Paramount Global NDQ: PARA

SELL

Originally recommended on April 24/23 (#22316) at $22.53. Closed Friday at $15.52. (All figures in US dollars.)

Background: Formerly known as Viacom/CBS (the name was changed in February 2022), Paramount Global is a media and entertainment company that offers its services through Direct-to-Consumer (Paramount+) and Filmed Entertainment segments.

Performance: The shares took a tumble after a disappointing earnings release in early May.

Recent developments: That yellow paper on my forehead is a Post-it Note to warn me about making recommendations within the quiet period prior to a company's earnings release. On May 4, PARA reported earnings per share of $0.09, which was $0.03 below expectations and the stock tanked. To this point, it has not recovered.

There will likely be more pain to come. The weekend box-office take for the new Tom Cruise movie (another in the Mission Impossible franchise) was less than expected. Then there is the strike involving screen actors and screen writers, which has effectively shut down Hollywood. There is not much in the way of good news that would boost PARA's share price based on management's earnings expectations.

That said, this recommendation was never about Paramount's ability to ramp up their profits. In fact, just the opposite. My thesis was based on the possibility another company – likely one of the main direct to consumer streaming services – would buy Paramount to access its vast content library, which based on current prices, is undervalued. Content has value and as competition heats up across streaming services, top-notch content will be in demand. The question is what is it worth and who would be the willing buyer?

Dividend: The quarterly dividend was slashed from $0.24 to $0.05, effective with the June payment. The stock yields 0.13% at the current price.

Outlook: In my view, this position will only be profitable in a takeover scenario. That could take some time. If you are willing to wait, then hold the position because I don't see much downside in the shares from these levels. If you think the runway to a potential takeover/buyout is too long or non-existent, then I would close the position and book the loss.

Action now: Sell.

GORDON PAPE'S UPDATES

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

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$34.30, US$25.89.

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.

CU's main operations are in Alberta, but it also has natural gas and mining interests in Australia and Mexico. It owns 87,000 km of electrical transmission lines and 64,500 km of pipelines.

The company has approximately 5,000 employees and assets of about $23 billion. It is 52.3% owned by ATCO, which is also Alberta-based.

Performance: Like all utilities, the stock has been hurt by rising interest rates, and is currently trading just above its 52-week low of $33.24.

Recent developments: The company reported first quarter earnings attributable to shareholders of $292 million ($1.01 per share), up from $227 million ($0.78 per share) in the same period last year. However, adjusted earnings, which strip out one-time income and expenses, were virtually flat compared to the year before, at $217 million ($0.81 per share).

CU invested $304 million in capital expenditures in the quarter of which 86% was in regulated utilities and 14% in energy infrastructure.

Dividend: The shares pay a quarterly dividend of $0.4486 ($1.7944 per year) to yield 5.2% at the current price.

Outlook: The share price will be under pressure until the Bank of Canada ends its rate tightening cycle, but the yield is very attractive and safe.

Action now: Hold.

UnitedHealth Group Inc. NYSE: UNH

BUY

Originally recommended by Tom Slee on March 2/14 (#21409) at $76.01. Closed Friday at $506.53. (All currency figures in US dollars.)

Background: UnitedHealth Group is the largest healthcare company in the world. It is divided into two segments, with UnitedHealth providing insurance coverage while Optum offers information and technology-enabled health services. The company provides services to 151 million people.

Performance: We last updated this stock in late April at $483.82. At the time, we said there did not seem to be much logic behind the drop in the share price and advised readers to buy the dip. Since then, the price is up $22.71, or almost 5%.

Recent developments: Second quarter results beat analysts' estimates for both revenue and earnings. Revenue was $92.9 billion, up more than 15% from $80.3 billion in the same period last year.

Net income attributable to shareholders was $5.5 billion ($5.82 per diluted share), compared to $5.1 billion ($5.34 per share) in 2021.

For the first six months of the fiscal year, UNH reported revenue of $184.8 billion, compared to $160.5 billion a year ago. Earnings were $11.1 billion ($11.77 per share), up from $10.1 billion ($10.61 per share) in the first six months of 2022.

UNH raised its earnings guidance for the full year to between $23.45 and $23.75 per share.

Dividend: The company increased its quarterly dividend by 14% to $1.88 per share ($7.52 a year). The stock yields 1.5% at the current price.

Outlook: Things are back on track. This is a great stock to tuck away in your portfolio for income and growth.

Action now: Buy.

J.B. Hunt Transport NDQ: JBHT

SELL HALF

Originally recommended by Gordon Pape on April 6/20 (#22014) at $89.76. Closed Friday at $195.59. (All currency figures in US dollars.)

Background: This company is in the freight transportation business, providing truckload, intermodal, and contract carriage facilities to customers across a diverse set of industries in the US, Canada, and Mexico. It specializes in handling imports through its "shore to door" service. Major customers include the Burlington Northern and Norfolk Southern railways.

Performance: After a slump in March, the stock rebounded strongly and is now trading close to its all-time high. We are up 118% from the original recommended price.

Recent developments: Second quarter results were down from last year, with both revenue and earnings falling short of estimates. However, the shortfall didn't have much impact on the share price, which continues to push higher.

Revenue for the quarter was $3.13 billion, which was down 18% from the same period in 2022. The drop was primarily driven by a decrease in revenue per load across all aspects of the company's business. This is a similar scenario to what we saw in the first quarter.

Net earnings were $189.6 million ($1.81 per diluted share). That was a significant drop from $255.3 million ($2.42 per share) in the previous year.

Dividend and buybacks. The stock pays a quarterly dividend of $0.42 ($1.68 per year) to yield 0.85% at the current price.

The company repurchased approximately 315,000 shares of common stock for $53 million during the quarter. As of June 30, it had approximately $467 million remaining under its share repurchase authorization. Actual shares outstanding on June 30 were about 103.3 million.

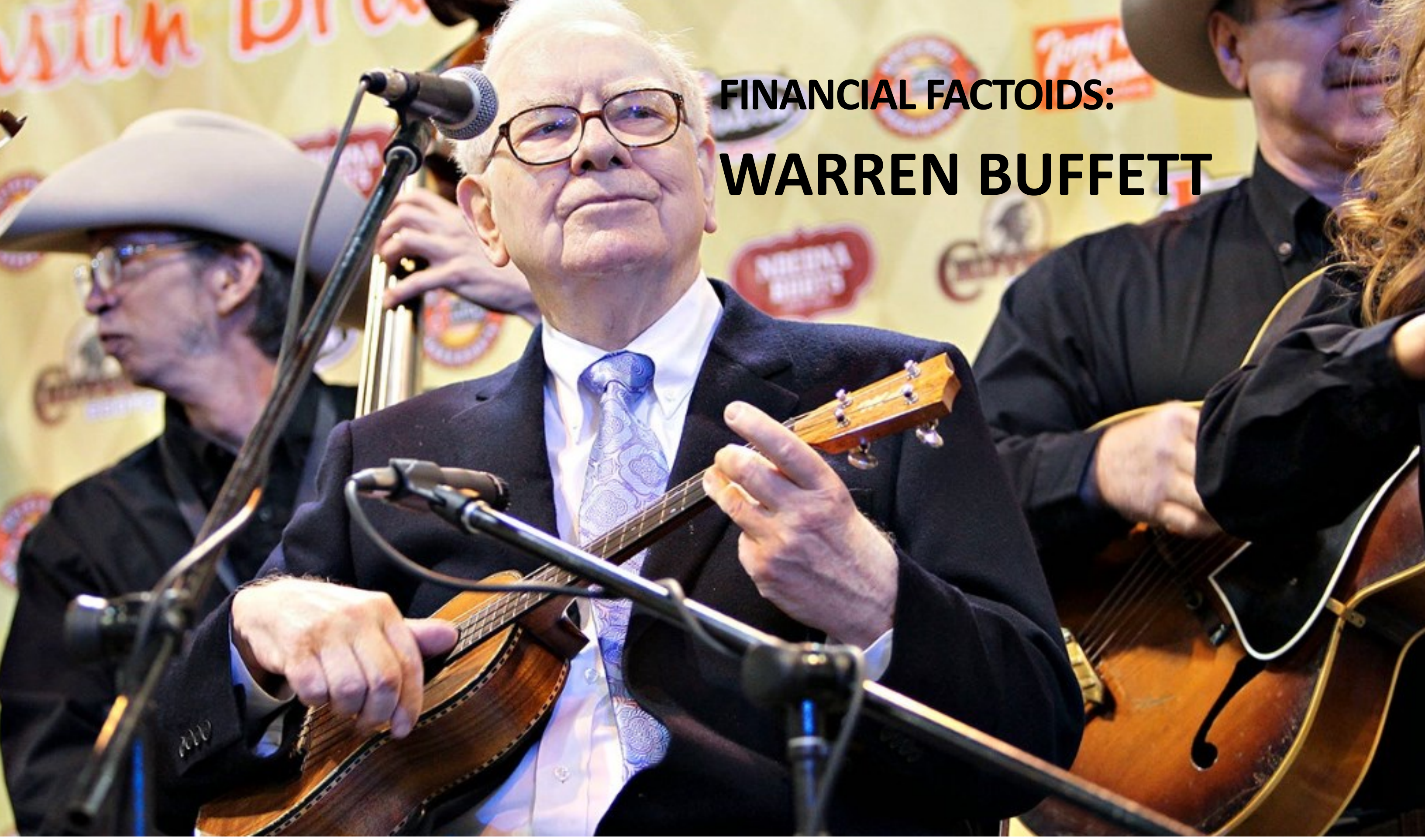
Outlook: At the time of our last review, we said first quarter results indicated a sluggish period ahead. The latest numbers confirm that. There is no reason to expect a significant change for the rest of this year.

Action now: Sell half for a profit of 118%.

Babylon—continued from page 6...

than a decade. It is a telehealth pioneer, just as this form of medical care takes off. It has a proven technology. The market thought otherwise.

There are a few outstanding shares which trade in limited volumes on the US over-the-counter market under the symbol BBLNF. If you still own shares,



FINANCIAL FACTOIDS:
WARREN BUFFETT

Here are some things you may not know about the Oracle of Omaha.

Investing history. While most 11-year-old boys were playing baseball and reading comic books, young Warren was buying stocks. In the spring of 1942, at 11 years old, he purchased six shares of Cities Service Preferred (now CITGO) for $38 apiece (figures in US dollars). He had made $53,000 by the age of 16.

Family: His father, Howard Homan, represented the state of Nebraska for four terms in Congress. He was a Republican.

Education. After graduating from the University of Nebraska in three years, Buffett applied to Harvard Business School. According to lore, during a brief interview with school officials who would determine his acceptance, they told him: "Forget it. You're not going to Harvard."

Lifestyle. Buffett's secret to staying young? "I checked the actuarial tables, and the lowest death rate is among six-year-olds. So, I decided to eat like a six-year-old," he once said. Hmm. That could mean a lot of hot dogs and ice cream cones.

Backing up that assumption is the fact he takes a dozen children, mostly family members, to the local Dairy Queen every Sunday.

"The stickiness really is something," he once told Joe Kernan on CNBC's Squawk Box. "They love it."

He's lived in the same house in Omaha since 1958. He paid $31,500 for the simple five-bedroom, 2.5-bathroom home.

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Buffett—continued from page 12...

He spends 80% of his day reading. From the moment he wakes up, Buffett has his nose in a newspaper.

Dealing with technology. Buffett rarely emails. In fact, he claims that he's only sent one email in his life, and it ended up in federal court. That was in 1997, when he responded to an email from a close friend, former Microsoft executive Jeff Raikes, that read: "Doesn't Microsoft meet all your tests for a wonderful business?"

In his response, Buffett laid out all the reasons why he didn't use Microsoft. The US government pulled in the email as support for Microsoft's position in the economy, and Buffett later told CNBC he saw his email published in a Wall Street Journal article.

Talent. He plays the ukulele.

When he was 18, Buffett developed a crush on a local Omaha girl, Betty Gallagher, according to Hear Nebraska Radio. To his dismay, Gallagher had a boyfriend at the time. So, Buffett brainstormed what he could do that Gallagher's boyfriend could not. The decision was to play the ukulele. They never married. Perhaps that's an indication of his ukulele talents.

YOUR QUESTIONS Sell TC Energy?

Q - I have held TC Energy (TSX, NYSE: TRP) for over 10 years and although I have enjoyed receiving a great dividend (currently 7.1%), I am down almost 18% on my investment! The shares comprise less than 2% of my portfolio. Should I continue to hold, or sell and claim a capital loss against any capital gains? Thank you very much for your investing wisdom. - Salim S.

A - It depends on your investment goals. If you're looking for income, keep the stock. The dividend is safe and has been increased annually for many years.

If you are more interested in capital gains you should look elsewhere but not immediately. Pipeline companies are interest sensitive. When rates rise, the share price drops, which is why you're now seeing a capital loss on your holdings. In early May 2022, TRP was trading at over $70. It's now at $52.23. Rate increases have been a major contributor to the price decline.

When the Bank of Canada and the Federal Reserve Board complete this cycle of rate hikes, the stock will stabilize. When rates start to decline, the share price will rise. That's the time to exit if that's your decision. – G.P.