

## AOTW: Anyone spare a 2X4 or a semiconductor for that matter? April 30, 2021

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Good morning all.

Well we can put the 2020 tax year to bed, with yesterday's April 30<sup>th</sup> deadline in the rearview.

The government opted not to extend the deadline although I have to assume that many a "filer" are still working towards finishing things up.

To all our accountant readers; congrats on another solid year of slogging through the season. Hopefully you can take some time to recharge...that is, before corporate year-end filings start churning.

Relatively flat weekend overall in the markets as earnings reports were being received. Apple and Amazon, and Shopify closer to home, had absolute blowout earnings. Perhaps shouldn't come as much of a surprise given their businesses. That being said these mega-cap companies are trading at very healthy multiples. And over time these blowout numbers may prove difficult to maintain especially when you start comparing them with prior earnings.

Mega-cap companies aren't cheap – but not excessively expensive – but there are better values in companies a rung below them, mid-caps. Still very strong companies, but not necessary all the name brands we know. We've been making some allocations to mid-caps over the past while and see it as a good place to be. FYI, we'd largely be considering US mid-caps, which are basically the same as most Canadian large caps. However based on that logic we're also more amenable to boosting Canadian equity exposure given valuations here....Canada's significant exposure to financials (which benefit from the current upward sloping yield curve) and commodities (which are well positioned based on growth outlooks and an enormous infrastructure plan) should make little 'ole Canada a decent place to be allocated to as this outlook remains.

Lumber fits its way into the above commodity commentary. Everyone now seems to have story about lumber prices...and if not, spoiler alert they've increased in prices significantly. Insert old timey reference, perhaps said in the voice of a prospector "when I was your age lumber only cost...". That was fun.

From old school lumber to new school semiconductors, shortages are a real issue for the foreseeable future. Causing pricing strain, but also significant issues with the

ability to deliver final products. For those not tech-savvy (Dad are you reading this?), semiconductors are in almost all of the gadgets we use nowadays. Demand for technology has exploded (earnings highlighted above are a strong indication of that) and semiconductor manufacturers can't keep up. Those looking for new cars – which definitely includes cars that might be hit by the 2022 luxury tax (over \$100,000) may have trouble getting their new wheels in a timely fashion.

As always everything comes back to supply and demand. During serious demand shocks, companies cut supply. It's just prudent business.

Well when tech crashed in 2000 companies significantly reduced production capabilities for semiconductors. Fast forward 20 years, significantly more semiconductors are needed and capacity hasn't nearly kept up with demand. Same story with lumber surrounding the 2007-08 housing crisis in the US. Significantly reduced numbers of houses being built, caused sawmills to shutter. Issues of supply remain today.

Everything solves itself over time, but some pretty large near-term impacts. A good 101 on the topic from [Barron's](#).

For some reason I often include a musical interlude in these writings. So lumber, lumberjack, Lumberjack song by Monty Python. In homage to our interest in Canadian equity exposure. [Enjoy](#).  
I could not find any semiconductor shortage songs.

On another brief topic, Financial Times chart below about what best ways to reduce your carbon footprint.

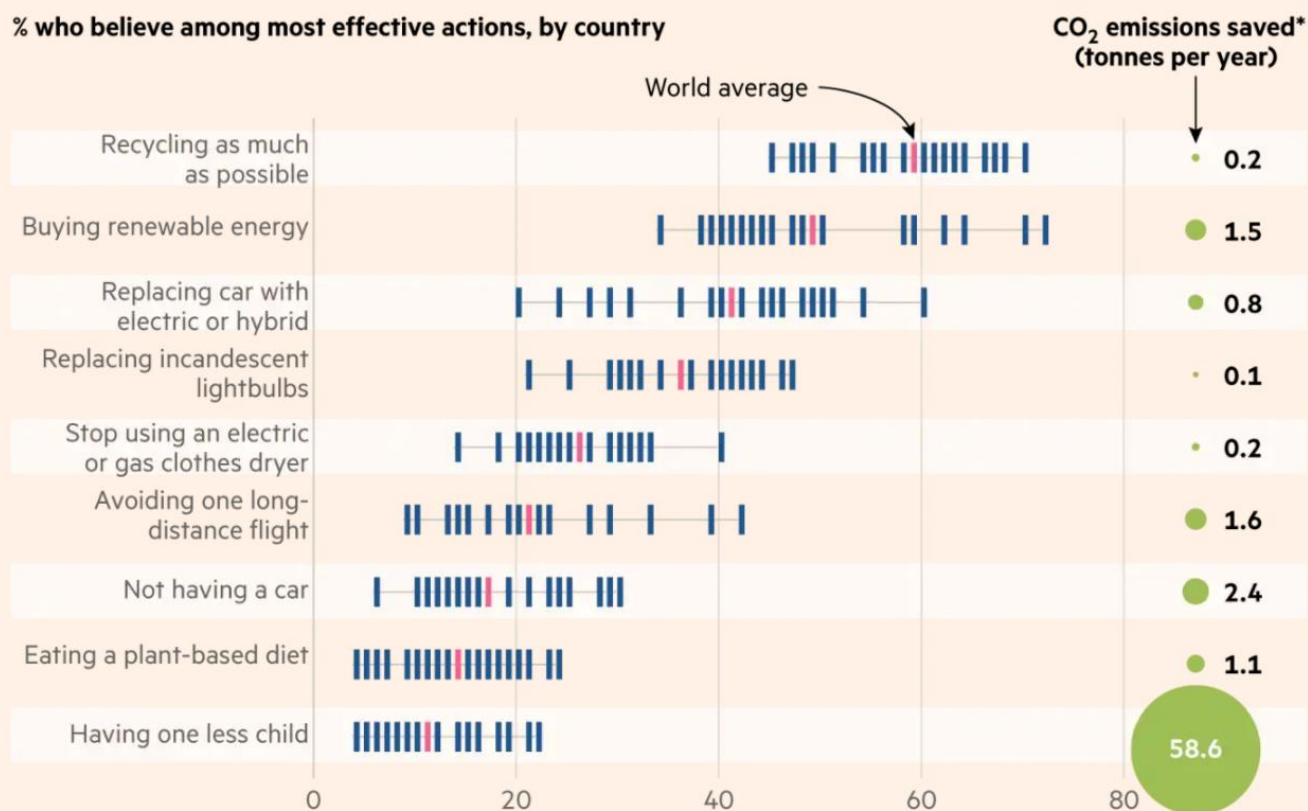
Well it's not recycling, but I'm going to struggle telling my kids it's their fault....turns out having one less kid is the answer.

Is this what they mean when they say, "I should have the talk with my son?"

## Most people fail to identify the best ways to reduce their carbon footprint

21,011 participants were asked, across almost 30 countries — from this list of options, which three do you think would most reduce the greenhouse gas emissions of an individual living in one of the world's richer countries?

% who believe among most effective actions, by country



FT graphic: Steven Bernard and Chelsea Bruce-Lockhart  
Source: Ipsos; IOPScience  
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\* Based on data for developed countries

Penned by Greg Roscoe  
Sincerely,

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