

## Fred Langan Business News



June 15, 2020. Volume 1 # 8

This is the eighth edition of the newsletter which comes out every Sunday night/Monday morning.

### Why is the Stock Market So Strong?

If I had even 10% of the answers for what makes the stock market tick I could be “sunnin’ meself in the Bahamas”, to pluck a line from Beyond the Fringe.

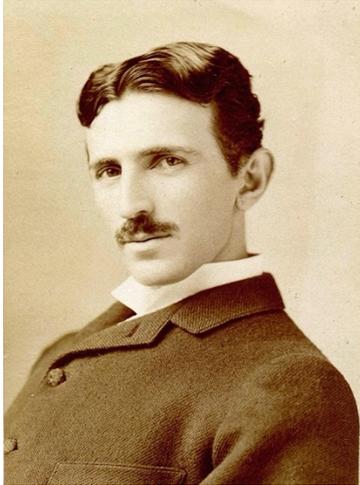
People are mystified that the stock market is on wheels, except for last Thursday, at a time when the world economy is in the dumpster. Doesn’t the Dow Jones Industrial Index have any feelings?

Well no, it doesn’t.

- Stocks are owned by richer people: the top 1% own about 40% of stocks.
- Rich people aren’t hit by the pandemic the same as people living paycheque to paycheque.
- Many market pros betting on V-shaped recovery, that is back to normal fast.
- Interest rates are almost at zero. Good for companies, terrible for retiring.
- Government 10 year bonds pay 0.7% in the U.S.; 0.57% in Canada.
- Small investors are buying stocks that pay much more in dividends.

Small investors are almost always wrong. Is that a warning sign? Markets are impossible to predict and I can’t afford to move to the Bahamas any time soon.

## Madness in Electric Car Land



*Nikola Tesla. Genius used for his name.*

Nikola is the first name of the Serbian genius who revolutionized electrical distribution, among other things, and after whom the Tesla electric car is named. Why not name an electric car company Nikola? Someone did and it went public. Nikola (symbol NKLA on the NASDAQ) was up and down this week on a promise of an electric pickup truck sometime down the road. At one point the company's stock was worth \$30-billion, more than Ford Motor Company. Really?

Revenue at Ford over the past 12 months: \$150 billion.

Revenue at Nikola over its entire history: zero.

Elon Musk, the genius boss at Tesla, which makes real electric cars, made some promises of his own about really producing a 'Semi' or big truck.

Tesla's stock pushed through \$1,000 a share this week, though it closed at \$935.

## The Airstream as Rolling Office



*The Airstream: The Caddy of Mobile Homes*

Who would have thought mobile home sales were up? Seems that people want the high end Airstream for many reasons but one is to use it as a mobile office. It can replace a hotel and it is your little Covid hideaway. And if you are stuck in Canada or the United States, camping may be an option.

The Airstream is recognizable by its aluminum body. It is expensive: the top Airstream Classic sleeps five and can cost \$221,000 fully equipped. Those are

US dollars which translate into C\$296,000, €194,000 and £173,000.

Thor, the company that makes the Airstream saw its stock price jump 11% one day last week. The smart money figured Thor would lose money in the lockdown.

Wrong.

## Bicycles



*Rocky Mountain Soul 10: \$799*

If you've tried to buy a bicycle lately, you have probably been disappointed.

"Bicycle sales have exploded and you can't find one under \$1,500," says Alex Cogger, of Rocky Mountain Bikes. The Vancouver based Cogger says the bike shortage will continue and most dealers will totally run out of bikes by July. The supply chain has been hit by the

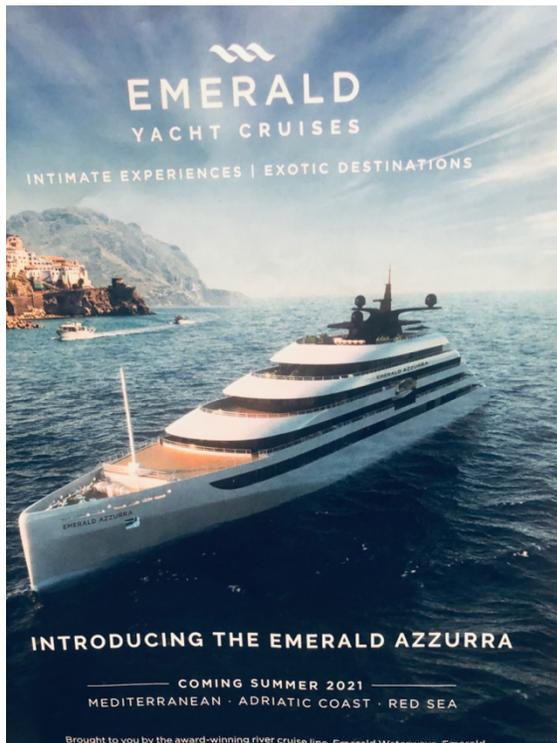
worldwide lockdown. There may not be

a regular supply of bikes until August. "Bikes all come from Asia: Taiwan for high end, China, Cambodia, Vietnam and Indonesia for entry level. Rocky Mountain entry level bikes come from Cambodia, a burgeoning manufacturing hub," says Cogger. "They're assembled in Cambodia with components from Japan, Singapore, Malaysia and Vietnam. In certain countries, including Canada, they qualify as duty free (13% savings) to help foster economic development in [ASEAN](#) countries."

### **Dumbest Investment Advice of the Week.**

I stumbled across a radio station interviewing a man pushing diamonds as an investment. He said he had a beautiful, flawless diamond that was worth \$56,000 and said it would probably be worth \$300,000 in 10 years. "A perfect retirement investment. Saving you the worry of looking at stock prices every day."

## Cruises to avoid the Masses



**Cruise** ships are in the red, parked at docks or floating at sea, costing their owners billions. They may never be allowed back to Venice. Bookings are said to be up. You would have to think many people would avoid them. But who knows. If you have the loot, you could lease a yacht. A little down the pecking order is this ad spotted in the latest edition of Condé Nast Traveler. It offers just a few select spots and a super yacht small enough, or small compared to the mega cruise ships, to dock at places where one would want to go. They do offer a Dubrovnik to Venice cruise in 2021 starting at \$6,045 and going straight up from there.

## The Mandy Rice-Davies Award

Headline in The Daily Telegraph:

“Scottish pubs and hotels demand ‘urgent solutions’ to two metre rule.”  
Well they would, wouldn’t they.



Explanation for younger readers. Mandy Rice-Davies was part of a sex scandal that rocked the British government in the early 1960s. At her trial when asked why 56-year-old Lord Astor would have denied sleeping with her, she replied: “Well he would, wouldn’t he?” In 1979, the quote entered the Oxford Dictionary of Quotations.

## Interview of the Week.

This is a new wrinkle. It will replace the Essay of the Week when I find an interesting interview subject. I will try and choose the same type of person I would have interviewed on my CBC Business News program. Here is the first interview, done late this week, dealing with real estate.

**Bob Dhillon** knows a lot about real estate. He is the founder and controlling shareholder of Mainstreet Equity (MEQ in Toronto), a firm that owns more than 13,000 apartment units, mostly in Western Canada. He is also on the board of directors of the Canada Mortgage and Housing Corporation.



Fred: How has the real estate market affected by the pandemic?

BD: It's a multi-faceted answer: I think, looking at from 30,000 feet that everything will come back to normal, it's just a matter of time. People will start shopping retail, going to offices and the economy will come back. But the (rental) apartment buildings and multi-family sector is the most resilient, safest asset class there is.

Fred: Why is that?

BD: Canada is different from the United States. It's a necessity, an essential service different from hotels and different from the US we don't have an oversupply. If anything we have a shortage (of rental buildings). Rental units trade replacement cost. We have been going through a population explosion in Canada: Almost at par with PR (Permanent Resident) cards in Canada vs. Green Cards in the US and foreign students, immigration. The federal government has opened the gates and people have been compounding and there is a shortage of affordable housing. The latest thing that has happened is that CMHC has made it difficult, for all the right reasons, to qualify for first-time home buyers which translates to more renters.

Fred: Have you seen any rise in rental delinquencies in the short-term?

BD: Yes, 5%. And usually it's 1%.

Fred: There appears to be a sell-off in short term rentals such as condos that people bought for Airbnb. Do you think that's going to have a toll on the resale market?

BD: I don't know how deep the speculators were in the condos which were on the Airbnb market but I think it's going to be short-lived because Airbnb is a solid business model and short-term rentals give entry-level investments for a speculator or investor and it creates entry-level business people and entrepreneurs. Think

about it for a second: somebody musters up a little bit of money and buys a condo and he becomes a businessman, an entrepreneur. I think it's a great model and I think everything is going through a pause right now. From the restaurants... do you think people are going to stop eating at restaurants? Take flying. How can we stop flying and taking vacations? I think everything is on a pause. Are there going to be long-term structural changes? I don't think so and the reason I don't believe it is because historically, why didn't we change before?

Fred: What do you mean?

BD: Why didn't the Airbnb sector collapse before? This is all due to COVID which translated into a recession or a depression and that's it. It's a pause in the economy which we will reflect back to one day and say, "That was a difficult time we all went through."

Fred: Do you think this is going to put overall pressure on the overall rental market in big cities?

BD: In what sense?

Fred: Well, to drive rents down. In San Francisco for example, rents have dropped.

BD: Rents usually drop on the depths of the recession so if it's going to be a deep recession, rents will drop. But different from the US you have to understand that US cities create supply readily and our Canadian cities don't. One of the reasons we don't is because apartments trade lower than replacement cost and the rent has to go up considerably before you can justify new supply.

Fred: We've seen a lot of people now working from home. Is that going to create less demand for office space?

BD: No, I think there's going to be a pause. I think people need people: they need to work together, they need mentorship, they need education and how are they going to get trained? There are 7.4 billion people in the world that are consuming and it will just reduce the consumption for a very short period. I hate to give you the analogy of oil but is it a cyclical problem or is it a structural problem? I see it as a cyclical, seasonal problem and not a structural problem. Same way I see COVID. Zoom existed before COVID. We could have worked from home before COVID.

Fred: There's lots of talk about small towns with Fast Wi-Fi being attractive to people wanting to work from home, do you agree?

BD: I think small towns are going to grow for remote business for different reasons and I'm referring to the aging, greying population. I think the demographic shift in the grey power who want to work three days a week or they come to the office two days and three days they want to work from home. But not all professions can be worked from home; a lot of these professions need offices and warehousing and service industry. So the world is fixated on a very small percentage of professional white-collar workers or consultants. But I think there are bigger reasons why this

industry will grow while working in these small towns online is not because of COVID, it's because of the gray demographic power.

Fred: Where do you think residential real estate is going to go in Canada?

BD: Residential real estate in Canada is going to continue to grow after this pause for two fundamental reasons: We have a supply issue for one and two, we have a population explosion. There's a supply/demand imbalance. In the US they bring on supply like you wouldn't believe. Vancouver is a bad example but I'll give it to you: Vancouver has agricultural reserves, parks, mountains, rivers and the US Border and then you have municipalities like the city of Houston saying, 'Hey, there's no zoning issue'. It's a very difficult environment to develop real estate in Canadian cities.