



# Compass Points



## CONTENTS

YET ANOTHER “NEW HIGH”  
HEADLINE!

WATER

MEKONG DELTA

GOLF — THE ‘WILD WEST’  
OF WATER WARS

THEMATIC INVESTING

### Yet Another “New High” Headline

- The Dow Jones Industrial Average index recently broke through 17000.
- Near the end of August the Standard & Poor 500 index broke through 2000 before closing slightly lower.
- Berkshire Hathaway’s ‘A’ shares rose in value to \$200,000.00 per share. Within the same month the share price rose to \$204,900.00 ... only a 2.5 percent rise above the new record ‘high!’
- The end of July Stephen stayed in a west coast hotel offering bottled water in the room for \$4.00/quart. This places a quart of bottled water at rough parity with the price of a gallon of regular gasoline in northern California.

‘New Highs’ are invitations to wax eloquent on overpriced equities or markets that have not yet reached their top depending on your perspective. Objectivity is rarely evident in these musings. There is an element of

desperation in many of these perspectives. Writers and analysts alike know that careers are often made (or broken) based on the accuracy of predictions about what happens next.

We do not know what will happen next or when ‘it’ will happen whatever it is! We do find a quart of bottled water priced roughly the same as a gallon of gasoline interesting.

Living in both northern California and the center of the Midwest in Indianapolis, it is impossible to ignore the different attitudes regarding water.

### Water

“Water shortages more pressing than climate change, warns Nestle chair.” July 15 headline, Financial Times.

“I’m not saying climate change is not important. What I am saying is that without climate change we are running out of water and this has to become the first priority.”

*Peter Braeburn, Chairman Nestle*

The article goes on to report that over the past three years EU companies have committed 84 billion dollars to improve the way they conserve

manage, or obtain water. Nestle alone set aside \$42.5m this year for water savings and treatment at its plants.

Living in the Midwest you would have little indication, other than national news, that there is a problem. The Great Lakes aquifer is the third or fourth largest on the planet somewhere behind the Amazon and Nile. There is no water 'problem' here. Cooler summer weather and plenty of rain has contributed to what is projected to be a bumper corn and soy-bean harvest.

2014 is the fifth year in a row of drought for California. The living situation is radically different there. Water triage escalates as people, business, agriculture and industry compete for a contracting volume of a critical natural resource.

### **Mekong Delta**

"Troubled Waters, the mighty Mekong river is the new front line in the global battle over water." Pilita Clark, Financial Times July 20<sup>th</sup>, 2014

Roughly half of the Mekong's length is in China. The article addresses the growing competition for water-based resources between China and the five (Myanmar, Thailand, Laos, Cambodia & Vietnam) downstream countries relying on the same aquifer.

"Because China has nearly 20% of the world's people but only about 6% of its fresh water, it sometimes wants to shift water to where it isn't. Hence its immense south-north diversion scheme to transfer huge volumes of water from wetter to drier regions. At the same time, its hunger for electricity has made China a hydropower builder like no other, with an estimated 22,000 large dams, almost half the global total."

"The situation is exacerbated by China's deep reluctance to share information about dams. According to several academics I spoke to, Chinese scholars studying the Yunnan dams (Mekong) treat their data as a state secret."

### **Golf — The 'Wild West' of Water Wars**

"When California residents are being fined \$500.00 for overwatering their lawns, golf courses' use of water is deeply unpopular. The state's 1,140 courses use 2.1bln gallons of water a day. Pete Geick, president of Oakland Pacific Institute, a non-governmental organization, says a single golf course can use 500 to 1,000 acre-feet of water a year, which is enough water for several thousand homes."

"Jeff Jensen, a field staff agent for the Golf Course Superintendents Association of

America, feels golf is being unfairly targeted. Golf courses account for less than 1 per cent of total fresh water used in the state says Jensen. Only 15% per cent use water from municipal systems. Most get their water from ponds, lakes and on site wells. But of course we need to use less water.

*August 14 Financial Times*

You've heard both sides. The prosecution and the defense rest! Characterizing these encounters as 'we vs. they' conflicts where we might stand on one side or the other based on personal preferences, misses the larger issue. Growing demand for a finite or perhaps even diminishing resource is the real issue at hand.

Part of what is being learned in northern California and other places experiencing drought, is how little we really know about deep-water wells and underground aquifers. There have been a few isolated instances in the central valley of CA where the surface soil has collapsed four to eight feet down as underlying aquifers were depleted. Again, what is important is what we do not know.

In a related vein, the nation is enjoying an abundance of relatively cheap petroleum and natural gas products brought on largely because of advances in hydraulic fracturing technology. We are as close to energy in-

dependence as we've been in a long time.

This widely heralded benefit could have costs that are, as yet, unknown. The short name 'fracking' omits the reference to hydraulic. That is to say it omits the 'water' part of the process. One end result of the process (i.e. other than the abundant natural gas being released) is the sequestering of millions of gallons of water well below the reaches of the known water table. We are sequestering water miles below in order to bring gas up to the surface.

### **Thematic Investing**

This approach attempts to build an investment strategy or an actual portfolio (think ETFs) around a theme or particular idea; water and related resources, 'fracking', natural gas delivery and distribution, etc. Because we believe in well-diversified portfolios, we tend to avoid the narrow focus often associated with 'thematic' investment.

Focusing too narrowly on current events or trends (themes) exposes investors to a variety of risks. Timing and substance are the two biggest risk exposures.

By the time the trend is well established and widely known, much of the appreciation in the price of related

stocks has already been experienced. Given the accelerated pace of media dissemination, determining whether or not the theme is substantial enough to be significant, is important. Conspiracy theories can elevate the risk level geometrically when people acquire the conviction that 'they' don't want you to know about 'xyz' because...!!!

All of these factors are amply and sadly illustrated in a pending SEC (Securities & Exchange Commission) action against a penny stock company that positioned itself as providing a 'waterless' fracking technology for the oil and gas industry. Word spread rapidly, accelerated in part by a fraudulent, corporate website. Retail investors piled on, driving the price of the stock up while persuading family and friends to invest.

Incoming investments from people's saving and retirement accounts drove the price of the stock up to the point where a handful of owners involved began dumping their stock.

As a result, the stock price collapsed. The touted technology never existed.

On a more positive note, paying attention to the world around us can generate valuable contributions to investment performance. In our grandparents era AT&T was a

staple in the brokerage accounts of many individuals whose life witnessed the expansion of landlines across the country. Today, AT&T generates investment value by providing wireless service to a new generation of smartphone users who will never own a landline!

We'll close this newsletter leaving you with one other thematic investment to consider:

### **Legal Marijuana Financing Straddles Green Rush and Dot-Bong Bubble**

Venture capitalists and entrepreneurs are eager to invest in the cannabis industry from its seed phase ...

*Institutional Investor – Investor Weekly Edition, 28 August*

Two quick observations: It is truly a 'wonderful world' when people can actually make a living writing headlines like this. The writing might be dismissed as humorous frivolity if it were not followed by a full page of text exploring efforts to securitize various aspect of cannabis production. Go figure!

As always we are grateful for your support and confidence.

*Stephen & Susan*