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Summer Playlist 2024 | Episode 3
David Szybunka, Senior Portfolio Manager & Managing Director of the Energy Team, Canoe Financial

Our Summer Playlist rolls on this week with David Szybunka, Senior Portfolio Manager & Managing Director of the Energy Team at Canoe Financial. SmarterMarkets™ host David Greely sits down with David to discuss what's familiar – and what's different – in this commodity cycle, as well as his full-cycle approach to investing in all things energy.

David Szybunka (00s):
You've got to remember, if you believe in a commodity cycle, it actually has implications to compressing valuations in other sectors, and that happens every single cycle. It's like these energy companies are putting a tax on other sectors which are hitting their margins because natural gas prices are up and diesel costs are up and you actually impact other sectors.

Announcer (24s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
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David Greely (01m 06s):
Welcome back to our Summer Playlist 2024 on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is David Szybunka, Senior Portfolio Manager and Managing Director of the Energy Team at Canoe Financial. We will be discussing what's familiar and what's different in this commodity cycle and his full cycle approach to investing in all things energy. Hello David. Welcome to SmarterMarkets.

David Szybunka (01m 32s):
Thanks for having me.

David Greely (01m 34s):
Yeah, thank you for joining us today. The Canoe Energy team has always been deeply rooted in the energy business community in Calgary, and for a long time that meant oil and gas. Now, as the world moves into an energy transition, how has your investment mandate changed and how has it remained the same?

David Szybunka (01m 52s):
That's a really good question. I think I will just set the stage to kind of try and answer that. To set the stage, global energy consumption is up 50% since the year 2000. That's a staggering number as you just try and think through just how much more energy that is in a very short period of time for the global energy consumption, when we look at all the trillions of dollars that have been spent in alternative energy in the last decade, we've gone from having 82% of our energy needs filled with hydrocarbons to 81%. And so this whole transition that everyone wants to happen overnight is going to take longer to play out than people understand. And so what does all of that mean. It means we need it all. We need oil, we need gas, we need alternative energy, wind, solar, uranium, coal. All of these things are going to be required. And specifically, there's certain areas across the globe that are as far along in terms of how these various countries are developed. And so that's going to play a big part in terms of what energy source they go to. So I find there is way too many people that try and pin conventional energy or hydrocarbons against alternative energy. And the canoe energy concept is we need it all. We should look at it all. Where are the opportunities and that's where we are going to invest the capital.

David Greely (03m 09s):
When you think of that, I mean that's a very broad mandate and it's looking at a lot of different types of energy. Could you take us through like your investment approach and how you handle such a wide remit?

David Szybunka (03m 20s):
So a fair question that investors should ask is, what do I get when I invest in canoe energy versus just doing it on your own. I will start with, look, we are boots on the ground Calgary, and that is super important When you look at the cycles that take place, all my buddies are engineers running these oil and gas companies or CEOs, CFOs, VP operations. So we get to get this live feed, if you will, of just going to your kids' hockey or soccer games and just talking with people that are really involved in the industry, but applying this global energy thematic to it. Back in the day, you would just simply go to the oil and gas conferences. Well, now when we go to the Goldman Sachs conference or the RBC Energy Conference, these are all things energy. These are alternative energy, the largest alternative energy companies, the largest conventional energy companies.

David Szybunka (04m 15s):
We changed our mandate to be more on that thought process back in 2015, but you definitely get up boots on the ground Calgary approach, and I'm telling you that gives you an edge. When you look at just where you were in the cycle of 2014, there was 25 energy specialists in Canada and well, today there's two, right. There was 54 names in the TSX energy index today you bottomed out at 14. So you lose that edge as the capital's leaving as you go through these long downturns, but we are now coming out the other side and the canoe edge is coming back and you get looks at startups and deals and privates and all of these various things. One other thing I would say is one thing that has not changed at all since inception of these funds is we focus on sub-sectors. We are constantly analyzing what percentage of the pie should be in what sub-sector of energy.

David Szybunka (05m 09s):
A lot of people just look at energy like it's one big thing when I look at it, I break it down into light oil, crude oil, natural gas, LNG, transportation, infrastructure, midstream refining, downstream alternative energy and when you focus on those thematics, it's like where is the opportunity within energy? And sometimes you go through extended periods where one of those sub-sectors doesn't look as good, and in fact they never all go or down together. They are always working for and against each other. If the service companies are raising prices, well this is negative. The producers, if there there's excess pipeline capacity, maybe the infrastructure guys are lowering tolls on the infrastructure, benefiting the producers. So we have really focused on sub-sectors at canoe. When you think about investing in canoe, we look at all these thematics. We are not just a bold up oil shop buying intermediate oil and gas, that's not what we do. We are looking at this global setup for a commodity cycle, but looking at all these sub-sectors and where you should be along the way.

David Greely (06m 12s):
Yeah, and I want to dig into your investment outlook, but first I wanted to go back to something you said. I think often people underestimate how deep some of these commodity investing cycles can be and you know you at Canoe Energy, I remember just a few years ago really were some of the last people standing in that space. And is that kind of more diversified approach of looking across sectors, is that really the key to longevity in an energy fund versus as you said, you can't just be a bull up energy shop and survive those cycles?

David Szybunka (06m 45s):
What I would say is like what we strive to be for our clients is a full cycle manager, right? I want them to feel like we are looking at it all. We see opportunities in conventional energy today. We also see some in alternative energy today, but I don't want to leave win to find win, but we will push capital to other sub-sectors. We can get more defensive, we can go to more alternative energy, we can leave the party in conventional energy and when we manage the capital in that approach, I think it adds longevity to how investors think about the sector. There is still way too many people today that are thinking very short term on energy. They are more trading it. They are not trying to invest in it, but we are investing it and we are investing in it through all of these various sub-sectors, not just one sub-sector where the client feels like they got to get in, they got get out, they got to supplement you, all these various things and so I really like the approach that we have and it's important for investors to understand what they own when they own us.

David Greely (07m 50s):
And I like that distinction between the short-term trading aspects and the long-term investing. And I wanted to ask you, what is your current investment outlook and where do you see us in this commodity cycle?

David Szybunka (08m 01s):
This is important to understand because when you go through downturns as a portfolio manager, one thing it really pushed me to understand was cycles and I would tell you I was really good at sub-sectors as you laid out that 2011 to 2014 period being in the right sub-sectors. But I don't feel like I fully understood energy cycles. And when you go through that long dated 2014 to 2020 period, you go back and look at cycles. And so today, where are we, we are four years into a 10 to 15 year energy cycle. We bottomed on the cycle in 2020, we are four years into this. Energy cycles take a long time to play out. They don't just go up and down and then they're all of a sudden done. So let's try and add some perspective for clients at the COVID lows. When you go back to the previous 10 years and you look at the annualized returns of commodities from the COVID lows to the previous 10 years, commodities as an asset class were compounding at minus 9% annualized for a decade.

David Szybunka (09m 06s):
This is a disaster, right? You think through, you go to sit down with your advisor to say, how have you done for me the last 10 years and for 10 years in a row, your advisor tells you, I made you minus 9%. You're just like, what are you doing and so that's how you bottom a commodity cycle. Today, the previous tenure annualized returns for commodities are zero oils up, gold is up, coppers up, all these various commodities are up. You have compounded commodities as an asset class at 0% for the last decade. This is not how a commodity cycle ends, right. A commodity cycle ends through a capital spending cycle over multiple years. That's how you end a commodity cycle, not it's up a bit. You check back and people are all of a sudden second guessing it. So what makes these companies invest. Well, when you structurally underinvest in the old economy or commodities, you create higher prices over time for consumers.

David Szybunka (10m 04s):
When consumers start to feel these higher prices, they start to say, who did this to me? Government policy starts to backtrack. You're starting to see versions of this across the globe. You then start to see governments hoarding commodities for their own people, right. Shortages, price spikes, these sorts of things and through this whole period, it always results in elevated geopolitical risk, multiple wars breaking out certain jurisdictions across the globe, gaining control versus others. It turns into a version of us versus the Soviets or us versus them, not what we have had of Republicans versus dances or liberals versus conservatives in Canada. It's been that backdrop for a long time and people have forgotten why we have created the strategic petroleum reserve in the seventies when Saudi shut off oil to the rest of the world. I think we are going back to that and when you go back to that regime or thought process, you turn on the TV, you open up your phone and you constantly feel like there's an energy security issue which pushes investors to feel like, why aren't we spending more and today when I go to all these energy conferences, all that's happening is investors are debating dividends versus buybacks, not why aren't we spending more. This will all change over multiple years through a commodity cycle and like I said, we are year four of a 10 to 15 year cycle. People don't understand how long these things take to play out.

David Greely (11m 39s):
That certainly resonates with me. I feel like having worked in the oil industry, the energy industry for a long time on the research side feels like people who are dialed in every day kind of see these things coming, but you're almost always early relative to the market. If we are in the fourth inning, when do you think the investors start to wake up to the problem. What inning does that usually occur around?

David Szybunka (12m 04s):
Why don't I just give an example of like how previous cycles have played out and what we maybe think is different. So when I look at today's cycle, what is a key thematic. This cycle that wasn't around in previous cycles, A key thematic is decarbonization. This was not around in previous cycles, and I don't see this theme going away. I see this thematic being around for multiple years. In the coming years, I think there is going to be this decarbonization theme across the globe. It may ebb and flow of people more focused on it, people less focused on it, but I don't see it going away and so if this thematic is always lurking in the background for conventional energy, I think this cycle is going to take longer to play out, right and if it takes longer to play out, that doesn't mean it's a bad thing because when investors are second guessing the cycle, the capital's more reluctant or hesitant to come back.

David Szybunka (13m 05s):
You get these check back and the producers are looking over their shoulders. Let's play out the mid two thousands. Mid two thousands, the cycle started to turn in the early two thousands, 2000, 2001 and then by 2004/05, we were up off and away and by 2006, 2007, 2008, the companies were right away back to their old ways. You were four or five, six years into the cycle, it was back to grow, grow, grow, spend, spend, spend. We are back baby. These companies were spending a hundred plus percent of cash flow. When you were in that 2007/08 period you saw the companies really start to spend because investors were pushing for more capital spending. Remember

through that period, shale wasn't around yet. We were talking about how there wasn't going to be enough. Oil shale showed up a few years later. But you watch 30 plus companies start up in Calgary to go and expand or drill or start oil sands projects.

David Szybunka (14m 06s):
We'll envision 30 companies all at the same time going, I can't get people, I can't get crews, I can't get steel. I'm bidding up land. US private equities coming back to Canada. Everyone's bullish on the cycle. The capital is just flowing on multiple fronts. What I am feeling right now could not be more the opposite. The capital is not flowing. There is hesitancy. Are you sure we are going to need it in 2027, 2028 are EVs taking over the world. Why would I build a new refiner when we are going to need diesel or gasoline. All of this in a mixer is super good for profits and I find investors today when I talk to them, they're very focused on the commodity. Everyone wants to ask me about my oil price prediction or natural gas price prediction and this is what happens at the start of cycles where people start to ask, are we in a commodity super cycle?

David Szybunka (15m 06s):
I think we are just in a commodity cycle, but I actually believe we are in a supercycle of energy profitability because of all those things I laid out. The reluctancy, the hesitancy, all of this in a mix are these companies are focused on profits, not growth like they used to and another thing that's important for people to understand is I am watching the biggest M&A cycle play out that I have ever seen in my career. You're watching Exxon by Pioneer, Chevron by Hess. You watch Diamondback merge with Endeavor in the Permian that's now the largest Permian producer. Southwestern merges with Chesapeake largest gas producer. Core emerges with InterPlus now the largest Balkan producer in the last months. Conoco buys Marathon, Devin buys Grayson Mills. We are watching oligopolies form within the energy sector and when you have oligopolies, they are much more inelastic in terms of their response to rising prices.

David Szybunka (16m 08s):
Prices go up, they don't just react and start ramp spending like they used to back in 2014 where there is hundreds of companies, all these private equity companies, no one has discipline. There is all these service companies building out new gear, new frack gear, drilling rigs, don't need a contract using debt. Today it's like we don't want debt in the cap structures because of this age of restraint that I described. The capital is not coming back. The companies are merging, oligopolies are forming. We are in a super cycle of energy profitability. That is what the client should be focused on and I don't see it going away anytime soon.

David Greely (16m 51s):
And it sounds like you are painting a picture of, you said, highly profitable companies with many peers across the landscape that are very undervalued and is that what's driving the M&A, just the people in the industry saying, I can get some fantastic deals and I've got a lot of cash to do it with?

David Szybunka (17m 08s):
Yeah, I think what's important to understand is when we moved off the lows from 2020 to say 2022, we were in the climb, the wall of worry, stage in in the climb, the wall of worry stage, everything goes up, everything goes up. You can throw a dart at the dartboard and we all made money on energy stocks, right. When everyone's getting bullish energy and there has been massive moves in the sector, we went into the digestive phase, you had to digest these massive moves that happened within the sector and we have been in that phase from 2022 to today and in that digestive phase, you start to see certain companies valuations expand versus others. Not everything wins. The market's picking their forces for the next part of the race, if you will and you start to see multiples expand for certain groups versus others. So when I look at all the M&A that's been going on, some of the companies are using their cost of capital advantage that wasn't there two years ago.

David Szybunka (18m 08s):
Now they have a cost of capital advantage and they're using it to their advantage. Other companies, it's more just a version of equals and you can argue that, are you sure you are creating shareholder value with these transactions. But what I would say is this is all very healthy. What's happening when you go through the digestive phase and come out the other side, you want to look back and say, I am a better company or I am more attractive to capital to flow towards my name and I think as I described this reluctancy within the cycle, I think it's also important to think about if the capital's more reluctant to come back, look, you are going to go through these periods where everyone feels smart again and everything erects, but then on the checkbox, there is no one there to defend certain names. They give up all the gains in a hurry because there is not all this capital flowing in like it used to versus other names.

David Szybunka (19m 00s):
They don't really come in because guys want to buy them and the multiples or valuations expand. So that's super important for an energy investor to understand that not everything's going to win and try to be in the right names with multiple expansion being there using the cost of capital while at the same time being in the thaw period where it's now probably the time to not just go by CNRL, Exxon, Suncor, Chevron, Schlumberger, this was where you go at the start of a cycle. But as you start progressing through the thaw, you need to start looking down a little bit more. That's where the better opportunities are.

David Greely (19m 38s):
I want to come back to where you see the opportunities, but first I wanted to go back to something you mentioned earlier, which is while in your view investors should be really focused on the profitability, you know there is a lot of focus on the commodity price and I wanted to ask you because kind of turning to some of the newer alternatives, we have seen big price spikes in crashes in battery metals. You have seen that on the lithium side, you've seen it on the nickel side and I am curious, has that commodity price behavior been impacting the way investors are thinking about investing in energy?

David Szybunka (20m 12s):
A little bit. Like I said, at the start of cycles, they are so focused on the commodity, they live the here and now of it going up and down and what I would say to you is if we just focus on the commodities, I think there is going to be continuous volatility. I think we are in a higher volatility regime in commodities, we are consuming more of it. How I started talking, everyone across the globe is using more and more and more of all these commodities, but we are not really structurally investing in the old economy. These companies are spending 40 to 60% of cash flow. When you just look at things like oil, look back in the early 2000s, we had way lower global consumption of oil. We were consuming in 2010, high eighties million barrels a day. Well today we are consuming 103, 104. Well today we are investing, I don't know, $500 billion, $550 billion across the globe.

David Szybunka (21m 09s):
Well back then we reached periods that we were investing $800 plus billion and so we are using more, we are investing less because of those oligopolies forming we are actually giving more control back to OPEC. This is exactly what we did in the 60s leading into the 70s where the US said after there was that invasion of Yemen and the US defended Israel within that Yemen, Syria invasion, Saudi shut off oil to the rest of the globe on that to Canada, to the us to Europe and the US said we are going to create the strategic petroleum reserve. So this never happens again and like I said, we have forgotten about all these periods, but I think we are going to be in a higher commodity volatility regime but I think as we translate that to the equities there is no debt in the capital structures. What destroys equity value, too much debt, not enough cash flow. What does the sector have today very little debt and a lot of cash flow. So volatility we are watching before our eyes volatility compress in the energy equities, which is not in the commodities, but understanding how to trade around the energy equities amidst this higher Vol regime, there is going to be periods within the commodities of asymmetric moves to the upside because of what I just described and you want to grab that as an investor or a company not hedge out all your risk on that. So there is lots of things to think about.

David Greely (22m 35s):
And so when you think about the compressed volatility where multiples are out across different sectors where commodity prices are, where do you see the opportunities right now for energy investors?

David Szybunka (22m 47s):
I always try and simplify our presentation with one slide and on that slide I talk about again, where are we within the grand scheme of the market. Well today in the market energy weight is 4% of the S&P 500. Energy earnings are over double that 89% and so traditionally energy, weight matches energy earnings. This happens 90% of the time through the cycle. So we think weight is going to earnings. That's the simple part of our thought process, but it never goes in a straight line and a key ingredient for what I just described is other sectors not working. I could feel rotation in energy of money leaving other sectors coming to energy in 2021 and specifically 2022. I have not felt that for 18 plus months. Right within energy, other sectors have been fine and so we have not felt this rotation, but people feel like it's different this time on.

David Szybunka (23m 47s):
Yeah, but I don't think people are going to go back to energy. It's not different this time. That same disconnect of weight to earnings was in the early 2000s. That same weight to earnings disconnect was in the early 70s. That's where I described like these periods started the same way and then over time other sectors quit working. You got to remember, if you believe in a commodity cycle, it

actually has implications to compressing valuations in other sectors and that happens every single cycle. It's like these energy companies are putting attacks on other sectors which are hitting their margins because natural gas prices are up and diesel costs are up and you actually impact other sectors. So we are in the digestive phase, but we think that just because you're in this digestive phase of weight, non-matching earnings, energy weight is 4%. It doesn't mean that energy doesn't work.

David Szybunka (24m 41s):
The sector might be there, but within that digestive phase, certain names are working. 75% of energy stocks were down last year. Our canoe energy funds were up five to 14% in the digestive phase. So it doesn't mean you can't make money, but that's the big picture opportunity. When the weight goes to the earnings, we will have more money in alternative energy, right. We will not be just sitting around parked, but that's when everyone's going to be bullish saying that the weight's going to 15% because another war just broke out, end, end, end, end, right. So that's our big picture thought process.

David Greely (25m 14s):
That's great. I would like to kind of go within the big picture and ask you, you know when you look at the portfolios you are managing, are there any key themes within energy that you think are really important right now?

David Szybunka (25m 26s):
I do like just to simplify, what are key themes that we think investors should pay attention to, royalties, natural gas services. Those are three themes I would focus you on within our portfolios and to talk about royalties briefly. Look, royalties are really good businesses, royalty businesses. These companies are capital light. They don't put up any capital. They sit back and collect royalties off of oil and gas revenues. They are just simply revenues. We own a royalty company that collects royalties off of wind and solar revenues, right. So, but they are really good businesses, they are capital light, they compound over time and so when we look at the valuations of the royalty companies, they are in that 7% to 10% free cash yields. Well the producers are at 8 to 14, so these should be structurally much lower and the multiple structurally way higher. When we look at other royalty businesses within the market, they are valued way higher than where these conventional energy companies are valued on the royalty side.

David Szybunka (26m 28s):
So we are playing that thematic out until we see that bigger rerate natural gas is super important to think about because in the market size 24 months ago, natural gas was part of the problem. It's quietly become part of the solution. This was a blow down sub-sector 24 months ago and now investors are feeling, I think we are going to need it. Well of course we should use less coal use more natural gas. Well if we are building out more intermittent renewables, we should have more natural gas. This energy AI thematic, well oh my god, we are going to need more natural gas if we are building out more electrification. This is all playing out. When you have a growth sector, which is quietly what natural gas is turning back into front end multiples expand because investors start to believe in the coming years we are going to need it. This has implications to natural gas equities.

David Szybunka (27m 23s):
Don't just think about the commodity, separate the commodity from the equities and this has implications to where equities should be valued when you focus on the commodity for a second look, today we are at $2 natural gas best in class companies. The low cost producers make an okay return here. The rest of the industry doesn't. The marginal cost of supply for natural gas is $4. If we just leave prices right here, there is not going to be enough natural gas production for this big LNG build out that we see on the horizon and so you are going to have to see a price response and like I described, we have all been trained to think, well if prices go up, there is just going to be too much gas 'cause everyone just goes and drills for more gas. Well beneath the surface we are forming these bigger oligopolies. A lot of them actually need to deliever into a rising price environment.

David Szybunka (28m 13s):
As you think through companies like EQT that just bought more midstream assets, lowered their cost structure but took on some debt. So it will be very interesting how the next bit plays out where you see these oligopolies formed and also one thing I would just touch on is when you just look at since 2013 US natural gas demand is up 43%. Natural gas storage is only up 2%. We keep using more of it in a just in time system, but we keep filling storage to the same spot and now we are being the nice guys across the globe to give cheap gas to the rest of the globe. There is going to come a period of asymmetric upside moves. I remember when I was at Peters and Company, our weekly gas bets as we called out the traders were kind of sort of in the winter over under 180 BCF withdrawal for the week.

David Szybunka (29m 05s):
Well there is periods last year that were 340 BCF withdraws like you could legitimately draw out a third of us gas storage in a matter of weeks. This has implications to how investors will think about this group over time and just trying to point out some of the things that we think are notable there. Lastly, on the service side, simplify it year over year US rig count is down 20% and the service stocks have come in at today's levels. You can kind of see a bottoming process on the US rig count. You can see how this needs to inflect higher over time. The stocks always move ahead of the commodity and within Canada the rig count is actually up 10% year over year. So there is lots of reasons to be looking at this group as well at a time that it's really underperformed some of these other areas of energy.

David Greely (29m 56s):
You have also been a strong investor in Abaxx, which recently opened its Global Commodity Futures Exchange in clearinghouse in Singapore and I wanted to ask you, how does that fit into your all things energy and what was your investment thesis there?

David Szybunka (30m 10s):
Yeah, I mean that's a good reminder where we don't want to leave wind to find wind steering at conventional energy companies that are super profitable and so we get that, but at the same time there is this alternative energy side of things where we see $56 trillion getting spent in alternative energy in the next two decades. We think you are crazy as an energy investor if you don't look at some of this stuff, just like I described royalty companies exchanges are super profitable businesses when you look at exchanges across the globe. Abaxx is involved with building out the first commodity clearinghouse in over a decade and when we look at what they actually believe in, we are going to be having more LNG trade across the globe. We are clearly going to be trading more LNG right. If we see an LNG cycle playing out there, you are going to need to be having more of these hubs.

David Szybunka (31m 01s):
If you believe in this commodity cycle, everyone is focused on NASDAQ futures today as the NASDAQ hits 52 week highs. Well we see a scenario where they're more focused on these underlying commodities in the coming years and you have a very strong team building out an approach that we see is going to be super profitable if this exchange gets up and running and more commodities trading. But they are not just focused on the old economy like us, they are Canoe Financial. They are focused on these other things as well. I always get asked by our investors, where are carbon credits going to trade in the next 2, 3, 4 years? I don't know, but I bet you there is more carbon credits trading enter Abaxx, they just are going to make money off of more carbon credits trading. That is super important. We own companies in our portfolio that are trying to stabilize the grid. We own companies in our portfolio, like I described that are putting royalties on wind and solar revenues. So none of these are conventional energy, but you get it all when you invest in canoe. We are parking capital across these super strategic places where it's not just an oil shop, if you will.

David Greely (32m 09s):
And I want to continue with that idea of investing in all things energy. I was hoping you might take a few minutes to describe how you see that landscape changing for the energy investor. How should they be thinking about conventional energy and alternative energy sources, particularly with so much government funding moving into the alternatives today?

David Szybunka (32m 33s):
I mean you said touch on both and one thing I haven't touched on that I think is important. We think this conventional energy sector is going to re-rate over time, the 4% going more towards earnings, but to give the investors a feel of you are actually getting paid to ride this out. You weren't previously, but these companies are very focused on shareholder returns. When we look at a company in our portfolio is Tourmaline Oil, this company is a $60 stock. It's one of the best in class low cost producers within the conventional energy North American market. It is going to pay you $30 of dividends on a $60 stock in the next five years. You are going to get half your money back just in dividends in the next five years. If you also start to look at, given that natural gas thematic that I described, the stock trades at 5.2 times today.

David Szybunka (33m 27s):
If it just goes to 7.2 times in a more normalized gas price environment, it's $125 a share. You get a double on the stock while collecting $30 of dividends. I could give you 3, 4, 5 more examples where this is not priced properly. When you are able to cancel 50% of your shares or hand 50% of the market cap back in dividends, you should not be priced there. That's telling you the reluctancy that I described. But on the other side of the equation, as much as I talk about, I think we should be investing more, not just at these conferences debating dividends and buybacks. When you look at government policy, I think their mindset is we should be investing in

alternatives even faster. Their mindsets are so far away from what I described. They are like, we need to accelerate this build out even quicker and so how am I thinking about that big picture?

David Szybunka (34m 26s):
Just bet on the spend. I want nothing to do with this solar company being better than this solar company being better than this one. All of a sudden government changes. They take away incentives. We don't want to invest in the lowest cost gidget. We want to invest in the spend because I will bet on the spend. The spend is coming and in fact it's accelerating. So when you have the 56 trillion plus of spend, you want commodities clearing house exchanges to bet on the spend. You want royalty businesses to bet on the spend you want service providers that are just simply building out the energy transition. These are the places we are parking the capital today. This will all mature over time. Like I sometimes describe this as the tech bubble in the early 2000s where too much capital chased a lot of companies that weren't profitable, but coming out of that tech bubble, you should have got along the right groups and rode them for two plus decades and today, I feel the same peak ESG 2020. Too much capital was flowing there. We have washed it out. We are still washing it out, we are finding out who the real businesses are, but you going to want to be engaged in some of these businesses for the next 10, 20 years because of the government policy behind you, the tailwind and the real companies forming.

David Greely (35m 49s):
Fantastic. Thanks so much, David. You have given us so much to think about, so many new ways to look at these markets and how they're changing and I love the bet on the spend, so thanks for that. Before I let you go, because this is our summer playlist series, it's become a tradition to ask each of our guests what's on their personal beach reading list this summer. I don't know if you get a break or not, but I thought I'd ask you before you go. What are you reading this summer?

David Szybunka (36m 14s):
Well, I am reading a lot of Goldman Sachs research reports and Peters and co-research reports, but one book that I actually read a while ago that I am actually rereading right now is Howard Marks, *The Most Important Thing*, and it's a classic. It's not hard. It's very simple, but it's a good reminder and I actually feel like it's very applicable in today's market. As I just turn on the TV and there is all these chatter about s and p going to new highs and NASDAQ going to new highs and quietly there is these things I'm describing within our backyard and energy where we are quietly collecting all these dividends and things like that that I described. He really goes through a lot of things in that book that is what's your point of entry. That's super important as you are investing. It's not about the thematic, it's about what's your point of entry on the thematic and he just goes through calls, the book the most important things, but he goes through multiple things that are important as an investor. It's very simple. Where is the capital flowing? Where's it not flowing? You maybe should look at where it's not flowing. This is like my backyard right now in energy, so I am rereading that and it's a great book for investors to pick up and read.

David Greely (37m 25s):
Thanks again to David Szybunka, Senior Portfolio Manager and Managing Director of the Energy Team at Canoe Financial. We hope you enjoyed the episode. We will be back next week with another episode of our Summer Playlist 2024. We hope you will join us.

Announcer (37m 41s):
This episode was brought to you in part by Abaxx Exchange, where trading in centrally cleared, physically deliverable LNG and Carbon futures contracts is now underway. Ready for smarter markets. Contact us at onboarding@abaxx.exchange.
That concludes this week's episode of SmarterMarkets by Abaxx. For episode transcripts and additional episode information, including research, editorial and video content, please visit smartermarkets.media. Please help more people discover the podcast by leaving a review on Apple Podcast, Spotify, YouTube, or your favorite podcast platform. SmarterMarkets is presented for informational and entertainment purposes only. The information presented on SmarterMarkets should not be construed as investment advice. Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on SmarterMarkets are those of the participants and do not necessarily reflect those of the show's hosts or producer. SmarterMarkets, its hosts, guests, employees, and producer, Abaxx Technologies, shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on SmarterMarkets. Thank you for listening and please join us again next week.