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1<sup>ST</sup> QUARTER 2021 (3/31/21)

## Winning the Peace

Even before the war is over, the winning side needs to consider how to “win the peace” which will follow. The world has been fighting a war against the COVID-19 pandemic and as nearly universal vaccination approaches, investors need to think about how to win the peace. What does history tell us?

### World War I

In the aftermath of World War I, the Allies punished Germany for its role as the main antagonist. Huge reparations were levied, and those financial claims put a big damper on the German population and its economy. This gave rise to Adolf Hitler and the Nazi Party in the 1920s and 1930s. In turn, the Allies ended up fighting another War in the 1940s, because they lost the peace.

### World War II

The Allies learned their lesson from WWI. When Japan and Germany surrendered, the U.S. led an effort to shower grace on the German and Japanese people. To understand this, see a movie called *Unbroken*. When the Japanese waved the white flag, the U.S. dropped supplies into their enemy’s hands immediately. Also, the U.S. and its European allies developed the Marshall Plan. This helped the German and Japanese economy to thrive, and they became leading 20th Century economic powerhouses. We won the peace!

### COVID-19 Pandemic

Since the War against COVID-19 isn’t won yet, investors are hesitant to think about “winning the peace.” The fight against the virus is affecting certain East Coast and Midwestern states much more than it is in states which have more heavily vaccinated and/or have seen a larger part of their population test positive for COVID-19.

State	Population	COVID Infections		ESTIMATED % Population Infected	COVID Vaccinations		% Population with 1+ Doses	% Population with 2 Doses	% Population Infected or Vaccinated (c) + (d)
		Total Cases	Infections per 100k Residents		# People with 1+ Doses	%			
South Dakota	884,659	118,361	535,171	54%	334,448	37.8%	220,982	25.0%	91%
North Dakota	762,062	101,824	534,466	53%	203,818	34.6%	175,389	23.0%	88%
Rhode Island	1,059,361	138,504	522,922	52%	380,535	35.9%	256,292	24.2%	80%
Arizona	7,278,117	644,302	463,984	46%	2,338,959	32.1%	1,392,647	19.1%	79%
New Mexico	2,096,829	192,152	366,557	37%	863,155	41.2%	549,244	26.2%	78%
Oklahoma	3,956,971	439,149	443,924	44%	1,315,073	33.2%	810,376	20.9%	78%
Utah	3,205,958	387,341	482,276	48%	916,927	28.6%	436,933	13.3%	77%
Nebraska	1,934,408	211,812	437,988	44%	644,910	33.3%	402,325	20.8%	77%
Kansas	2,913,314	301,073	413,375	41%	988,149	33.9%	559,886	19.2%	75%
Wisconsin	5,822,434	379,877	398,374	46%	2,054,787	35.3%	1,242,184	21.3%	75%
Tennessee	6,826,174	813,814	476,552	48%	1,849,983	27.4%	1,064,200	15.8%	75%
Massachusetts	6,892,503	651,886	378,316	38%	2,628,913	38.1%	1,487,084	21.6%	74%
Illinois	12,671,821	1,256,634	396,670	49%	4,370,004	34.5%	2,346,220	18.5%	74%
Delaware	973,764	96,432	396,121	46%	338,154	34.7%	178,080	18.3%	74%
Connecticut	3,565,287	313,226	351,417	35%	1,385,278	38.9%	839,500	23.9%	74%
Montana	1,068,778	105,142	393,504	39%	354,742	33.2%	231,002	21.6%	73%
South Carolina	5,148,714	555,274	431,388	43%	1,500,627	29.1%	861,028	16.7%	72%
Kentucky	4,467,673	426,393	381,738	38%	1,494,667	33.5%	903,711	20.2%	72%
California	39,512,223	3,378,351	392,353	39%	##	34.2%	7,166,145	18.1%	70%
Iowa	3,155,070	292,463	370,785	37%	1,065,588	33.8%	683,527	21.7%	71%
Minnesota	5,639,632	525,376	372,631	37%	1,959,487	34.7%	1,224,073	21.7%	72%
New Jersey	8,882,190	815,007	367,030	37%	3,266,042	36.8%	1,910,700	21.9%	73%
New York	19,453,561	1,890,420	358,794	39%	6,691,660	34.4%	4,091,857	21.0%	73%
Nevada	3,080,156	305,176	396,312	49%	654,577	30.4%	559,150	18.2%	70%
Indiana	6,732,129	689,935	409,930	41%	1,863,295	27.7%	1,250,217	18.6%	69%
Idaho	1,787,065	181,181	405,539	41%	504,809	28.2%	326,938	18.7%	69%
Wyoming	578,759	56,447	390,124	39%	168,177	29.1%	119,075	20.6%	68%
Florida	21,477,737	2,077,857	386,979	39%	6,554,477	30.5%	3,854,492	17.9%	69%
Alaska	731,445	60,918	333,092	33%	258,376	35.3%	178,886	24.4%	69%
Mississippi	2,976,149	306,088	411,388	41%	771,190	25.9%	500,607	16.8%	67%
Alabama	4,903,185	507,847	414,137	41%	1,248,029	25.5%	711,596	14.9%	67%
Ohio	11,698,100	1,011,011	345,967	39%	3,757,736	32.1%	2,331,979	19.9%	67%
Pennsylvania	12,801,989	1,042,682	325,788	33%	4,505,442	35.2%	2,424,161	18.9%	68%
Louisiana	4,648,794	440,125	378,700	38%	1,294,499	27.8%	855,263	18.4%	66%
New Hampshire	1,359,711	85,846	252,542	29%	569,781	41.9%	270,185	19.9%	67%
North Carolina	10,488,084	903,684	334,632	34%	3,262,431	31.1%	1,908,886	18.2%	66%
Colorado	5,758,736	468,121	325,155	33%	1,908,869	33.1%	1,118,667	19.4%	65%
Virginia	8,535,519	625,148	292,963	29%	2,975,428	34.9%	1,666,877	19.5%	64%
Arkansas	3,017,804	259,351	343,761	34%	861,082	28.5%	487,363	16.1%	63%
West Virginia	1,792,147	143,456	320,188	32%	569,655	31.8%	379,703	21.2%	64%
Missouri	6,137,428	492,337	320,875	32%	1,750,110	28.5%	1,077,912	17.6%	61%
Maryland	6,045,680	417,329	276,117	28%	2,060,040	34.1%	1,196,806	19.8%	62%
Texas	28,995,881	2,266,561	312,674	31%	8,251,415	28.5%	4,670,842	16.1%	60%
Georgia	10,617,423	855,839	322,428	32%	2,791,236	26.3%	1,415,760	13.3%	59%
Michigan	9,986,857	692,206	277,247	28%	3,139,123	31.4%	1,937,375	19.4%	59%
District of Columbia	705,749	45,037	255,258	26%	216,518	30.7%	111,858	15.8%	56%
Maine	1,344,212	51,763	154,032	19%	518,694	38.6%	318,678	23.7%	54%
Washington	7,614,993	344,326	190,870	19%	2,510,100	33.0%	1,375,763	20.7%	51%
Vermont	623,989	20,149	129,163	13%	232,419	37.2%	138,468	22.2%	50%
Oregon	4,217,737	166,882	158,267	16%	1,315,090	31.2%	800,917	19.0%	47%
Hawaii	1,415,872	30,135	85,135	9%	480,013	33.9%	299,014	21.1%	42%

Source: Fundstrat, CDC, World in Data and COVID-19 Tracking Project. Data as of 2/1/2021.

Therefore, it seems like a strategy for winning the peace makes more sense at the end of the first quarter of 2021, instead of trying to make any more money from fighting the war on the pandemic.

### Who Won in the Pandemic?

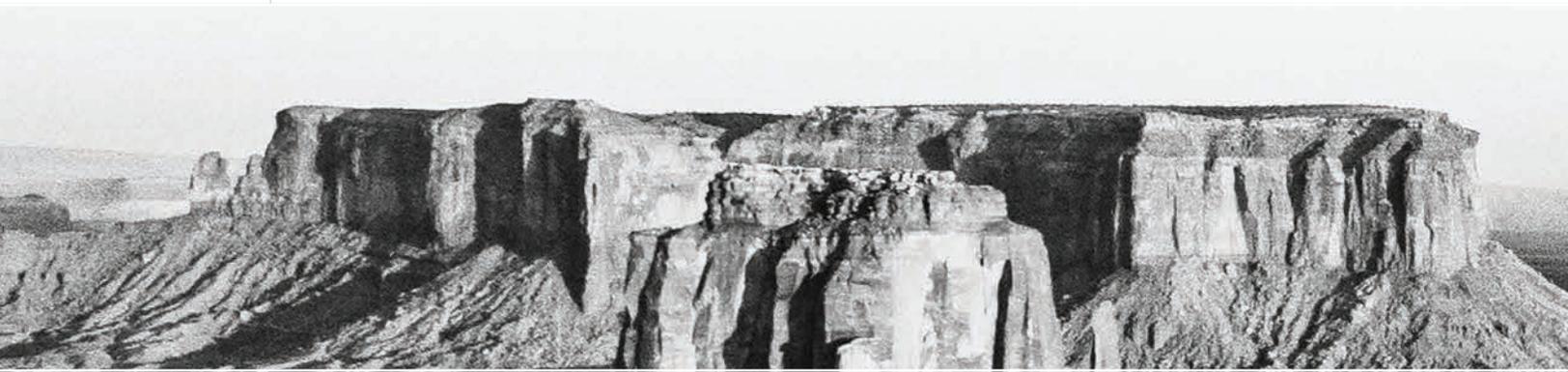
#### FAANGs

#### FANG Performance & Share of S&P 500



\* FANG stocks include Facebook, Amazon, Netflix, and Google (Alphabet). Market cap includes both classes of Alphabet.

Source: S&P, Yardeni Research Inc. Data for the time period 1/1/2013 - 2/2/2021.



1<sup>ST</sup> QUARTER 2021 (3/31/21)

### Work from Home

Security	Trailing Price/Sales Ratio
DOCUSIGN INC	26.0x
ZOOM VIDEO COMMUNICATIONS-A	34.9x
PELTON INTERACTIVE INC-A	11.0x
TELADOC HEALTH INC	15.1x
SHOPIFY INC - CLASS A	45.4x
<b>Average</b>	<b>26.5x</b>

Source: Bloomberg.

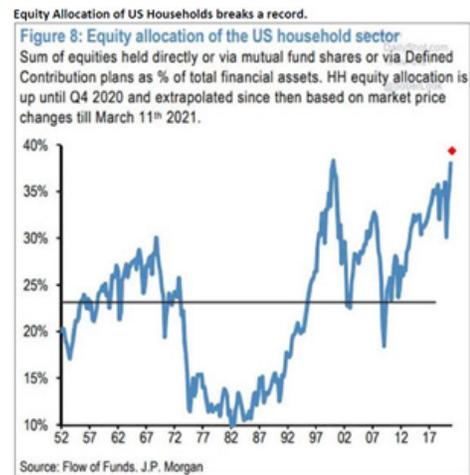
### Insane Speculation-SPACTacular



Source: Bloomberg. Data for the time period 1/1/1990 - 3/31/2021.

The biggest gains of 2020 came in companies which benefitted from the quarantines. This came through amazing moves in “disruptive” companies and a rush to capitalize on impatience by issuers of new Special Purpose Acquisition Vehicles (SPACs).

### Animal Spirits



Source: Flow of Funds and JPMorgan. Data for the time period 1/1/1952 - 12/31/2020.

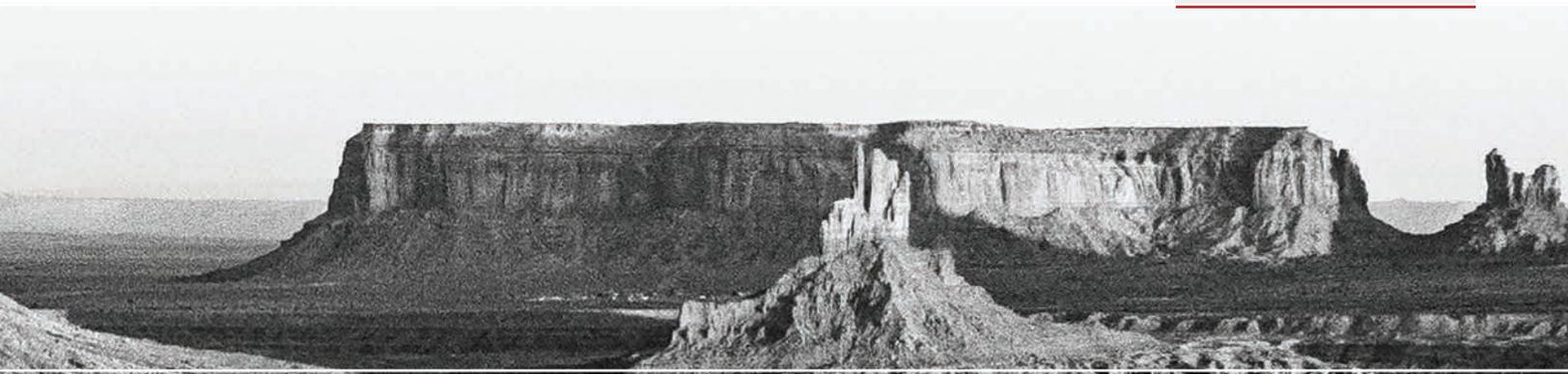
To say that the public and institutional investors have embraced common stocks would be a massive understatement.

### Fleas and Lice



Source: Bloomberg. Data for the time period 3/31/2019 - 3/31/2021.

Charlie Munger was asked recently to compare Bitcoin to Telsa (TSLA). He said it “was like comparing a flea to a louse!”



1<sup>ST</sup> QUARTER 2021 (3/31/21)

### Winning the Peace

Figure: Total US Population divided by age groups  
2017. Data provided by the DESA UN Data sets.

Generation...	Years of birth	Average age	At peak (year)	
Greatest Generation	1910 1927	92.9	43.2	1930
Silent Generation	1928 1945	78.5	44.1	1974
Baby Boomers	1946 1964	61.3	79.5	1999
GenX	1965 1980	44.5	65.8	2018
Millennials	1981 2000	26.5	95.8	2038
Generation Z	2001 2018	8.3	96.2	2060

Source: Fundstrat. Peak population figures above include immigration. \*Reduced immigration will lead to a smaller overall size of GenZ.  
Source: Fundstrat. Data as of 12/31/2017.

Too much money and too many people are chasing too few goods. This is the classic definition of inflation.

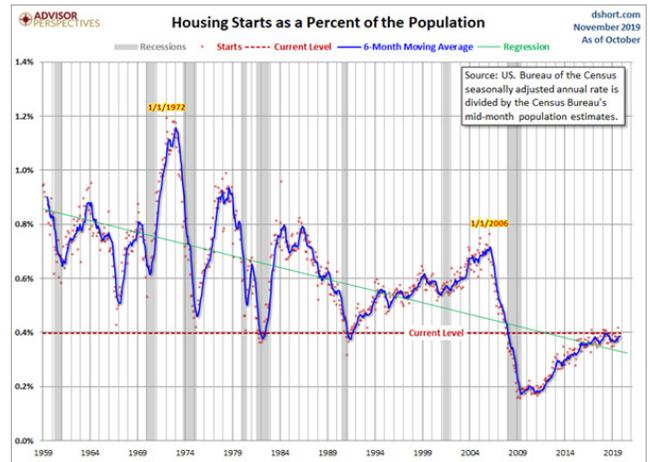
Figure: Industries where Millennial will transform sectors as their spending dwarfs that of the Boomers 2018-2028

Category	Millennials	Boomers	Total	Millennial share of Growth
Mortgage interest and charges	163.4%	(32.4%)	43.9%	93%
Kids Apparel	110.9%	(27.3%)	47.3%	87%
Other apparel products and services	155.4%	(18.3%)	46.2%	86%
Footwear	148.2%	(18.6%)	46.2%	85%
Apparel and services	130.7%	(16.5%)	46.5%	77%
Vehicle finance charges	106.3%	(28.5%)	44.9%	68%
Other entertainment supplies, equipment, and services	124.6%	(34.7%)	42.8%	67%
Furniture	116.4%	(16.9%)	46.2%	67%
Toys, hobbies, and playground equipment	98.6%	(4.7%)	48.3%	66%
Cellular phone service	105.2%	(18.9%)	46.1%	63%
Gasoline and motor oil	107.6%	(9.0%)	47.5%	59%
Household furnishings and equipment	126.9%	(3.9%)	48.2%	59%
Tobacco products and smoking supplies	102.1%	(21.1%)	45.3%	58%
Vehicle purchases (net outlay)	95.4%	(12.6%)	46.9%	56%
Vehicle rental, leases, licenses, and other charges	102.5%	(12.0%)	46.9%	55%
Maintenance and repairs	115.5%	(7.8%)	47.3%	55%
Pets	125.4%	(9.8%)	47.3%	54%
Alcoholic beverages	98.6%	(8.0%)	47.6%	52%
Vehicle insurance	118.7%	(11.7%)	47.0%	51%
Small appliances, miscellaneous housewares	101.3%	(12.7%)	47.1%	50%

Source: Fundstrat. Data as of 12/31/2017.

We believe fortunes could be made satisfying these economic needs.

### Main Street Economic Activity



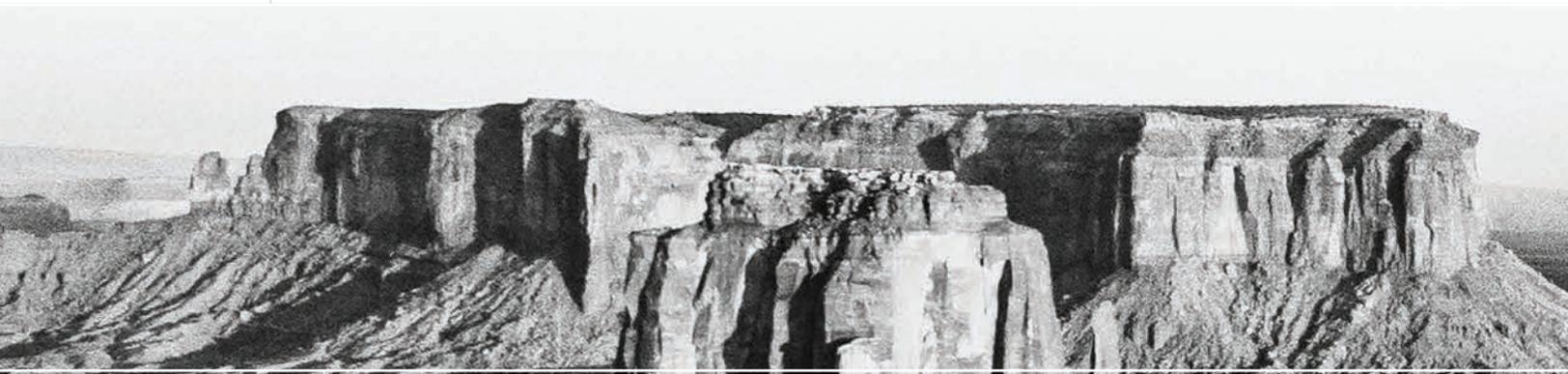
Source: US Bureau of the Census. Data for the time period 1/1/1959 - 11/03/2019.

U.S. households have never been in better shape to borrow money.



Source: Bloomberg. Data for the time period 1/1/1979 - 6/30/2020.

Our eight criteria for stock selection and our vision of the next five to ten years of economic activity make us bullish on the homebuilders like Lennar (LEN), DR Horton (DHI) and NVR (NVR). We like Class A Mall REITs like Simon Property Group (SPG) and Macerich (MAC). The banks look compelling due to enhanced borrowing from millennial customers at American Express (AXP), JPMorgan (JPM), and Bank of America (BAC). American Express is heavily tied to business and pleasure travel and could have huge leverage going forward.

1<sup>ST</sup> QUARTER 2021 (3/31/21)

Oil stocks offer opportunity as the body politic restricts supply and attempts to make alternate energy sources more competitive. Drug/biotech blue chips are historically cheap in relation to the passive indexes. In January, Amgen reported that their most popular medicine, Prolia, had seen a 20% decline in new prescriptions from Q4 2019 to Q4 2020. It is not rocket science since Prolia is the most effective osteoporosis drug in the world and there are more baby boomers in that age group. This is the group that is most likely to get hit by osteoporosis than at any time in history. Therefore, they appear to be a bit of a reopening trade, because folks over 50 have been visiting the doctor less often and are being prescribed fewer new medicines. Vaccination should be solving this problem for these high-yielding blue-chip stocks.

Our portfolio has survived the war and is built to win in "the peace." Thank you for trusting us as we attempt to avoid stock market failure in these relatively uncharted waters following a pandemic war. 🦋

**William Smead**  
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The recent growth in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Margin of safety is the difference between the intrinsic value of a stock and its market price. The price-earnings ratio (P/E Ratio or P/E Multiple) measures a company's current share price relative to its per-share earnings. Alpha is a measure of performance on a risk-adjusted basis. Beta is a measure of the volatility of a security or a portfolio in comparison to the market. FAANG is an acronym for the market's five most popular and best-performing tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google. Growth investing is focused on the growth of an investor's capital. Leverage is using borrowed money to increase the potential return of an investment. Momentum is the rate of acceleration of a security's price or volume. The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. Profit margin is calculated by dividing net profits by net sales. Quality is assessed based on soft (e.g. management credibility) and hard criteria (e.g. balance sheet stability). Value is an investment tactic where stocks are selected which appear to trade for less than their intrinsic values. The dividend yield is the ratio of a company's annual dividend compared to its share price.

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