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Famed Climatologist Charlie Munger

Dear fellow investors,

We were fortunate to watch a [recent interview](#) Charlie Munger did with Caltech as a distinguished alum. We consider him to be one of the most successful contrarian investment thinkers on the planet. At 96 years of age, he has no fear of being politically incorrect. We contrast this with the mountain of writing, media and rhetoric associated with the topic of climate change.

Munger on Climate Change

“This is a subject with a great deal of disagreement. The worst thing that can happen in climate change can be coped with by the civilized world. We can use our great wealth to build a sea wall.” As usual, Charlie is subtly saying that one of the biggest problems created by climate change would be raising the sea level and endangering global waterfront property. Twenty years ago, the prime environmental subject was “global warming,” because there was a big hole in the ozone layer (which has healed itself). In essence, Charlie is saying that climate change can be dealt with by the wealthiest nations of the world as we go forth through the decades.

This reminds us of the summit held in 1898 by the city managers of London, New York and Paris. The biggest environmental problem was horse manure expelled from the animals. Here is how the writer, Eric Morris, explained this in his piece, *From Horse Power to Horsepower*:

In 1898, DELEGATES FROM ACROSS THE GLOBE gathered in New York City for the world's first international urban planning conference. One topic dominated the discussion. It was not housing, land use, economic development, or infrastructure. The delegates were driven to desperation by horse manure. The horse was no newcomer on the urban scene. But by the late 1800s, the problem of horse pollution had reached unprecedented heights. The growth in the horse population was outstripping even the rapid rise in the number of human city dwellers. American cities were drowning in horse manure as well as other unpleasant byproducts of the era's predominant mode of transportation: urine, flies, congestion, carcasses, and traffic accidents. Widespread cruelty to horses was a form of environmental degradation as well. The situation seemed dire. In 1894, the Times of London estimated that by 1950 every street in the city would be buried nine feet deep in horse manure. One New York prognosticator of the 1890s concluded that by 1930 the horse droppings would rise to Manhattan's third-story windows. A public health and sanitation crisis of almost unimaginable dimensions loomed.

The technology which solved that great environmental problem in the early 1900s is the one which created today's environmental problem, the internal combustion engine. Munger would argue that something in new technology will come along by virtue of a profit seeking

capitalist (think Henry Ford or Elon Musk) and solve the problem. Charlie said the academics “think more and more about less and less”, and must realize that electricity is created from something and most of the ways it was created in the past have been rejected (hydro, nuclear, coal).

Contrast this with the opinions of media in general, the academic community and political leaders, who recommend doing enormously expensive and economically disruptive things today.

Most of this relies on the academic community (which of course is always completely objective, has no ax to grind and includes Caltech). You could almost see the gentleman from Caltech conducting the interview gasp when Charlie gave his answer. Remember, Charlie will always remind people that he is a big fan of inter-disciplinary education, which he referred to as liberal arts education.

In other words, many investors and intellectuals are in an environmental echo chamber which lacks the incorporation of other disciplines. Think of the top scientists at our best universities like you would think about an accountant. The academic specialist tells you what makes their discipline add the most value and what keeps them awake at night. The accountant recommends taking tax losses on losing stock positions in December, because they can demonstrate saving you tax dollars by April. Unfortunately, it might be walking into what is called the ‘January Effect’. It is proven that the best performing stocks in January come from the ones sold late in the prior year due to tax selling.

Contrast what Charlie Munger said about climate change with this December 16, 2020 [article](#) in *The Wall Street Journal*:

Money is pouring into exchange-traded funds that bill themselves as socially conscious.

This year investors have put a record \$27.4 billion into ETFs traded in U.S. markets that say they focus on environmental, social and corporate governance, or ESG, practices, according to data from FactSet, doubling the size of the sector.

The surge suggests ESG investing has staying power, answering those who had questioned whether investors [would give priority to goals such as promoting clean energy](#) over simply picking the best-performing stocks regardless of companies’ principles.

Based on Charlie’s contrary thoughts on climate change, we would like to reiterate the following:

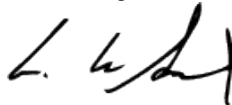
1. ESG investing and political movement toward stopping climate change should create more scarcity and higher prices for fossil fuels (Peak Oil Theory turned upside down). This is because optimistic climate change politicians and academics will underestimate how many years are left dominated by internal combustion engines. Charlie says, “Successful investing is paying way less for an investment than it is worth.”



2. We believe, and Charlie confirms, that inflation is likely to rear its ugly head and lead to stock market failure in both nominal and real terms. When asked how the stock market would do the next ten years, Charlie said, “the real returns will be far lower!” He didn’t say returns because he sees the massive fiscal and monetary stimulus as inflationary. He called the current “frenzy” circumstances “uncharted and unprecedented.”
3. The moat in the energy business is getting wider. The number of energy companies is going down (goodbye Concho, Noble, Anadarko, WPX Energy, etc.). If it gets more restrictive to drill for oil, the proven reserves grow in value.

There were several other terrific takeaways from this interview with our favorite snarky contrarian billionaire. However, his thoughts on climate change were so sensible and shocking that we felt they must be shared. 🐦

Warm regards,



William Smead



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