



Newsletter

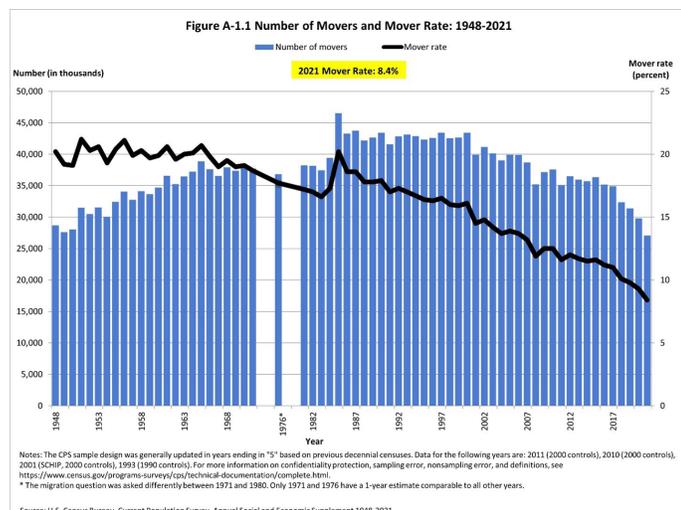
SMEAD INTERNATIONAL VALUE — 1ST QUARTER 2022 (3/31/2022)

The Race for Space

Moving forward beyond the pandemic of 2020, the theme the world woke up to is that people want more...more home, more land, more entertainment, more goods. We learned that more is a scarce good today. The best phrase for capturing the mind of consumers today is what a partner of ours mentioned to us: *The Race For Space*.

Looking at the portfolio holdings of the Fund, you must recognize that we are optimistic about the future. We are particularly optimistic because *the Race for Space* has catalyzed a mindset that has been around in the developed world before, but it was comatose for quite a long time. Many people sought out homes in the suburbs. They did this for more space. Space could be a larger home, a larger yard for garden parties, more bedrooms for their kids, etc. The reasons are not individual. It is the wholesale mentality change from 2019 that interests us.

Prior to the pandemic, very smart people began predicting the decline of fossil fuel vehicles. The pandemic has swatted this illogical reasoning away. Consumers are driving more total miles today than ever before. People decided against sharing commutes on a subway or on buses. Young people, what we refer to as millennials, went out and purchased used cars to a level where we practically ran out them. This is all evidence that the psychological change which has transpired is so different from the pre-pandemic period. This evidence stands in contrast to the style of decisions made prior to the pandemic. Below is a chart that shows the move rate of Americans charted alongside the total number of moves.



Source: US Census Bureau. Data for the time period 1/1/1948 - 12/31/2021.

Our suspicion is that the US Census Bureau data this chart is derived from is showing lagging information. We are very interested to see the 2022 data as we believe it will show an uptick of movement due to *the Race for Space*.

Some may believe that this idea is well understood, but we would interject. The types of businesses that benefit from this phenomenon are more cyclical and more tangible. You need real trucks and real people to move households, for example. You can't store it in the cloud!

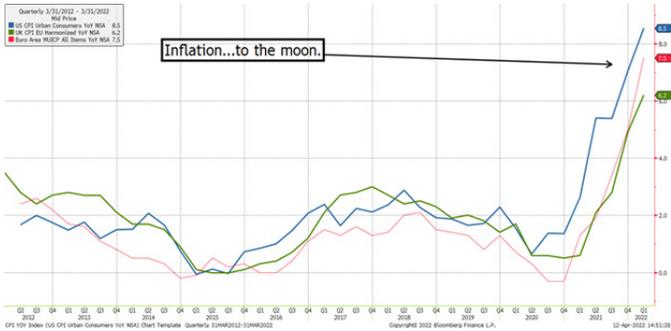
There is room for investments to flow into these types of businesses which we believe are very well represented in the total capitalization of European and Canadian equity markets in comparison to the US markets as noted by the S&P 500. A chart that we believe shows the capacity for European investors to bring cash from the sidelines to local equity markets is below.



There is still excess liquidity to be invested out there in historically large portions. As the chart notes, when this spread was the tightest, there was little excess liquidity in savings to grow the economy of Europe. We have had similarly high savings rates in the US. This excess savings has and will go into the economy and be consumed. Our guess is that it will find its way to *the Race for Space*.

Inflation has been shooting toward the moon recently. The first time we went to the moon was during the space race in 1969. It's no different in *the Race for Space*. Below is CPI in the UK, US and the EU looking back over the last ten years.

The Race for Space



While it is impossible to understand all the changes that have come with today's *Race for Space*, this chart highlights that the only thing you know is that today is nothing like the last 10 years in the economies of the developed world. The stock markets of the world will have to reprice what this means in businesses. We are glad to sit in more asset-heavy businesses that benefit from *the Race for Space*. Recency bias would tell us that people may be anchored in what they saw prior to the pandemic and unwilling to understand the change afoot. We are pragmatists and believe that markets reward scarcities. The next time you try to buy a home, car, major appliance, specialty good or an airplane ticket, only to find that there are few/none left, think about the businesses that have to produce these goods and check their stock prices. *The Race for Space* is providing great opportunities for objects right under our nose.

Fear stock market failure!

Cole Smead, CFA
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 Co-Portfolio Manager



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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. 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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