

GameStop: The Poster Child of Shame

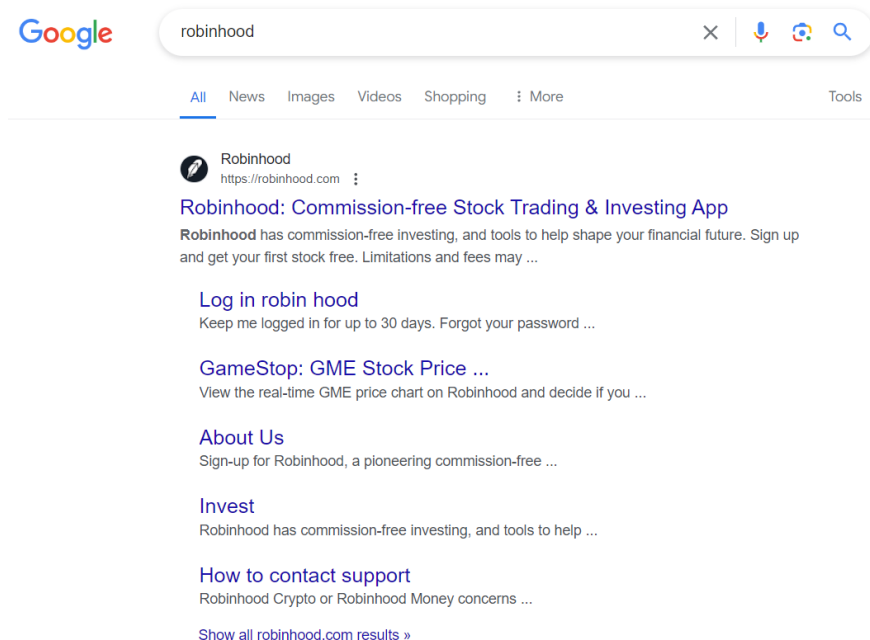
Dan Rohinton, Vice-President, Portfolio Manager, Global Dividend

DISCLAIMER: The portfolios managed by iAGAM do not have holdings of the company type discussed below.

In the long history of financial markets, the current episode will go down as one of the most shameful. I am speaking, of course, about the resurgence in “meme stocks” we have seen over the past few weeks that catapulted physical video game retailer GameStop into wild swings in value day after day. In fact, right now the stock is down 40% from yesterday, which is actually smaller than the volatility three weeks ago where the daily changes ranged from 200% to -70%. This is clearly not normal and is right within the grey zone of legality, but let’s leave that for the lawyers.

GameStop is at the intersection of three overlapping trends that came together to create this poster child of shame... let’s dive in!

Mobile Trading Platforms: We need to appreciate that the barriers to entry for trading securities have collapsed to effectively zero. The typical cost to trade is free and now ubiquitous across mobile and desktop. The rise of trading platforms such as Robinhood enabled the “average guy” to access a plethora of financial investments with very little friction and nearly 24/7, wherever they may be. It’s easy to see young generations draw a false equivalence between sports betting apps like Fan Duel or Draft Kings, and seamlessly transition their gambling impulse to Robinhood.



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Social Media Virality: We live in an era of social media influencers who platform a wide variety of problematic ideas and “breakthroughs”. The democratization of information has lots of positive downstream effects and I hope will one day make nearly free high-quality education available to everyone in the world. However, what we have right now is something different altogether. This generation has seen a small group of exceptionally powerful social media influencers effectively front-running millions of young people and directing their savings into deeply speculative investments. #RoaringKitty with 1.5 mln followers is the most infamous of this group and Dave Portnoy (#Stoolpresidente) with 3.1 mln followers has blurred the lines between sports betting and financial market speculation. The original tweet that catalyzed the most recent craze in GameStop has over 28 million views on Twitter to date with very high mindshare with millennial and Gen Z men. What’s stunning is that this trend has been labelled as an anti-establishment “F**k The Rich” movement led by the “little guy”. Nothing could be further from the truth. The ones making the most profit during this craze are the classic Wall Street hedge funds, high-frequency trading firms and investment bankers.



Roaring Kitty  @TheRoaringKitty · May 17

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 1.8K

 4.4K

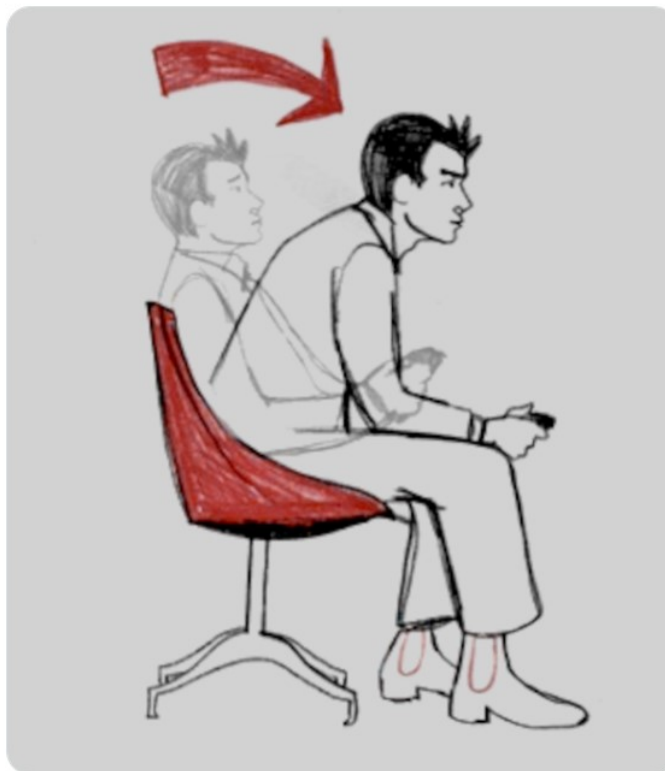
 38K

 2.9M



Roaring Kitty  @TheRoaringKitty · May 12



12K

33K

135K

28M



Covid-19 Effects: It is no coincidence that the meme mania began during the peak of the Covid crisis that led to unprecedented actions across the globe. The decision to provide stimulus cheques and other monetary compensations to citizens across Canada & the US at the time when lockdowns were in full effect led to an interesting situation. Consumers were handed trillions in transfer payments directly into their bank accounts with barely any options to spend due to travel restrictions. It's hard to imagine a more effective set of circumstances for millions of Canadians and Americans to suddenly view the stock market as a source of excitement.

In this specific situation, I choose to ignore the fundamentals. If this was about the fundamentals and its position in the value chain, it would be a settled matter long ago. GameStop, as a business, peaked in 2012 and has slowly but surely fallen into obscurity. What we saw over the past month is the resurgence of a wave of gambling and lottery buying that will end up badly for the average Joe. I believe this is the most shameful financial mania of our time and it's worrisome that modern mobile trading platforms and social media platforms seem to guarantee we will see more of this in the future.

Have a great weekend!

Father's Day Reflections: Demography Is Destiny

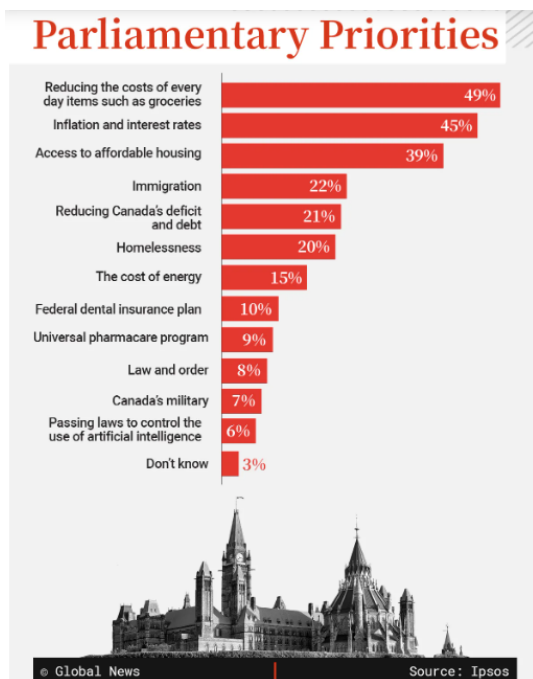
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(Disclaimer: These are all my personal opinions)

Father's Day has been around in different forms for several hundred years or a few decades, depending on your perception of its contemporary inception. In the pantheon of holidays, it might not stand out. But as a father of two young daughters, it has never meant more to me than today.

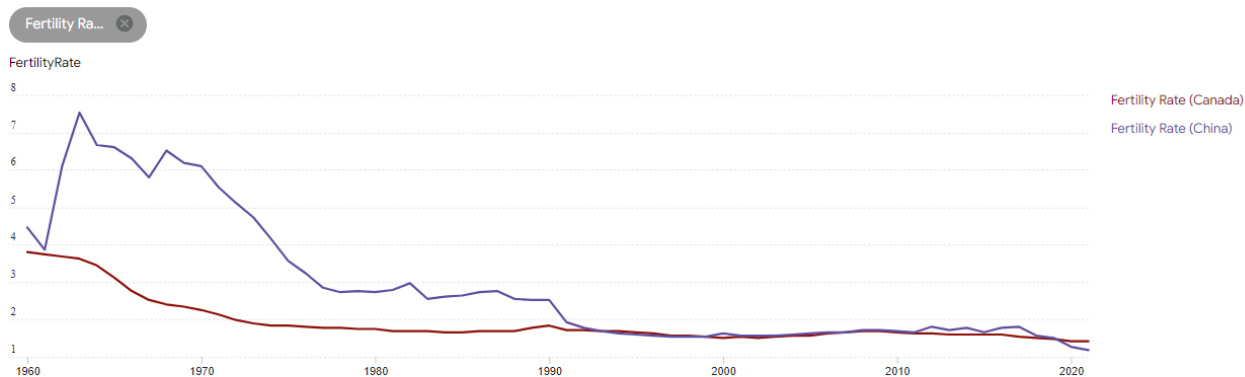
It's also worth reflecting on the somber reality that, in Canada today, my generation and younger generations are having fewer kids than ever before. This represents a demographic crisis for Canada that does not get the attention it deserves. It's well-reported that Japan has a demographic disaster looming, with a total fertility rate of 1.26 kids per mother, and Italy at 1.24 kids per mother. However, you might be surprised to hear that Canada is within a spitting distance of these two nations at only 1.33 kids per mother. Statistically, we are only lagging Japan by 2 years in decline by vintage in fertility rates. To say this is not a front-page issue is an understatement – in fact, it's not even on the list (even "Don't know" got 3%). I believe that is a mistake. The collapse in Canadian fertility rates is the single most important issue for our generation, which dovetails into many of the priorities Canadians believe take more precedence at this current moment.



Source: Globe & Mail

So what does the data show?

Fewer Kids: In the past few years, Canada has seen a continuation of the decline in birth rates across all provinces, with very few bumps along the way. Statistically, for the population to remain stable, it's estimated that 2.1 births are needed. For Canada, this 2.1 “replacement level” figure was breached in 1971 and has steadily fallen since then to the all-time low of 1.33 births in 2022. Coincidentally, China officially adopted its “one-child policy” in 1979, which drove the subsequent decline of its birth rates materially lower before the structural shift in mindset from urbanization and economic progress kept them at unsustainably low rates. Canada had no such policy – we got there accidentally and are now in roughly the same place today at a very low level of annual births. These numbers might seem like splitting hairs, but it's worth looking at this through multiple generations of compounding. If the birth rate remained at 2.1, there would be 4.41 grandchildren for every father today. If the birth rate remains at 1.33, then we are talking about 1.77 grandchildren for every father today. That is an astounding 40% decline from a new parent today to their future grandchildren, under the optimistic assumption that birth rates will not decline further from here.

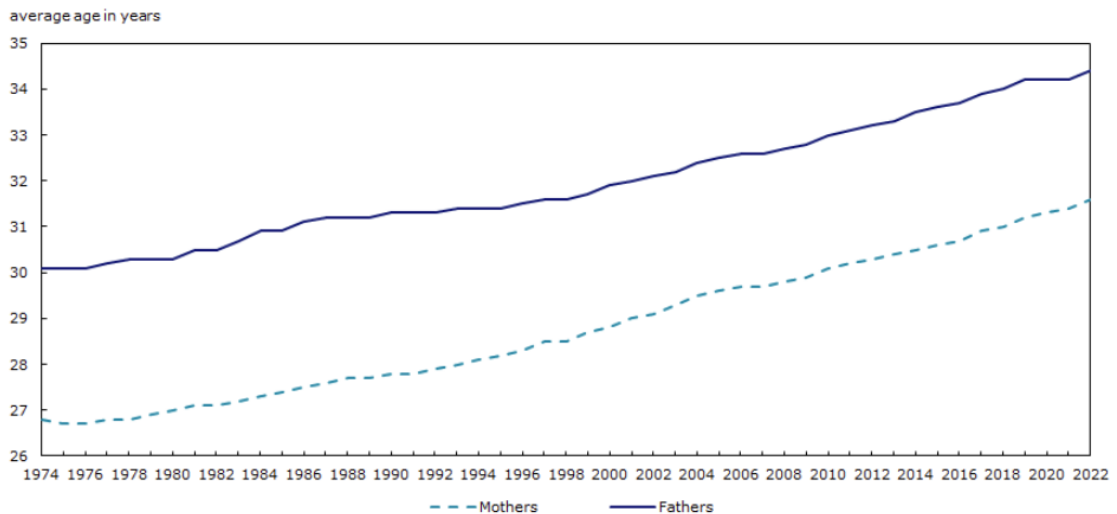


Data from datacatalog.worldbank.org

Source: Data Commons, World Bank

Older Dads: After falling below the replacement level of births in the early 1970s, we have also seen a consistent trend over the past five decades – a steady increase in the average age of both mothers and fathers. There are innumerable socio-economic and cultural reasons for this shift, including housing affordability, rising dual-income household participation rates, high consumer leverage, better access to family planning, and lack of support for affordable childcare facilities. This is a complex multivariate problem, and I hope more comprehensive studies are done to help bring light to the structural reasons. However, the output of these headwinds is clear in the steady increase in the average age of both mothers and fathers – they've never been older. The average age of a father today at birth is now 34 years old, and the mother is just over 31 years old. This delay in deciding when to have a family makes it even more complex to have larger families, all but ensuring that birth rates continue to creep lower. Speaking from personal experience, I'm more likely to throw my back out running around with my high-energy kids today than I would have been a decade ago. Being an older parent is just harder in many physical ways than being a younger parent.

Chart 4
Average age of mothers and fathers at birth of child, Canada, 1974 to 2022



Notes: Births for which the age of the mother or father is unknown were prorated using the observed distribution. The 2022 data are considered preliminary. Mid-year age is used. Starting in 2017, the calculation for Canada excludes Yukon.
Sources: Statistics Canada, Canadian Vital Statistics - Birth database (CVSB), Annual Demographic Estimates: Canada, Provinces and Territories.

Source: Statscan

Dense Urban Clusters: It's worth specifically highlighting the disproportionate role high levels of urbanization and dense urban environments correlate to lower fertility rates. It's not a coincidence that the stratospheric cost of homeownership and generally high cost of living and raising a family has led to Toronto having a fertility rate of 1.21. Vancouver is even lower at 1.09 for similar reasons but with an even tougher affordability picture. Surprisingly, for dense urban clusters, we remain in a slightly better position than Hong Kong at 0.87 and world leader Seoul at a disastrous 0.73. To me, this is the most convincing argument for structural housing reform in Canada to bring affordability into long-term balance. Younger generations, especially those considering having a family, are paying a generational transfer payment to past generations as the housing stock turns over, crystallizing equity gains of the boomers. The tax is paid in an uneven distribution of consumer leverage by age and lower fertility rates at the population level.

This might not be the Father's Day blog you expected to read, but I feel compelled to talk about the interplay of personal family decisions (no kids, few kids, adoption, etc.) and how Canada at the macro level will evolve as millions of individual choices come together to population level statistics. Canadians rightfully care about inflation, grocery bills, housing affordability, and immigration, along with the social programs of dental and pharmacare. These are the issues of our day. But we need to look ahead and think deeply and thoughtfully about the long-term viability of our pension system and social programs along with cultural cohesion as we inevitably grey as a society. These will be the issues of our generation. It took a stern kick in the butt from my wife to get serious about having a family, and I couldn't be more grateful for her courage. I hope this mix of the personal and the statistical to highlight today's reality can convince you that having kids, if it's viable, is a wonderful rewarding decision personally and incomprehensively important for Canada's future. As the saying goes, demography is destiny.

Have a great Father's Day!

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