SPACS – ZOOM OR SWOON

As always there are a number of determinants that will influence the direction of financial markets in 2021.

SPACS may well be a key one. In case that acronym is foreign to you - it stands for ***Special Purpose Acquisition Company***. These companies raised some $82 billion from investors in 2020 and already $20 billion more in the first weeks of the new year . Many are managed by some major names in the investment industry, but also by some well-known public personas, such as Shaq O'Neal and house speaker Paul Ryan. How they work – simple: pools of money are raised for a new company which is then listed on a stock exchange. The manager then looks for a suitable private company to acquire. Once purchased, it does what's called a "reverse merger", which bypasses the stringent scrutiny a normal IPO has to endure and, voila, the SPAC's name disappears and the previously private company takes its place on the exchange and *often **zooms** to impressive valuations*. Richard Branson's Virgin Atlantic went public this way.

Way back these ventures were known as "Blind Pools", and currently there are some 300 SPACS out there - loaded with billions of dollars and looking to buy something **and soon.**

What could possibly go wrong?

- Investors are relying totally on the manager to acquire a company that can go on to prosper and grow AND at the right price.
- The managers or "creators" of the SPAC put up a small amount of funding, but are allowed to "buy", at deep discounts, a large percentage of the private company before it goes public.
- The managers also are entitled to management and often incentive fees.
- They are focusing, of course, on the hot areas, such as technology, e-commerce, solar energy or green power.
- Often large amounts of debt is included to facilitate the purchase.
- Investment banks are making record profits underwriting the creation of new SPACs.
- The sooner the manager buys something the sooner the big pay-day will happen.

Too much money chasing too few companies, with the added pressure to make an acquisition sooner than later, can be a recipe for a speculative **swoon.** The weekend *Wall Street Journal* has a detailed article on them for those who want to know more.

Obviously, the major event last week was the inauguration of President Biden, whose pre-election proposed actions included higher corporate and personal taxes, actions that may not be market friendly. On the other hand, he has promised to continue the trade pressure on China and also to bring more manufacturing back to America – we shall be watching.

As for Canada, one of President Biden's first move was to revoke (as he promised) TC Energy's permit to build the controversial Keystone pipeline. Prime Minister Trudeau expressed concerns and stated this could threaten Canadian jobs. On the other hand, Trudeau offered his support for climate change and, as we all know, the Liberal plan for reducing carbon emissions includes a **huge increase** in petroleum taxes over the next few years. It is going to be a challenge to balance the demands of Alberta and the oil industry versus the commitment to green energy. In case we forget, the USA buys 98% of our oil exports.

As for the financial markets? Generally, it was a positive week with a big 4% gain in the Nasdaq as previously lagging major technology names reversed to the upside. Asian equities also did well, however our TSX lost almost half a percent dragged down by Financial, Energy and Industrial shares.

Its early days in the Biden administration and rumors swirl of our own Federal election this spring. Meanwhile, we are certainly not out of the Covid woods, as economic shutdowns continue and new strains emerge.

Bottom line - lots of developing stories to add volatility to financial markets in the weeks ahead.