



Special Report

How Will ESG Impact Your Investments

Davos, Switzerland is small mountain village with a population of 11,000 people. Most Americans are not familiar with Davos. Why is this little ski resort so important?

Each February the Ruling Class – bankers, business leaders and the global elite – descend upon Davos for the World Economic Forum (WEF) hosted by the World Trade Organization (WTO). These are the central planners and “thought leaders” of our time, and they are responsible for many of today’s social policies. They discuss important topics such as climate change, “global society”, and monetary policy.



Due to their decisions, over 7 million US manufacturing jobs were sent to RoW (rest of the world). This decimated US manufacturing cities, including in the US Rust Belt, resulting in:

- 1000 Ghost Towns
- 12.5% of US population are on SNAP recipients, food stamps today vs 5.5% twenty years ago

- Opioid deaths from 5k-10k to 60k annually (over last 30 years)
- Municipal debt issues

The good news can be found halfway around the world as millions and billions of Chinese and Indians are moving into the middle class.

All of us around the world want clean air and clean water. These are not Republican or Democrat issues. Unfortunately, the current solutions have unintended consequences.

Take notice – the theme for the 2020 WEF meeting was the **Great Reset**. From Wikipedia:

WEF chief executive officer Klaus Schwab described three core components of the Great Reset: the first involves creating conditions for a "*stakeholder economy*"; the second component includes building in a more "*resilient, equitable, and sustainable*" way—based on *environmental, social, and governance (ESG)* metrics which would incorporate *more green* public infrastructure projects; the third component is to "*harness the innovations of the Fourth Industrial Revolution*" for public good.^{[2][3]}

Why is this important? The 40-year ESG social experiment promoted by the ruling class created wide-ranging, unintended consequences.

Sweeping social policies can lead to exceptional investment opportunities!

At Patriot Asset Advisors, we believe opportunities exist in every economic cycle regardless of the overall stock market direction. We have identified three themes that potentially impact domestic and global financial markets:

- Global energy demand and prices
- Inflation
- The Federal Reserve (global central banks) and interest rates

Global Energy Demand and Prices

- **ESG impact** – The world population has grown by over 700 million over the past decade. The trajectory of Capital Expenditures Investment (CAPEX) for the energy companies (oil, gas, metal) has been **reduced by 2.4 trillion** between 2014-2020. **A colossal under investment driving unintended consequences.**
- **China** – Over the last 40 years, the world has helped lift China out of poverty. Now the Chinese people, understandably, want a middle-class lifestyle. 1 Billion persons do NOT OWN an automobile. Think of the energy usage when they join the Auto Club.
- **India** – Like China, India has a growing middle-class. 1 Billion persons do NOT OWN air conditioning. How will future units be powered?
- **FAR more significant fossil fuel / nuclear power components are needed to get to the green meadow.**
 - The middle-class expansion in India is driving a colossal surge in air conditioning demand 2018-2028. India's population is 1.4 billion and growing much faster than Europe. Their energy demand growth is 3x to 4x faster than the U.S., UK. India and China are heavily dependent on coal and fossil fuels.
 - There is a colossal investment thesis brewing here. While the household ownership of air conditioning units in India today is a mere 7%, the demand for comfort cooling is expected to drive demand of ACs to over 1 billion by 2050 – a 40-fold growth from 2016. To put this in perspective, of the roughly 320 million households in India, fewer than 22 million have AC units.
 - So, despite the diplomatic alliance (Paris Climate Accord) to keep coal, oil, and gas in the ground, something must power these A/C units in India. What is going to power these units?

The positive impact of globalization is pulling millions of people out of poverty, BUT the side effect is much higher energy usage at a time globalist are refusing to invest in resources.

In the US, our power grid is extremely fragile. Rolling brown outs are continuing in CA and last winter parts of TX went black as the wind turbines froze. What will winter 2022 bring?

Our 50+ year old US electrical power grid is increasingly unstable, underfunded and incapable of powering millions of new electric vehicles. Globally, we have 7 million EV cars on the road. By 2030, it is estimated that we will have 145 million.

Think of an average American family with 4 household drivers. Do we need 4 charging stations per household? This would require considerable improvements to the electric panels in nearly every home. Will economic progress slow as the population sits at charging stations across the nation's highways?

We see these imbalances as potentially great investment opportunities.

INFLATION

Some economists are worried of a 1970 style inflation/stagflation type environment. We are not going to make predictions here. What we do see are corporate challenges including – wages (**new power of labor to demand higher wages**), transportation costs (**supply chains**), and energy costs (**oil, gas, coal**). This trio of issues may leave a bright red stain on corporate earnings reports.

The Federal Reserve

If inflation is persistent, the Fed will be forced to address it by likely raising interest rates. There are times when a powerful force drives through the markets so quickly, Wall Street reaches a peak “deer in the headlights” moment. This could be one of them. Following the bank bailout last decade and the enormous Covid response the Fed's toolkit is limited.

For U.S. equities, inflation and the Fed may be headwinds.

Patriot Revere Opportunity Portfolio (PROP)

In February 2021, we launched a proprietary investment named the Patriot Revere Opportunity Portfolio. PROP is a disciplined, actively managed investment program. We designed the investment to complement our client's diversified portfolios. Patriot employs a flexible, opportunistic investment style. We seek to identify investment opportunities with a recognizable catalyst which we anticipate will unlock value.

We invest in Event-Driven ideas:

- ✓ Industries and companies that benefit from rising inflation
- ✓ Opportunities resulting from unintended consequences of ESG
- ✓ Businesses that benefit from global macro-economic events

Today's investment climate is a herd mentality. Some of the world's largest financial institutions are partially responsible for today's energy crisis.

Don't look now but, here comes big brother. The DOL is proposing rules that may require firms managing retirement funds to incorporate ESG factors into their investment decisions.

Many of the big banks and investment firms are leading the way on policy changes. Larry Fink, CEO of BlackRock, recently wrote an open letter threatening to push for the removal of board members of companies BlackRock invests in if they refuse to toe the progressive line on climate change. Today, BlackRock is investing large sums of client money in Chinese companies. This is what activism looks like when powerful institutions dictate to businesses and drown out the voice of the average investor. We ponder why fuel prices are approaching \$4.00 per gallon.

If you are not familiar with BlackRock, they are a giant. BlackRock, the world's largest firm, manages 9 trillion dollars of investment money including the Federal Government Retirement program TSP (Thrift Saving Plan – the 401k plan for federal employees).

We may be at a crossroads for reasonable thought. Close the coal mines, they scream. Cap the oil wells, they demand. Turn out the lights at the power plant, or else. Some firms no longer manage money for the benefit of their clients, it is all about the social policies and corporate greed.

At Patriot Asset Advisors, we take a fiduciary role and manage money in the best interest of our clients. Like it or not these giant investment houses will impact our lives and our investments. Patriot Asset Advisors can help you look beyond the noise.

If you are concerned about inflation and your investments, consult with the professionals at Patriot Asset Advisors. If you own the PROP investment, hopefully this report clarifies your investment decision. For those with investments at other firms, ask us about a second opinion. To learn more about the opportunities and risks associated with PROP and other investment strategies, please contact us at 614-944-5225.

Allen Stocker, CFP®
Managing Partner

Jonathan Taylor
Advisor, CCO

P.S. To learn more about unintended consequences, we refer you to the "Cobra Effect":
<https://www.deccanherald.com/opinion/in-perspective/delhi-beware-of-the-cobra-effect-762366.html>