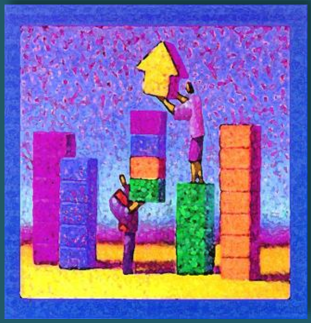

Brent Sheather's

RESEARCH

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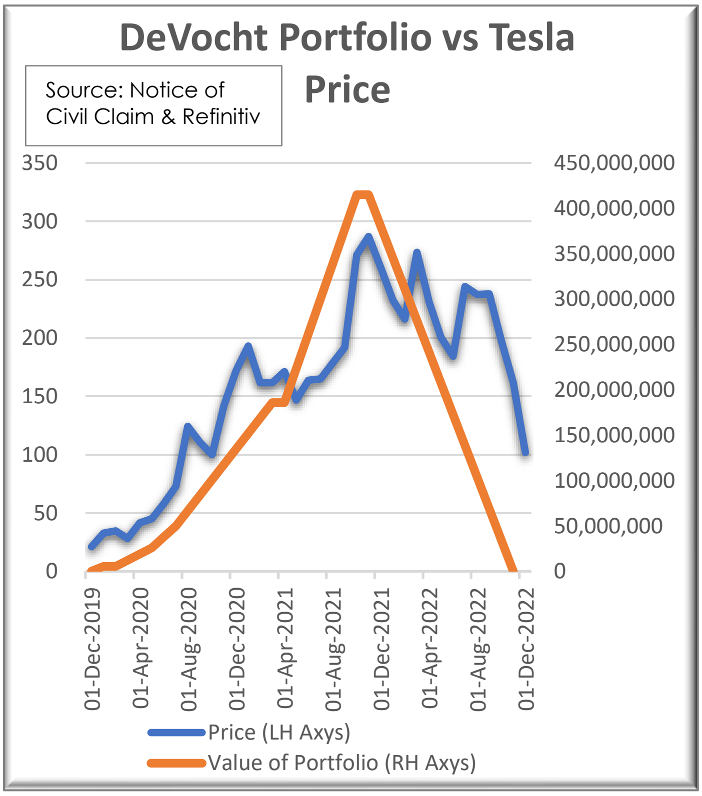
The Strange Case Of The World's Luckiest Investor – Until Disaster Struck- Part 1

Today's story is straight out of the "strange but true" files. Predictably, it involves Elon Musk but, surprisingly, he doesn't have a big role in this extraordinary tale. The key players are Christopher DeVocht, a carpenter from Vancouver Island in Canada, RBC Dominion Securities, part of Royal Bank of Canada and accounting firm Grant Thornton. It made the headlines in Canada and the US back in October of last year when Mr DeVocht filed a Notice of Civil Claim alleging breach of contract and negligence against RBC in its capacity as the plaintiff's financial planning advisor and a similar action against Grant Thornton in it's role as a tax planning advisor.

The wild rags-to-riches-to-rags again ride begins when Mr DeVocht was in his early 20s and began investing modestly, without advice, trading stocks and derivatives, mainly in Tesla. After a few losses his portfolio made good progress and as at December 31 2019 the value of his RBC Direct Investing account was C$88,000. However by June 2020, when he was 30, due to the extraordinary rise in Tesla shares and the fact that, by virtue of the leverage inherent in the derivative contracts through which he had exposure to Tesla, Mr DeVocht's portfolio had skyrocketed in value to C$26 million. At this time Mr DV was renting but, perhaps acknowledging that his good fortune might owe more to luck than skill, he decided it would be sensible to use some of his new-found wealth to buy a house. Importantly however, he did not want to sell down his portfolio but instead contacted an executive at RBC Private Banking to enquire whether he might be able to obtain a loan from RBC against the equity he had built up in his trading account. Not surprisingly, he was quickly approved as an RBC private banking client on July 27 2020 and by this time his portfolio was worth C$50 million. Readers should note that in the US an important income stream for stockbroking firms is providing funding for investments so a client who trades derivatives a lot, with leverage, can be extremely attractive especially when we are talking very big numbers.

The good times for Tesla kept on rolling and we can see from the graph below its price increased from US$72.88 at end July 2020 to US$171.19 by April 2021. Due to extreme leverage this meant Mr DeVocht's portfolio more than tripled in value to C$186 million. Tesla reached a new high around November 2021 of US$287.01, an increase of around 68% over April, and this meant our lucky investor's portfolio value more than doubled in value to C$415m. That is where the story takes a turn for the worse and ultimately resulted in Mr



DeVocht making the aforementioned civil claim against both RBC and Grant Thornton.

Before we get into that we will have a quick look at the nature of the advice that Mr DeVocht obtained from RBC and Grant Thornton, as per the Notice of Civil Claim. In that document, and we need to remember this is the Plaintiff's version of events, Mr DV asserts the following:

- He was introduced to various executives at RBC Dominion Securities including one who "presented" his services as being that of "a coach and co-ordinator of financial planning and investment management". That person promoted himself as the point person coordinating a team of professionals that he recommended to Mr DV.

- The agreement between Mr DV and RBC for financial planning advice was partly oral, partly written and partly established by conduct.

- RBC encouraged Mr DV to retain Grant Thornton to assist with tax planning and the chief piece of advice relating to that tax planning involved Mr DV incorporating a company and undertaking all trades within that company "with a strategy of accumulating as many Tesla shares as possible and holding them for as long as possible". The rationale for the above was to convince the Canadian tax authority that the company's activities were that of investment holding company and not an active trading business. This strategy, if successful, would have lowered Mr DV's tax rate from 53.5% to 27% and was described in the Notice of Civil Claim as "The Tax Narrative."

Anyway, as you have probably guessed, the good times didn't continue and from around March of 2022 the Tesla price fell by 65% and by December 2022 it was down to US$101.83 per share. A Notice of Civil Claim filed in the Supreme Court of British Columbia late last year describes the disaster which unfolded in that year. *"Through 2022 Tesla shares suffered a series of declines in value but periodically rallied. In order to avoid disturbing the Tax Narrative but try to recoup the losses Mr DeVocht borrowed $20m from DeVocht Corporation and used it to make shorter term trades in his personal RBC direct trading account. This was unsuccessful and the funds were lost. In October 2022 sharper declines in the value of Tesla shares were experienced. DeVocht Corporation was forced to sell its holdings in Tesla to repay the loans from his margin account with RBC and then suffered further devaluations of the securities it was holding. The Plaintiffs attempted to mitigate these losses in a variety of ways but understood themselves to be constrained to maintain the Tax Narrative. In time the Plaintiff's securities holdings were worth nothing."*

The ups and downs of this story reminds me of a comment attributed to economist and investor John Maynard Keynes, who died back in 1946, to the effect that "*markets can remain irrational longer than you can remain solvent*". What he meant here is that if you take a big position in a stock, with leverage, you can still lose the lot even if you are ultimately proved right. Leverage requires collateral – if you borrow money either directly from a financial institution or indirectly via options or futures, the lending institution wants to maintain a margin of safety. So, just like with buying a house, they won't lend you the full amount. If the shares drop in value the lender requires you to put in more money to maintain its margin of safety. These are known in the finance world as margin calls. If you can't make the payment they will sell some of your shares and achieve their margin of safety that way. That is apparently what happened to Mr DeVocht however if you believe that the price of Tesla today at US$340.00 is more "*rational*" than the low of US$101.83 around when the DV portfolio got liquidated then DV has ultimately been proven right but lost everything nevertheless thereby illustrating Mr Keynes' point.

Just for interest's sake and assuming the same degree of leverage which existed in the April to November 2021 period the Tesla price today implies that the DV portfolio would be worth around C$2.0 billion.

Brent Sheather is a Financial Advice Provider. A disclosure statement is available upon request. Brent Sheather may have an interest in the companies discussed.