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COMMENT 1

By Adam Mayers

The space race was never far from the front page of the newspaper when I was growing up. It pitted the Soviet Union against the United States with each side winning victories.

The Soviets launched the first satellite in 1957 and sent the first man into space in 1961. The US was first to land on the moon in 1969, going on to Mars which it has since visited eight more times.

Sixty-five years later things have changed, creating opportunities for investors. What was once about Cold War one-upmanship is about business opportunities. The industry has evolved into one dominated by large corporations in partnership with governments. The US space agency, NASA, has contracts with more than 300 companies. These companies are launching satellites for 5G communications, fostering space tourism, building space stations and designing rocket propulsion systems.

Space tourism is the smallest component of this opportunity. The big one is communications in all its forms. Space construction, which includes subcontracts for the crafts and components, is another.

Global communication needs are huge and constantly expanding with demand for 5G cellular and more internet capacity top of the list. New satellites are also needed for navigation systems including the GPS in your car, global shipping and military communications. Weather forecasting too.

While we think about satellites as huge round things with antennas and solar panels, many are now the size of a tennis ball clustered together in groups. There are currently 2,000 satellites in low earth orbit, but that is estimated to grow to 16,000 within a decade. And once in orbit, someone has to repair them.

Here's a look at two new ETFs that in this area. Both were launched in April. One is actively managed by Cathie Wood's ARK Investment Management in New York. The other is passive managed by Harvest Portfolios Group in Oakville, Ont.

Harvest Space Innovation Index ETF (TSX: ORBT) Closed Monday July 5 at $20.88

Background: This ETF follows an index designed by Solactive AG and holds 40 companies developing products and services related to satellites, space flight, space stations and space tourism.

Performance: The ETF is up 4.4% since its April launch at $20. It has a 0.50% management fee and $3 million in assets. It may pay an annual dividend.

Holdings: About 42% of the holdings are in space equipment and services. Another 42% are in satellites and communications. About 12% is in space tourism.

The top holdings are: Emcore Corp. (3.4%) which designs and manufactures chips, components, and systems for the navigation. ORBCOMM Inc. (3.2%) makes industrial Internet of things and machine to machine communications hardware. Gogo Inc. (3%) provides inflight connectivity and wireless entertainment services to the aviation industry. The top 10 includes Northrop Grumman, Lockheed Martin Corp. and Raytheon Technologies Corp. Virgin Galactic is also a holding.

Discussion: Most of the companies are based in the US (70%) and Europe (16%). Most are large and well established with diversified businesses. About 40% are mega caps with valuations greater than US $10 billion. Another 40% are between $1 billion and $10 billion.

It is a balanced group with deep pockets, a history of profitability in core businesses and the resources to exploit the emerging opportunity.

Emerge ARK Space Exploration ETF (NEO: EAXP) Closed Monday (July 5) at $9.93

Background: This ETF is managed by Catherine Wood's Ark team. It is exposed to companies involved in orbital and sub-orbital aerospace, internet access, GPS and location and space construction. The ETF is sold here by Emerge Canada Inc.

Performance: The fund was also launched in April. It is down 0.7% from its $10 issue price. The management fee is higher than Harvest at 0.80%. It may pay an annual dividend.

Key Metrics: It has a higher management fee than Harvest at 0.80% and a similar $2.9 million in assets. It may pay an annual dividend.

Holdings: The ETF has 41 holdings with a similar geographic diversity to Harvest – US (70%), Europe (12%) and Asia (15%). It holds a little over half (51%) in industrial companies, 23% in information technology, 11% in consumer discretionary and 11% in communications.

The top holdings are navigation and software provider Trimble Inc. (8.6%), Chinese e-commerce company J.D.com (6.28%) and defence contractor Kratos Defence & Security (5.68%)

Discussion: Both funds look at a similar basket of companies with some differences. Ark Emerge includes construction companies such as John Deere and Komatsu. As well, active stock selection makes Ark Emerge more nimble since it can rebalance more quickly. On the other hand, it has a higher management fee. Both offer a balanced group of established companies. The choice comes down to which style of management you prefer.

Adam Mayers is a contributor to the Toronto Globe & Mail's Globe Advisor and a Contributing Editor to the Internet Wealth Builder investment advisory. Reprinted with permission from adammayers.com.