



# WATER, WATER, EVERYWHERE, NOR ANY DROP TO DRINK

by David Derwin

**T**HE ULTIMATE RISK as a living being is losing access to clean water. We all take water for granted. We open a tap and it comes out: simple, cheap and available. But like most commodities, the laws of supply and demand are at play. In North America, water is cheap, almost free, therefore heavily used, often wasted.

Here are just a two examples:

**Landscaping:** We use gallons watering our grass so it looks nice and lush and green. It grows beautifully. We then spend hours cutting it, trimming it, manicuring it, raking the cuttings, gathering it together, placing it so nicely in a plastic bag, putting it on the curb for the garbage system to remove. Then we start all over again, in a never-ending cycle. Little do we realize that most of what we throw away is just water. Sounds quite futile, doesn't it? Why do we do this? So we can say that our lawn looks nicer than the neighbors'. (Fortunately, I live surrounded by prairie grass flora, also known as unkempt weeds.)

**Golf:** Golf is highly water-intensive. Highly skilled lawn-care specialists are paid to trim, sculpt and prune fairways and putting greens, just so a little white ball can be whacked towards and rolled across a silken carpet of grass into a hole. Golf courses are being built even in the arid deserts of Nevada and Arizona. This requires tons of water. (I must admit, I am going golfing this afternoon, so guilty as charged.)

I am not innocent of these offences, but we all need to be aware of our behaviour and how it affects the environment. I am not a tree hugger, and I believe that the current global warming/climate-change alarmism is being blown out of proportion. I remember that, in the 1970s, scientists were warning that the earth was doomed because of global cooling and the coming of a new ice age. However, this does not mean that we should be irresponsible and ignore our actions and blatantly waste our most precious resource.

In addition to being aware of our actions, we can invest in companies that will thrive in this new environment. I am not recommending some altruistic socially responsible investing strategy. I believe in making a profit, but why not invest in a worthwhile cause and make money for clients at the same time?

We have been investing in commodity-related assets for years. Water is a unique commodity with strong fundamentals. We have been researching water for years, and we first wrote about it publicly two years ago. (See "Future risk, future opportunity", Canadian Treasurer, April/May 2005.) We discussed global demographics and their impact on water consumption. Today, water is often called Blue Gold, and for good reason. For example:

- 90% of the world's cities still dump sewage into natural waterways;
- 0.01% of water is usable, 97.5% is saltwater in our oceans and seas, with the balance in glaciers and icecaps;

- 20% of U.S. wastewater treatment systems fail to meet regulatory standards;
- 50% of water is lost in transmission in many U.S. cities because of poor infrastructure;
- enough water to fill 300 Olympic-size swimming pools is lost each day in London, England, from insufficient and deteriorating infrastructure;
- 2/3 of China's cities, more than 400 of them, face water shortages;
- 10 million children die each year from unsafe drinking water;
- 1 billion people still drink dirty water;
- 2 billion people in 48 countries will be short of water by 2050;
- \$1 trillion needs to be spent right now to deliver water to developed and emerging countries;
- \$180 billion needs to be invested every year in developing markets like China and India – twice the current level;
- 22% growth in water demand for human consumption, industry and agriculture is expected to occur by 2024.

That's just the tip of the proverbial iceberg. Clearly demand will far exceed supply. However, we humans are a

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resourceful bunch, and necessity is the mother of invention. This is why we recommend investments in all facets of the global water industry. For example:

- water technology;
- waste water management;
- filtration & purification;
- environmental services;
- engineering;
- consulting;
- irrigation;
- packaged water;
- utilities, pipelines & distribution;
- hydroelectricity;
- water rights, and
- instrumentation & measurement components.

We believe a long profitable trend lies ahead of us in dealing with the risk of water shortages. The best way to hedge against and profit from this risk is to collectively reduce our wasteful habits and invest in companies that will provide solutions, and we have the research to back it up.

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