

Welcome to Conversations with Ken. A podcast where we discuss relevant topics in investing. I'm Ken Crawford, Senior Portfolio Manager with Argent Capital Management.

Ken: With me today is Ying Ko, Senior Analyst. Ying how long have we worked together?

Ying: It's about fifteen year plus.

Ken: Fifteen year plus so Ying knows a few things, but Ying I'm a little confused. So I read about all this chip shortage. But just the other day I went to the grocery store, I bought potato chips, I got Nacho Jalapeno chips, I got corn chips. I mean, the shelf was full of chips. So I don't understand this. What is the chip shortage?

Ying: Ken, I hope you will share your fabulous chips with me later. The shortage of chips that everyone's talking about is the semiconductor chips. That's the stuff that goes into your computer, like the Intel Inside.

Ken: So not potato chips. Okay, well, I guess that makes a little more sense. But, you know, just like potato chips, if we got a shortage of semiconductors, why doesn't Intel just make more?

Ying: Well, making more will require a semiconductor company like Intel, or the semi manufacturing company like Taiwan Semiconductor manufacturing company to build out a new factory. And that is not a short order in the very advanced semiconductor production these days. So, for example, Taiwan Semiconductor needs to spend \$12 billion to build out a manufacturing site at Arizona. And it takes about three years.

Ken: So a lot of investment and a lot of time is what you're saying? Well, I guess that explains why there might be shortages now. I guess the good news is semiconductors just hit the computer industry. So a relatively small impact to our economy as a whole, right?

Ying: Well, certainly there's a shortage of semiconductor chips that goes into the computer. But there's also lots and lots of stuff that uses chips today that you and I might not think about. For example, phones or cars, appliances at home, anything that makes beeping sound, anything that has the word digital in front of it. And also on a commercial or industrial side, we have to think about any sort of modern production lines, any sort of equipment that's needed, you know, hospital equipment even. So the shortage of chips is actually impacting quite a bit of industry across our economy.

Ken: Hmm... So when I hear about auto companies shutting down lines, delays like that, that all could be tied into chips is what you're saying?

Ying: Correct. Yeah, unfortunately, auto manufacturers are at the mercy of having the chips that go into the components that eventually gets shipped to them.

Ken: So all those cameras and sensors and the things that we're hearing about make it less likely that I get into a crash are some of the things that they can't get now.

Ying: Correct. Yeah, unfortunately, everybody is on an allocation these days.

Ken: Okay. So what in the Large Cap strategy do we hold now that might be affected positively or negatively with this chip shortage?

Ying: A couple of stocks that we hold that are directly related to the semi world that's benefiting from this trend, for example, Skyworks is one of them. They make the communication chips that goes into a lot of the smartphones. And the good news is Skyworks owns their manufacturing facilities so they can manage this shortage a lot better. And they are benefiting from all of these 5G phones that you and I are seeing in your Verizon store or T-Mobile store. And Skyworks makes a lot of the chips that goes into those phones. The other stock that we own, that really benefits from all this shortage trend, is Applied Materials. They make the semiconductor manufacturing equipment. So for example, if Intel wants to have more plants or Taiwan semiconductor manufacturing wants to have more plants then they will increase their order to Applied Materials. Just an example, Taiwan semiconductor has basically doubled the amount of money that they plan to spend this year on buying and expanding their facility. So those are the couple of stocks that we own that are going to benefit from the chip shortage.

Ken: So a shortage is hurting the economy, but it sounds like there are some winners too.

Ying: Yes, yes. Maybe a pause to the economy because the supplies are coming, it will just take a little bit.

Okay. Ying, well, you've given us a lot to chew on with regard to chips. I want to thank Ying Ko, Senior Investment Analyst at Argent Capital. This is Ken Crawford, Senior Portfolio Manager at Argent Capital, closing the second podcast. If you have any questions or comments, please let us know. My email is KCrawford@argenticapital.com. Otherwise, thank you very much and enjoy your chips out there.

Thank you for listening to conversations with Ken. For now, stay safe, stay well and thank you for investing your time with us.