



The Big Short's Michael Burry Is Betting on a Water Crisis: Should You?

Description

Oscar-nominated movie *The Big Short* was based on Michael Lewis's book about four investors who spotted the financial meltdown early and bet against the U.S. housing market in 2008. One of those investors was Steve Eisman, who's now [betting against Canadian banks](#).

The other was Dr. Michael Burry, who has spent much of the past decade betting on an environmental crisis that could make water a rare commodity.

According to the World Wildlife Fund, only 3% of the water on the planet is freshwater. Of the 3%, most is frozen in glaciers and polar ice caps, leaving only 0.01% available for human consumption. This critical resource is distributed unevenly, leaving many regions exposed to a life-threatening and politically sensitive shortage.

In recent years, water has played a pivotal role in the India-Pakistan conflict, the economic hardships of Sub-Saharan Africa, and the power dynamics in the Middle East. As the environment changes and water becomes scarcer, investors like Dr. Burry are betting on instruments that track the value of water.

Institutional investors could buy water rights or even farmland for exposure to this emerging trend, but average investors may be better off investing in exchange-traded funds (ETFs) specifically designed for this phenomenon. **iShares Global Water Index Unit ETF** ([TSX:CWW](#)) is a great example.

CWW tracks 50 companies that are directly involved in the global water industry. This includes infrastructure companies, water utilities, water equipment and materials companies whose fortunes are linked to the supply and demand for freshwater.

At the moment, the biggest holding in the portfolio is **American Water Works**, a public utility company operating in the United States and Canada. The company provides wastewater and water management solutions to corporations and individual homeowners across North America. The stock currently makes up 9.97% of CWW's portfolio.

Other major holdings include American water technology provider **Xylem**, Swiss sanitary equipment manufacturer **Gerberit**, and French wastewater treatment specialist **Veolia Environment**.

CWW's robust and well-diversified portfolio makes it a convenient solution for investors looking to add water exposure to their portfolios. Indeed, the ETF has been a phenomenal investment over the past decade. The compounded annual return rate over the past 10 years is 13.29%. A hypothetical \$10,000 invested in the ETF in May 2009, would now be worth \$33,617 — a total return of 236%.

However, the ETF's market price is up 13.13% year to date and currently trades at 2.78 times its book value per unit and 22.72 times its annual earnings per share. The management expense ratio currently stands at 0.66%. The ETF has also under-performed its benchmark index by 118 basis points (1.18 percentage points) in compounded annual returns since inception.

Considering the inherent risks and unpredictability of this niche, these ratios seem too high to me. The investment thesis makes sense, but the trade is too crowded at the moment.

Bottom line

There's no doubt that the world faces a water shortage and companies that help manage or treat water could face growing demand going forward. The iShares Global Water Index Unit ETF provides a convenient path to exposure to this emerging trend. However, the instrument seems overpriced at the moment.

Investors might want to place it on their watch list and look for better points of entry in the future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CWW (iShares Global Water Index ETF)

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