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Investing in Lithium: Should You Buy Into the Mania?

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Few things get investors' attention quicker than a financial mania.

Whether it's Dutch tulip bulbs in the 17th century or internet stocks in 1999, it's not hard to find something to get the hearts of speculators pumping.

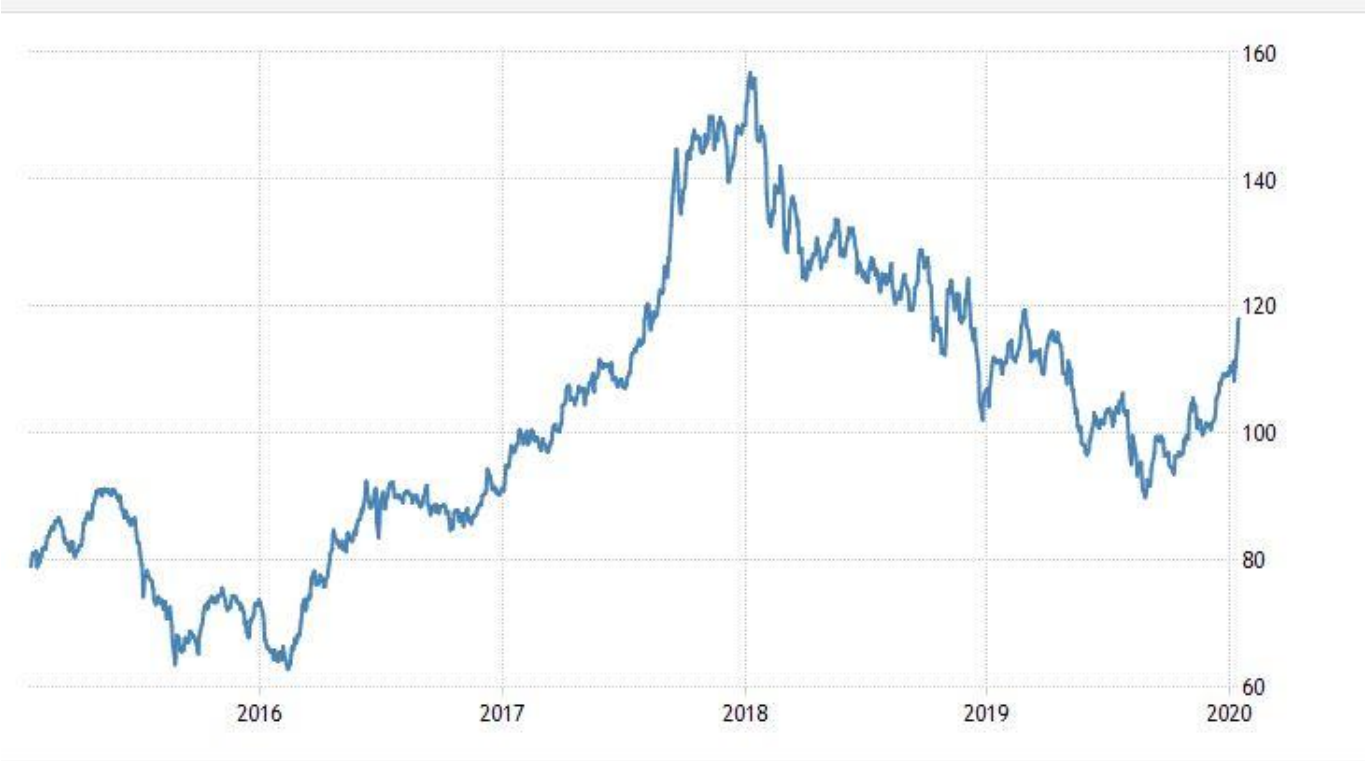

Image courtesy of tradingeconomics.com

After spending years in the dumps, the price of lithium began to skyrocket a few years ago. In China, lithium carbonate spot prices soared from $7,000 per ton in October 2015 to over $25,000 per ton within about nine months.

However, experienced speculators know that financial manias all end poorly, with the majority of mom-and-pop latecomers even losing their shirts.

As Robert Friedland — well known in the mining community for some wildly speculative forays into the mining sector — once put it: "*The lithium market will end in tears*."

"I got out of tulips after the market collapsed, but I'm slowly getting back in. Especially pink ones."

Image courtesy of financialtrading.com

With that said, unlike the case of the Dutch tulip bulbs, there is a robust and lasting fundamental case for lithium — one which virtually guarantees that the demand for lithium will continue to soar.

The Electrical Vehicle (EV) Revolution

The demand for lithium first exploded alongside the widespread adoption of mobile devices such as smartphones, laptops and tablets.

Each of these devices requires light, powerful and rechargeable batteries to reliably operate. The chance that every gadget that you have owned over the past 20 years contains some amount of lithium is high.

Although lithium batteries are ubiquitous, these mobile devices aren't going to be the major drivers of future demand growth.

Instead, the largest source of the demand for lithium over the next decade will stem from the widespread adoption of electric vehicles (EVs). In 2018, Goldman Sachs predicted that the global demand for "white petroleum" will rise fourfold by 2025.

If that sounds far-fetched, remember that an average EV requires 100 times as much lithium carbonate as a laptop and a Tesla Model S requires 10,000 times as much lithium carbonate as a smartphone.

To hit its current production targets, Tesla will have to consume the majority of all the lithium that's globally produced today.

That fact explains why Tesla built an enormous $5 billion "gigafactory" in Nevada to churn out the lithium-ion batteries that will power its sleek EVs in the not-too-distant future.

The Future Is Energy Storage

Although the growth of EVs has captured investors' attention, energy storage is another source of the demand for lithium.

That's because lithium also powers the batteries which store the renewable energy that is generated by solar panels and wind turbines. With an increasing emphasis on "green" and "renewable" energy around the world, the use of wind turbines and solar panels has begun to take off.

Concurrently, the declining cost of lithium-ion batteries has allowed battery storage to become economically feasible for some energy storage applications. It is no wonder that the battery capacity of energy storage products has doubled over the past couple of years.

As renewable energy continues to expand, so will the demand for large lithium-powered storage batteries. After all, the future of energy storage is only set to accelerate.

Two Challenges of Investing in Lithium

With lithium's blue-sky prospects, investors are actively seeking ways to invest in this white-hot asset.

However, they face two large challenges.

Firstly, it's tough to gain exposure to lithium directly. Unlike many other commodities, you can't buy lithium on any major commodities exchange. You can't gain exposure through futures contracts or swaps either. The only way you can invest in lithium is by investing in individual lithium miners through a basket of stocks.

Thus, it is important to know that the lithium supply market is dominated by five major producers: Albemarle (NYSE:ALB), FMC Corp. (NYSE:FMC), Chile's Sociedad Quimica y Minera de Chile (NYSE:SQM), Tianqi Lithium and Jiangxi Ganfeng Lithium. The newest

top lithium producer, Livent Corp. (NYSE: LTHM), was spun off from FMC in October 2018 and has since replaced FMC as the fifth largest (by market share) lithium producer.

At the same time, it is important to note that with the exception of the pure lithium play Livent Corporation, lithium only accounted for, at most, 43% of SQM's and Albemarle's total revenue in late 2019.

"We continue to see evidence that demand for lithium compounds will accelerate in 2021 and beyond, with growing support for electrification from OEMs, governments and consumers, despite significant disruptions in 2020," said Livent CEO Paul Graves, in a press release.

Secondly, like the old saying goes, "What goes up must come down." Indeed, Australian-based analysts at Macquarie have argued that, with so much new lithium entering the market, the lithium market has become oversupplied.

That, in turn, has put downward pressure on lithium prices.

Now, this fact doesn't change either the compelling fundamental case for investing in lithium or the fact that an investor can make money by investing in lithium-related stocks.

It just means that you have to look at the current state of the market and then recognize that speculation in lithium stocks is like a game of musical chairs.

Just make sure that you have a chair to sit on when the music stops.

Kind regards,

The Stock Investor Research Team

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