The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

MacNicol & Associates Asset Management Inc.

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The two main purposes of a Lighthouse are ***to serve as a navigational aid and to warn boats (Investors) of dangerous areas****. It is like a traffic sign on the sea.*

Twin Lights, Thacher Island, Rockport, Massachusetts from Renata G.

Esan Misaki Light, Hakodate, Japan.

Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

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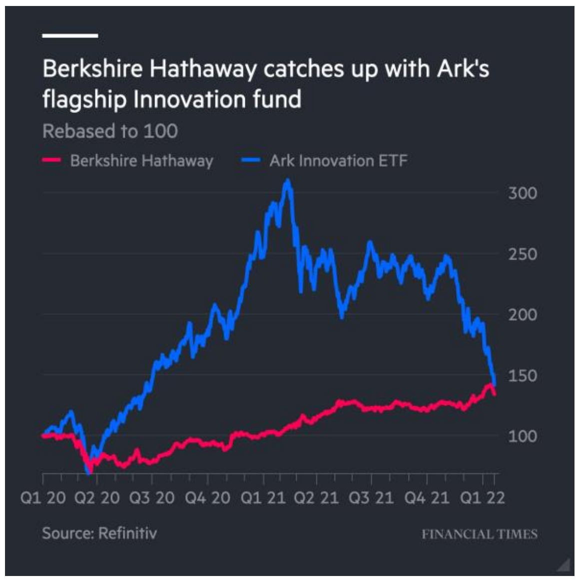
Old School: Same Result

Berkshire Hathaway has almost caught the ARKK Innovation ETF in terms of returns since January 2020.

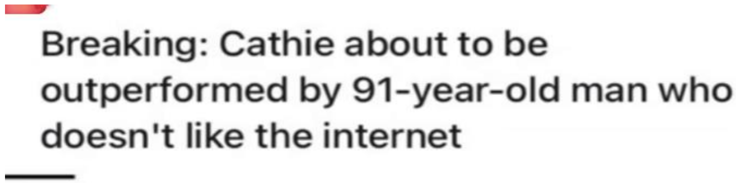


Value has held onto most of its gains during the recent small market meltdown as investors are finally flocking to companies that produce cash flows. If the market continues to struggle, high-quality blue-chip companies that produce earnings, real products, and pay dividends will be in high demand.

Growth is not completely dead. Growth companies with cash flows and earnings will not crater but, Cathie Wood does not invest in those growth companies. She invests in the unicorns that are supposed to all be disruptive and transformational, no matter what industry they operate in. A lot of her investments are in companies that are producing little to no revenue and the thesis is based around a futuristic pipe dream.

Reliable Warren Buffett has never changed his strategy. Two years into the pandemic he has caught up to Queen Cathie who was anointed the leader in finance in 2020. Hopefully, some ARKK shareholders realized their gains in 2020 or early 2021!

A popular user made light of Buffett catching Wood with a funny posting.



Even the retail Reddit crowd who idolized Wood for a year and a half due to her massive returns have turned on her.

The knock-on Warren Buffett in recent years has been his lack of Technology exposure. Many millennials site his lack of Internet knowledge as the reasoning. When you are that successful and are known as "The Oracle of Omaha" why change your ways when what you are doing is creating similar returns to major indices with less risk.

Buffett avoided technology companies for years. He famously invested in Apple back in 2016 and has cashed in big through capital gains and dividends, he now owns 5% of Apple.

<u>Time to Gold?</u>

In comparison to major indices across North America and most other commodities, gold has underperformed over the last year. Gold is down 1% over the last year as of January 26th.

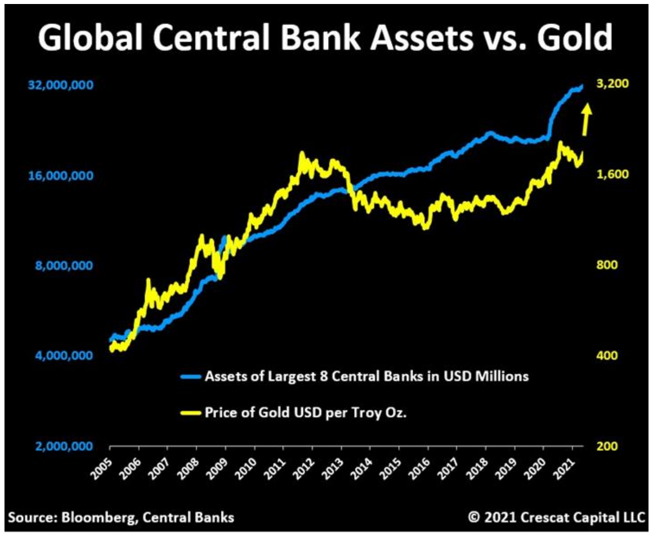
Why has Gold underperformed?

Inflationary periods are usually strong times for Gold as we saw throughout 2021. When large amounts of cheap money are pumped into the global financial system, the hard asset gains relative value.

Last year, this was not the case but, going forward the current economic climate looks to set up Gold quite nicely.

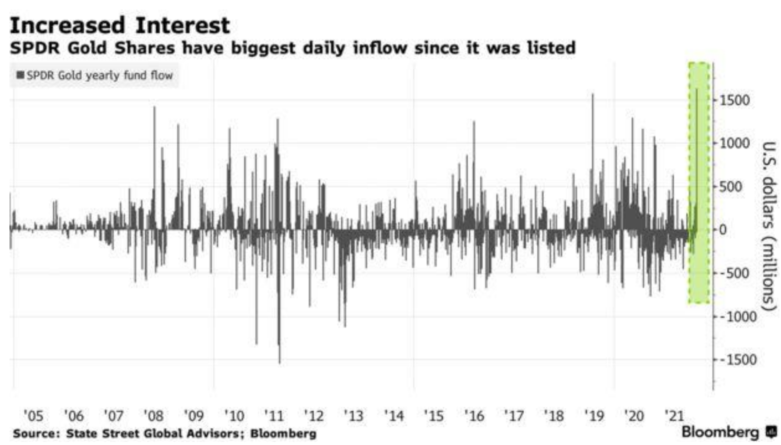
The BMG Group sent around this photo in one of their newsletters comparing total Central Bank Assets to Gold since 2005. The correlation between the two is quite high up until 2021.

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
Email: info@macnicolasset.com URL: www.macnicolasset.com



History usually repeats itself and we think with the current economic climate, Gold has an attractive setup. The move most expected Gold to make over the last year could simply be delayed.

During Monday's volatile markets, the SPDR Gold Fund had its biggest daily inflow since inception. Investors seem to be rotating from high growth risk assets to assets with less beta. Look for this to continue as the markets continue to have increased volatility.



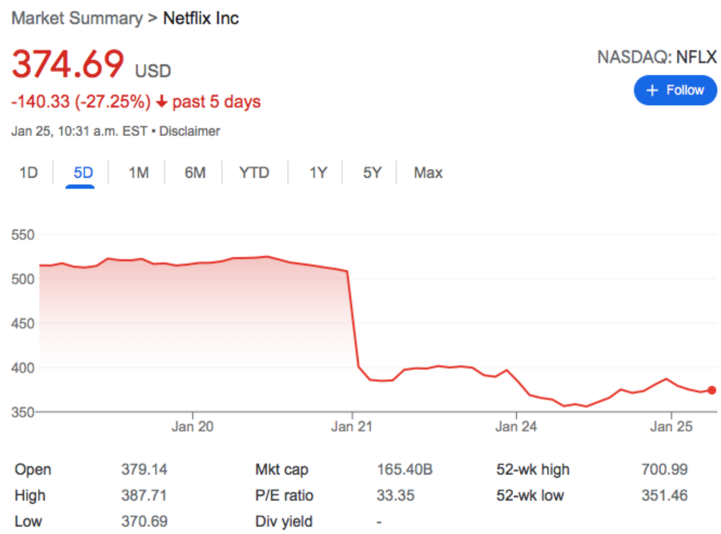
Many investors will question an investment in Gold when Bitcoin has shown "more upside". Bitcoin does not have a store of value when it is down 20% YTD and almost 50% from its all-time high. If markets continue to be choppy, Bitcoin and the crypto markets will be the choppiest.

Netflix goes belly up

Over the last two weeks, we have seen major market volatility, major swings in indices, Fortune 500 companies, and overvalued technology companies dropping 5-20%.

The entire market is in some sort of turmoil due to several factors: Omicron, Inflation, Interest Rates, Russia-Ukraine, and the Supply Chain.

Due to a highly sensitive market, Netflix has gotten hit the hardest over the last week due to slowing subscriber growth.



Netflix beat earnings, was on track in revenue but, dropped 27% due to fewer subscribers being added in Q4 2021 than in Q4 2020. Netflix also gave some subpar projections wherein Q1 2022 they expect to add 2.5 million subscribers far below analyst expectations of 6.93 million. The air is slowly coming out of the tires for Netflix.

Netflix shares are trading lower than they were on February 21st, 2020. The Covid-19 bump Netflix benefited from has been erased. Netflix shares are also down almost 50% from the all-time high which occurred in October.

When stay-at-home stocks are taking it on the chin in an extreme fashion, perhaps we are rounding the turn in terms of Covid-19.

We cannot mention Netflix without mentioning guru investor and CNBC host, Jim Cramer who recommended to his 1.7 million followers to buy Netflix on January 3rd. Cramer has made some horrible calls over the last year (and his career IMO), yet many investors listen to his every move.

If you listened to Cramer and bought Netflix on January 3rd you would have paid $597/share, as of January 26th the stock is trading below $380. Quite a return if you were shorting it.

Aside from his horrible calls throughout 2021 on companies like Coinbase, Robinhood, Plug Power, Fuel Cell, and many more hype companies, Cramer proclaimed oil as “dead” on January 31st, 2020, before the Covid-19 pandemic.

One of his worst calls was when oil prices reached their pandemic lows and he said not to buy oil and gas stocks. He told his viewers “not to buy Occidental Petroleum (OXY) under $10, 18 months later and the stock is trading above $37.

On August 2nd, 2021, Cramer loved Robinhood.

MAD MONEY WITH JIM CRAMER

SHARE

Here’s why Jim Cramer recommends buying shares of Robinhood

“Mad Money” host Jim Cramer on Monday made the investment case for Robinhood, believing the brokerage has major potential in other financial services.

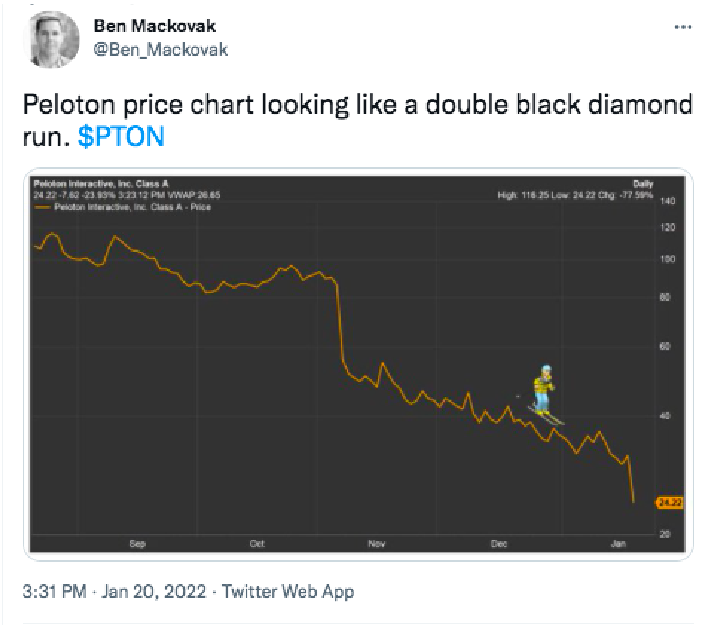
MON, AUG 2 2021 • 8:09 PM EDT

The stock has fallen from $37 to $13.35 from that call. Returns would have been worse if you bought a few days after his recommendation.

Ignore the gurus.

<u>If you love skiing……</u>

A user on Twitter shared an amusing graphic depicting Peloton’s share price over the last few months.



The Peloton share price is now only up 3% from its 2019 IPO price and it has surrendered all of its gains.

Even though Covid-19 was the best climate Peloton could ask for they were still not profitable over a fiscal period. Peloton's revenue has seen slow growth over the last 3 quarters. Since going public (2019), Peloton has only added 511,000 subscribers. Subscribers added over the last year have grown at the slowest rate in years.

Peloton has even hired consulting firm McKinsey recently to review its cost structure.

Just because Peloton shares have plunged 78% over the last 6 months and even more from all-time highs, wait and watch, the road to profitability and growth might be harder to reach than expected.

Peloton will also begin to start charging for in-home assembly and delivery of its products going forward.

Inflation across the world

Our friends at Capitalist Exploits shared this image of the Spanish Producer Price Index as of December 31, 2021, and wow.

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
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A 35.9% increase in prices for producers - think inflation is slowing? That producer increase will be reflected directly on consumers.

The PPI is the highest on record which has tracked price increases in Spain for 45 years.

Expect hard asset prices to continue to increase and contrary to Politicians' words, consumer prices will not drop from where they are now unless something catastrophic happens.

Canadian supply chain disruption

Canadian supply chains might get rocked even more domestically than the global supply chain issues we have seen over the last year.

Prime Minister Trudeau and his government have implemented a vaccine mandate for truckers which includes American truckers crossing the border. Biden has not disagreed with Trudeau even though his vaccine mandate was ruled unconstitutional and was overturned 2 weeks ago.

So why will this matter?

Less truck drivers cross the border and deliver products to stores for consumers. This could lead to empty shelves and will lead to higher prices.

The Canadian media continue to downplay the issue and state the mandate will not affect the number of truck drivers.

Truck drivers have united against this and are staging a massive protest where they drive across the country to Ottawa to protest. Truckers have been driving all week and U.S. drivers are driving along the border in solidarity with their Canadian coworkers.

There are rumored to be 50,000+ truckers heading to Ottawa, the truckers have been met by thousands of supporters along the way.

Rumors are this truck convoy would set a world record. The current record was achieved in November 2020 in Egypt with 480 trucks.

A GoFundMe was started for the convoy and has raised over $5 million so far. It will be interesting to see how this plays out.

If the mandate stays in place, there will be fewer truck drivers to deliver products across the country which would be a huge issue. There have also been numerous photos shared of grocery stores already having supply issues. Those photos could be subjective or could be some foreshadowing for a dark future through Canada's supply chain.

Perhaps the worst thing to come out of this situation is Canadian Transport Minister Omar Alghabra explaining the convoy and mandate will help current supply chain disruptions as fewer trucks will be on the road. What does he even mean? The 401 in Toronto having traffic is not causing supply chain issues.

> "We know this is actually a solution to the supply chain issue, not a hindrance," Transport Minister @OmarAlghabra on the federal vaccine mandate for cross-border truckers.

Hopefully, these shortages do not come to fruition but, it is something to watch as it will have deep economic impacts.

Big Tech Top

On Friday, January 21st, The Economist released its weekly magazine, this was the cover.

Big technology company CEO's are depicted as superheroes.

Since the magazine was released, shares have dropped across the board, Apple down 2.6%, Amazon 9%, Alphabet 3%, Facebook 6.5%, and Microsoft 2.5%, this is even with a jump in share prices on Wednesday.

However, when we mention extremely overvalued technology companies with low revenue, we are in no way mentioning this group of companies. They are amongst the largest companies globally and everyone uses their services. These CEOs are essentially more powerful than politicians. If the market continues to run in turmoil, these companies that have outperformed markets for over a decade will underperform the broader markets.

When everything goes wrong

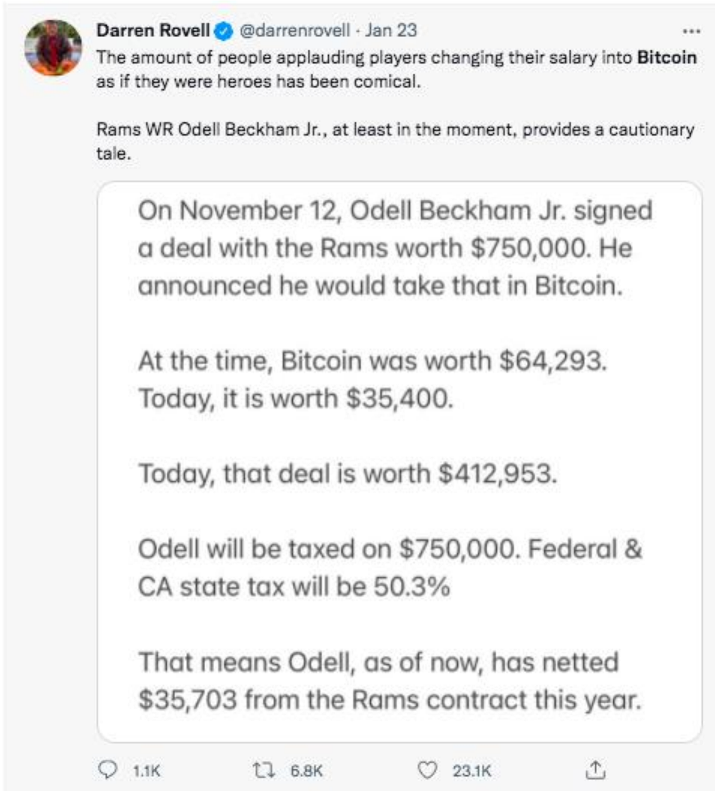
The media and bitcoin bulls have applauded athletes and other individuals who have asked for their pay in Bitcoin. They even point to this as the early adoption of the cryptocurrency and how this is the future.

We have already mentioned in *The Weekly Beacon* that employees will not want to be paid in Bitcoin and employers will not want to accept Bitcoin as a payment for several reasons (volatility, loss of value).

High net worth individuals and people who do not rely on a paycheque can accept their pay in Bitcoin as they do not depend on consistent cash flows to pay their expenses.

Only a few individuals have chosen to do this so far. In 2020, a Carolina Panthers Offensive Tackle, Russell Okung converted half his salary into Bitcoin, and he won big. Okung profited on the rise of Bitcoin throughout the end of 2020 and early 2021.

However, there are a few recent Bitcoin for pay stories that have gone the other way.


Darren Rovell @darrenrovell · Jan 23

The amount of people applauding players changing their salary into **Bitcoin** as if they were heroes has been comical.

Rams WR Odell Beckham Jr., at least in the moment, provides a cautionary tale.

On November 12, Odell Beckham Jr. signed a deal with the Rams worth $750,000. He announced he would take that in Bitcoin.

At the time, Bitcoin was worth $64,293. Today, it is worth $35,400.

Today, that deal is worth $412,953.

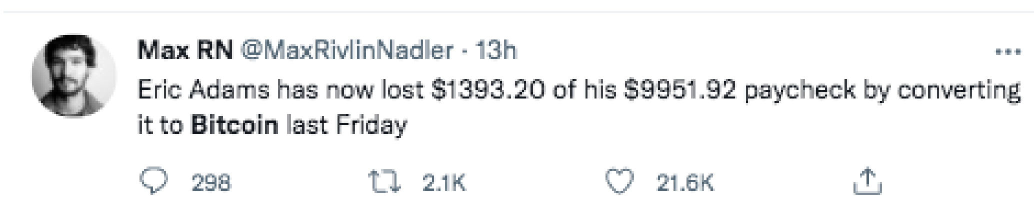
Odell will be taxed on $750,000. Federal & CA state tax will be 50.3%

That means Odell, as of now, has netted $35,703 from the Rams contract this year.

1.1K 6.8K 23.1K

Odell Beckham Jr. of the Los Angeles Rams signed a mid-season deal worth $750,000 all to be paid in Bitcoin, after taxes his deal will pay him $35,703. He may not need the money but, this example is why a majority of the world will not entertain Bitcoin as a form of pay or form of payment.

New York City Mayor Eric Adams also got in on the Bitcoin fun and he has lost big by just converting one paycheque to be paid in Bitcoin.


Max RN @MaxRivlinNadler · 13h

Eric Adams has now lost $1393.20 of his $9951.92 paycheck by converting it to **Bitcoin** last Friday

298 2.1K 21.6K

The bulls may sound smart and are fun to listen to but, many of them do not care about 10-15% price drops as they do not rely on Bitcoin for their daily expenses.

We bet Eric Adams and OBJ would like that money back.

Energy shortage

We have mentioned the current energy shortages across the globe as well as the growing demand for energy and decreased supply. These qualitative issues are why oil prices have not seen any decline even though indices are 10% off their all-time highs. Oil prices have barely skipped a beat. Oil prices continue to reach 7-year price highs and are approaching $90/barrel.

The big banks are finally realizing all these macroeconomic issues will lead to higher prices and they are jumping on board.

Asian Markets

Oil to breach $100 a barrel later this year- Goldman Sachs

Reuters

Morgan Stanley Jumps On The $100 Oil Bandwagon

By Tsvetana Paraskova - Jan 21, 2022, 2:00 PM CST

Barclays hikes 2022 oil price view by $5/bbl on depressed inventories

January 24, 2022 6:40 AM Reuters 0 Comments

We highlighted JP Morgan a few months back who was the first large bank to raise their oil price forecast.

December 2, 2021
9:34 AM EST
Last Updated 2 months ago

Energy

JP Morgan sees oil prices hitting $125 in 2022, $150/bbl in 2023

Reuters

The JP Morgan price forecast is also significantly higher than the other large banks, perhaps they read the Beacon or also look at macroeconomic issues.

Morgan Stanley has also put out research indicating that the energy sector is pricing in oil at $62/bb for its forward pricing rather than the $80/bb we are projected to have. Oil is not going anywhere.

MacNicol & Associates Asset Management Inc.
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130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
Email: info@macnicolasset.com URL: www.macnicolasset.com