

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.

*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.*



The Tower of Hercules, A Coruna, Spain



[The Lighthouse of Alexandria, Pharos, Alexandria, Egypt. Built in 284 BC.](#)

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



New Year: Old Energy

As 2022 has begun, it seems the ESG guidelines are not stopping investors from investing in coal. Coal is the dirtiest fossil fuel and is the world's dirty habit. However, it is essential in keeping the lights on and heat on across the world (and yes ESG supporters, Canada, the U.S., France, and the U.K. all use coal).

Peabody Energy (BTU: NYSE) is an American-based coal company, it is the largest private coal company in the world. Peabody started the New Year hot and traded up 12% on Monday, during the first trading day of 2022. It is up over 16% over the last month.



Why did this happen? Well, the world is finally catching on to what we have been warning readers for months, energy shortages across the world caused by a lack of energy.

Peabody is trading well below its 52-week high, which it reached back in October as coal prices decreased in late October and November. Heading into the coldest months of the year in the Northern hemisphere, prices could be poised to increase again.

There was also some major news to start the year in the world of coal that may expand this supply gap.

Indonesia Bans Coal Exports to Head Off Blackouts

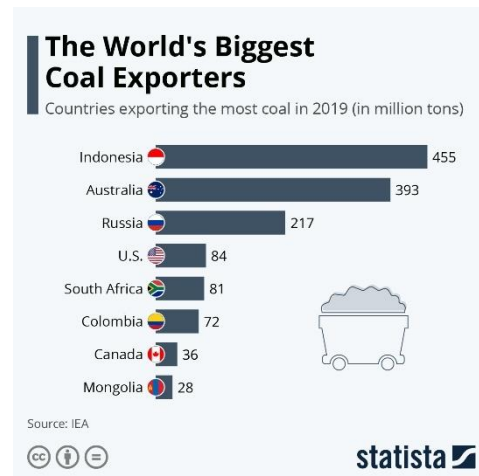
The move speaks to the political and economic importance of coal, and the difficulty Indonesia will have in organizing a transition to renewable energy.



By [Sebastian Strangio](#)
 January 04, 2022



Indonesia banning coal exports may not sound like a big deal while we sit in Canada but, it is. In 2019, Indonesia was the world's biggest coal exporter. Global supply in the short run will take a large hit. Analysts believe Indonesia exports 45% of global coal.



After China banned Australian coal imports last year, they heavily rely on Indonesia for coal, approximately 70% of the country's coal imports are sourced from Indonesia. China has always had a large reliance on coal and according to the Paris Climate Agreements, China can continue building new coal plants for the next decade while Western countries are forced to shut their plants down.

In other coal-related news, France is forecasting supply gaps in their energy grid by as early as mid-January. The country cites warm seasonal weather in December as a reason why they have not faced blackouts. Counting on warm weather in the winter is quite a risky energy policy.

France is the world's most nuclear dependant nation and has the second most nuclear reactors in the world to the U.S. Currently, 17 of France's 56 reactors are undergoing maintenance and upgrades which has caused France to rely on imports to keep the lights on. If you have followed [The Weekly Beacon](#), we have mentioned the major uranium supply shortage and how critical it will be going forward during a green transition.

France is a historical electricity exporter and has been one of the two largest across Europe for years. Since November, France has been importing more electricity than it ever has. Perhaps, now is the time more will understand this dire issue that will only get worst with more regulation.

Forecasting this problem, France is seriously considering the use of coal to avoid blackouts. One of the greenest countries with extremely progressive energy policies using coal: interesting. Even though France and Germany oppose each other on nuclear energy, they both support coal divestment. If we are already having these issues, will they not continue?

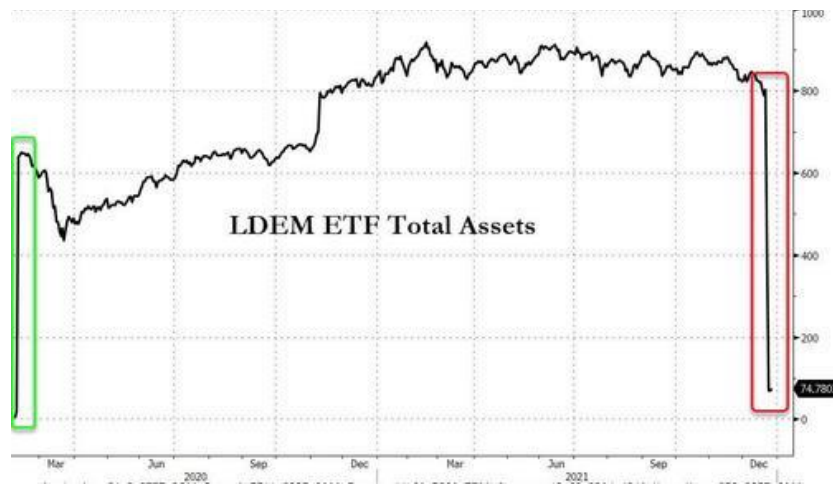
To increase coal usage, France will need to raise its annual cap on running coal-powered stations.

Continue watching the energy sector as it remains the most fascinating case study going forward.

Speaking of ESG

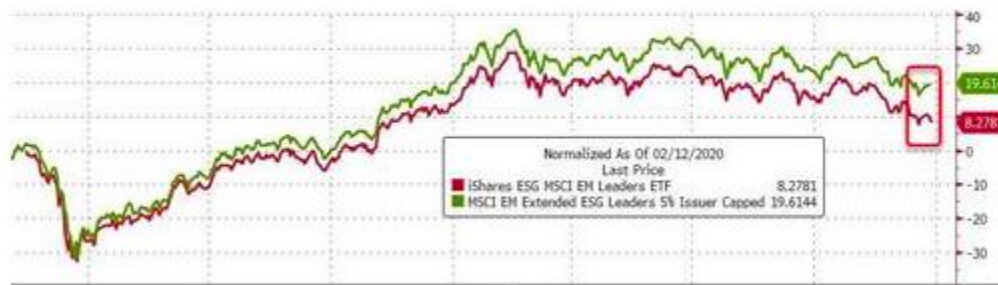
A Blackrock iShares ETF lost 91% of its investments in a matter of 2 days.

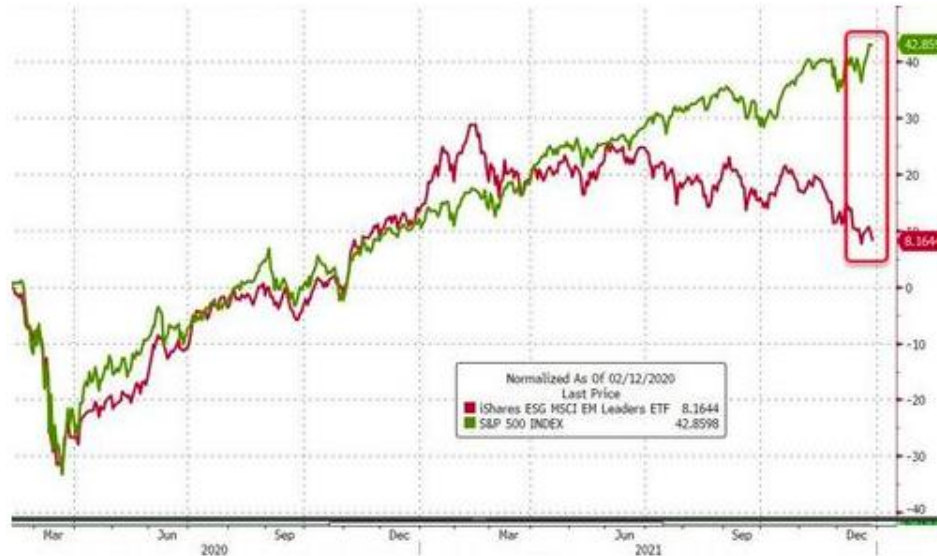
The iShares ESG MSCI EM Leaders ETF (LDEM) has \$75 million in assets, compared to over \$803 million on December 21st. On Christmas Eve the fund fell to \$59 million in assets at one point. Investors poured out of this ESG fund. LDEM invests in Emerging Markets mid and large-cap companies with high ESG scores relative to its peer groups. Its largest holdings include Taiwan Semiconductors, Alibaba, Tencent Holdings, and Reliance Industries.



The fund launched right before Covid-19 on February 2nd, 2020 and had an immediate inflow of capital. Over the past week, LDEM has lost almost all the inflows it created since its inception. Only one holder of LDEM could account for such a steep outflow, Ilmarinen, a Finish-based pension company that made an initial investment of \$600 million.

The Finish pension fund did not announce why they made such a large divestment. Returns are more than likely the reason for this divestment, the equity fund has underperformed its benchmark and the S&P 500 since inception.





Over the last year, the ETF is down 5% while equity markets have been up over 15-20%.

The pro ESG ETF has a 31% exposure to China, one of the riskiest markets in the world due to the tremendous overreach by the Chinese government.

This massive outflow highlights the realities of investing. Investors do not want to discount their returns for their future to invest in an underperforming ESG fund. Even though ESG investing makes people feel good, returns trump guidelines especially when retirement planning.

ESG scoring is graded on a subjective scale and varies by the grading system.

The IRS wants you to report what?

Some funny news as we head into tax season.

A user on Twitter pointed out a new part on the IRS website.



The tweet quickly went viral as it's too funny to be true. Report stolen property as income, interesting.....

The story was quickly published by numerous publications as they cannot believe it.

If you steal something, you must report it as income, IRS says. Wait, what?

BY BAILEY ALDRIDGE

UPDATED JANUARY 01, 2022 9:49 AM



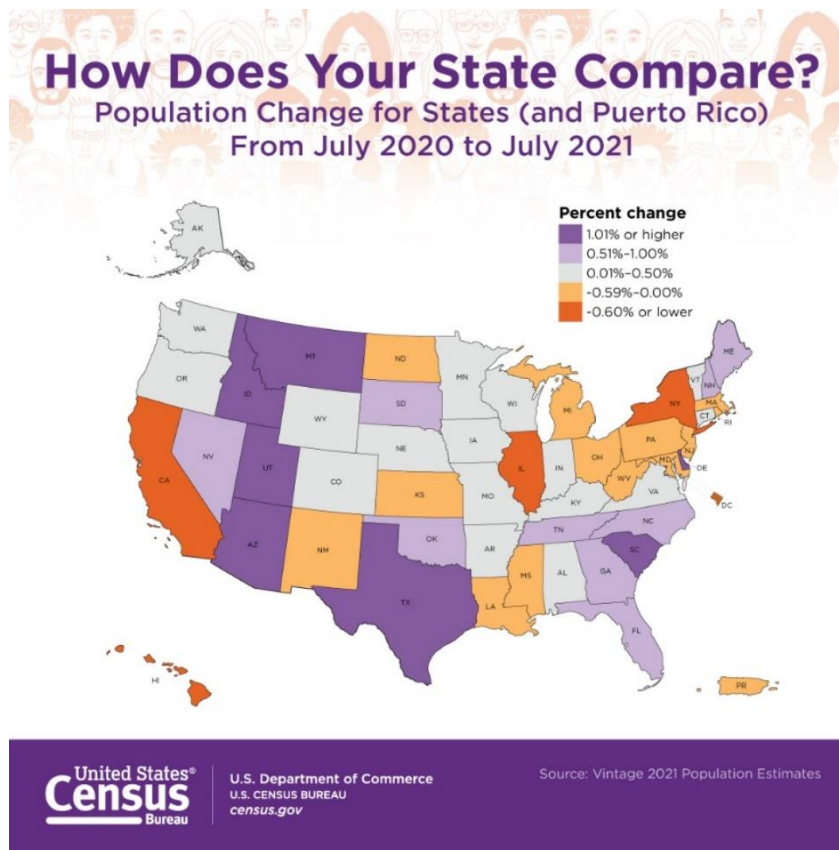
Don't forget to declare income from stolen goods and illegal activities, IRS says

"If you find \$1 on the street or embezzle from your employer, that's all taxable income, as well as your paycheck from flipping burgers at McDonald's," one tax preparer said.

The government wants every nickel of tax revenue it can get its hands on, quite fascinating. Interesting to see if anyone will report illegal income.

U.S. Population Movement

The U.S. Census as of July 21st, 2021 was released last month and the population changes by the state are quite interesting but, not surprising.



This chart is 6 months behind but, we would assume the trend would easily hold and may increase the growth in net gainers like Texas, Florida, and South Carolina and a further decrease in net losers like New York, California, and D.C.

The states with the least Covid-19 restrictions, least regulation, and lowest taxes are the dark purple and light purple states on this chart, and all have gained residents.

Some of these markets have been our primary focus in our real estate holdings in our [Alternative Asset Trust](#) over the last few years. These markets present the most potential and this trend will continue going forward.

Residents in major metropolises like New York City, Los Angeles, and San Francisco are fleeing in the thousands. High taxes, remote work, and high crime are leading many to leave these areas. Texas has already seen an influx of technology companies relocating from California.

Zillow came out with their 2022 hottest housing markets and its no surprise which cities are in the top 10. Further confirmation bias on where things are moving.



All the top 10 are in the historical south except for Phoenix. All these cities are in low tax, low regulation states, and are growing by the year.

Population trends is an interesting thing to watch and, on a state level are usually a result of policy decisions.

Market Reacts to FED Minutes Release

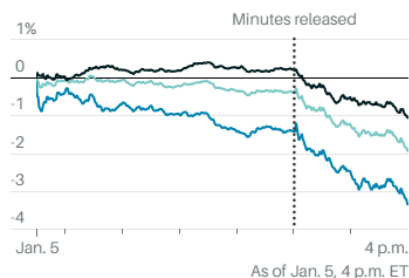
The market had a negative reaction to the January 5th release of the FED minutes.

A nice sell-off down to the minute of the release.

Tumble

Minutes from the latest Fed meeting revealed a potentially more aggressive bank—and triggered a selloff.

■ Dow ■ S&P 500 ■ Nasdaq



The meeting minutes revealed robust talk among some Fed officials around the FED potentially moving to raise rates and also cutting its \$8.8 trillion balance sheet sooner than expected to help tackle inflation.

How far will the FED go? Will they allow the market to have a correction? We think inflation will be an ongoing theme for the next few years even with this change.



Regardless, the days of easy money seem to be coming to an end. Disruptive technology companies, low revenue hype companies, and various SAAS companies have already had their bubbles burst.

The Nasdaq which was already having a rough day as technology stocks struggled plunged 3.34% for its worst day since February 25th, 2021. Tech momentum has lost its touch and investors are finally looking at the numbers and realizing a lot of these companies are trading at ridiculous multiples and growth cannot go on forever.

A big loser on Wednesday was the ARKK ETF. ARKK was down 8% on Wednesday and is down 32% over the last 6 months.

Market Summary > ARK Innovation ETF

86.12 USD

-41.12 (-32.32%) ↓ past 6 months

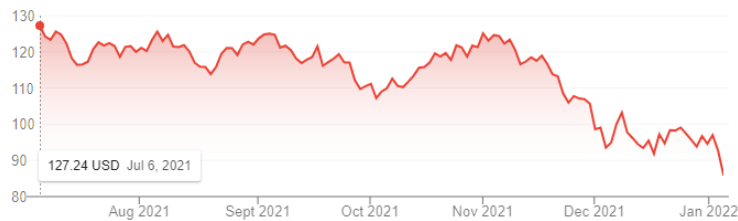
Closed: Jan 5, 4:37 p.m. EST • Disclaimer

After hours 86.11 -0.010 (0.012%)

NYSEARCA: ARKK

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1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



It's been a wild ride for Cathie Wood. In 2020, she could do no wrong and since then everything she touches is redeemed. ARKK is trading as low as it was in September 2020. It has erased most of its melt-up returns. A major reason ARKK has sold a lot of its Tesla is that Tesla is one of its only winners and is the most liquid equity they own when they are forced to sell due to investor outflows.

A Great Quote to Start the Year

“To suppose a stock's value is determined purely by a corporation's earnings discounted by the relevant interest rate is to forget that people have burned witches, gone to war on a whim, defended Stalin and believed Orson Welles when he told them Martians had landed.” - ***Jim Grant***

Happy New Year!

MacNicol & Associates Asset Management Inc.
January 7, 2022