

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.*



Cape Horn, Chile



The Westernmost Point of Continental Europe near Sagres, Portugal, from Ian H.

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



Ark Investments Continues to Implode

Over the last year, Ark ETFs have completely tanked.

ARKK (Ark's flagship fund) was at a 52 week low as of February 22nd and is down over 50% over the last year.



ARKW is also down over 50% over the last year.



The losses are not limited to hyped-up Internet companies, ARKG is down 55% over the last year.



Market Summary > ARK Genomic Revolution ETF

45.35 USD

-56.37 (-55.42%) ↓ past year

Feb 18, 8:00 p.m. EST • Disclaimer

BATS: ARKG

+ Follow

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

Open	-	Mkt cap	-	52-wk high	106.55
High	-	P/E ratio	-	52-wk low	42.83

We highlight Ark yet again because another one of their largest holdings completely tanked over the last week.

Roku Inc. dropped 29% on Friday due to missing earnings and sharing poor forward guidance.

Market Summary > Roku Inc

113.80 USD

-48.52 (-29.89%) ↓ past 5 days

Feb 22, 9:31 a.m. EST • Disclaimer

NASDAQ: ROKU

+ Follow

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

Open	113.07	Mkt cap	15.14B	52-wk high	490.76
High	114.29	P/E ratio	66.51	52-wk low	102.60

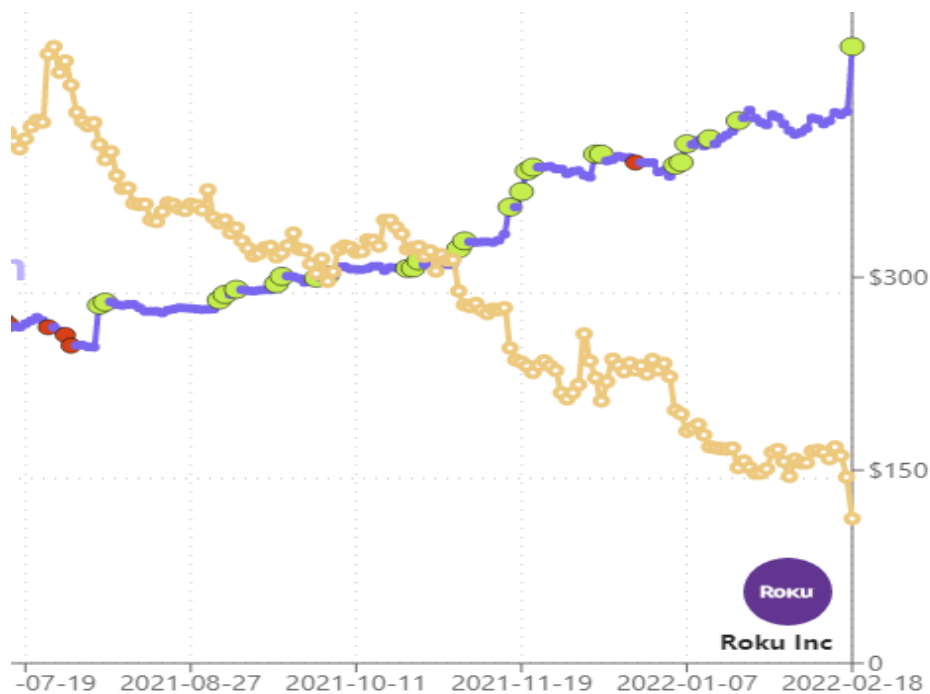
Roku is down 50% year to date and almost 80% over the last year. The company has completely fallen belly up. Roku manufactures a variety of digital media players for video streaming. Roku's main product is similar to the Amazon FireStick and Google Chromecast.



Roku Streaming Stick 4K

At the beginning of 2021, Roku traded above 30x Price to Book and a 383.2 Price to Earnings Ratio. Roku was completely overvalued but Ark never stopped buying the company.

Ark Investments transactions of Roku over the last 8 months:



The purple line represents Ark's total holdings of Roku and the yellow line, Roku's stock price.

Roku is Ark's 7th largest holding and represents almost 4% of Ark's total assets. The average purchase price for Ark of Roku is \$255-267.

Even though Roku bounced back on Tuesday morning, do not jump back on board. Roku is still trading extremely expensive in terms of valuations.

The losses are not limited to Roku over the last year.

Tesla is down 30% from its all-time high (largest holding), Teladoc down 76% (2nd largest holding), Zoom down 70% (6th largest holding), Coinbase down 55% (3rd largest holding), Square down 64% (8th largest holding), UniPath down 60% (4th largest holding), and Unity Technologies down 51% (9th largest holding). The mess could continue to get messier as the hype train implodes.

Ark continues to circle the drain and it's no surprise why. The company seems to invest on everything but fundamentals. Trends fade but fundamental investing has and will continue to live on for decades.

The photo that best summarizes Ark over the last year was shared across Twitter over the past week.



Cathie Wood made an appearance on CNBC and it seems CNBC or Ms. Wood uses the free version of Zoom.

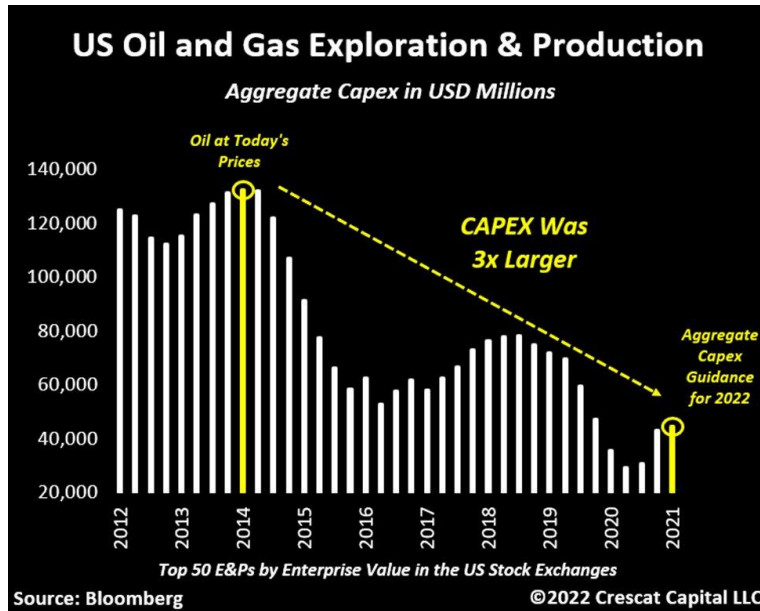
Either way, it is quite funny. One of Ark's largest holdings and the image leads viewers to think Ark will not even pay for Zoom products.

Go long on fundamentally backed companies. Do not buy because of the hype, celebrities, and speculation.

Oil, Oil, Oil

We have talked regularly about the oil industry and oil as a commodity extensively throughout [The Weekly Beacon's](#) history.

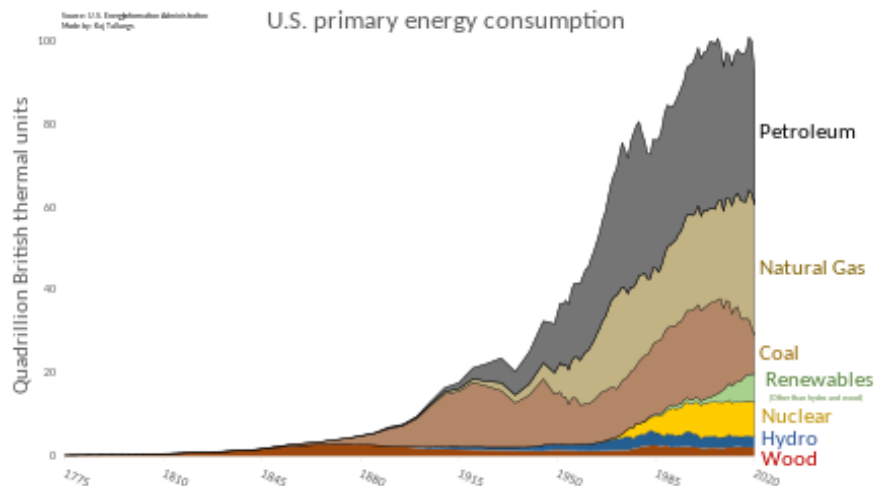
This week we found a great chart to illustrate the strain regulation has put on the oil industry over the last decade. The underinvestment in the U.S., Canada, Europe, and across the world in the oil sector is a serious issue that is being ignored. This underinvestment is part of the reason we have seen prices skyrocket.



CapEx stands for capital expenditures which are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx was 3x larger 8 years ago, yet prices are at the same level. Prices are not dropping anytime soon.

Why is this problem flying under the radar? ESG Guidelines, U.S. Government Regulation, and Green Energy “activists” do not read the facts.

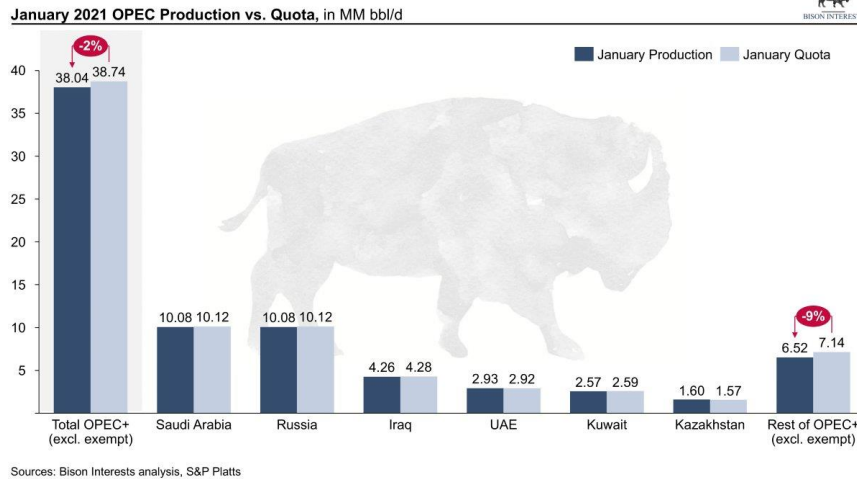
While energy demand has grown domestically and globally, net-zero has become more popular. People do not like climate change but, people also do not like high energy prices. Net-zero will inherently lead to higher energy prices. Renewable energy sources are unreliable and fossil fuel regulation has led the world to shortages.



The only way this issue could be worse is if Russia’s oil reserves were regulated by German activists.

This is not just a U.S. problem. Canada is a massive contributor to the underinvestment in oil exploration and oil services.

Other oil-producing countries are also having major issues meeting oil production quotas (whether purposefully or not).



Bison Interests produced an image that illustrates the 2% oil production missed by OPEC in January. OPEC countries will not begin increasing production (it's not in their interests) and even those who want to will not make a significant impact on global oil prices.

Even Saudi Arabia, one of the worlds largest oil producers and a nation known for oil is warning the world.

Saudi Arabia Slams Shortsighted Campaign Against Oil

By [Tsvetana Paraskova](#) - Feb 22, 2022, 7:00 PM CST

- ▶ Saudi Arabia has a stark warning about the dangers of underinvesting in oil.
- ▶ The world's top oil exporter is cautioning that the underinvestment in oil and gas could spark a new energy crisis.
- ▶ "Net-zero does not mean cherrypicking, net-zero does not mean zero oil."

Some may question the Saudi's point, as the country relies on the world needing oil. They are warning of shortages that they cannot help make up for.

Bitcoin's Store of Value Argument Collapses

Market Summary > Bitcoin

37,919.50 USD

-16,222.40 (29.96%) ↓ past year

Feb 22, 8:59 p.m. UTC · [Disclaimer](#)

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



Bitcoin is down 30% over the last year.

Bitcoin is down 7% over the last 5 days and 21% year to date.

As Russia and the West spar over Ukraine and the world is on the brink of a major conflict, Bitcoin is following the volatility of equity markets. Bitcoin has always acted like a high beta technology stock.

Russia-Ukraine is not the only issue going on across the world. Inflation is at decade highs, the perfect environment for a “store of value”.

Another hurdle we have seen with Bitcoin lately is the banning of the asset by governments across the world. This includes the recent seizures of Bitcoin and cryptocurrencies by the Canadian government.

Bitcoin will continue to be one of the most volatile assets in the world. The challenges Bitcoin will face will continue. Even though the Blockchain and Cryptocurrency industries have tremendous potential, we recommend trading lightly, especially in today’s equity markets.

While there is a decline in the price of Bitcoin, Gold prices are up 4% year to date.

Even the mainstream media is starting to question Bitcoin as a “store of value” narrative.

Bitcoin Tumbles Amid Ukraine Fears. The Safe Haven Narrative Has ‘Fallen Apart.’

By Jack Denton [Follow](#) Feb. 22, 2022 5:00 am ET

Gold, Not Bitcoin, Is the Real Digital Safe Haven Asset

Gold is finally outperforming the way one would imagine. It's not always about the absolute performance as it is about the relative performance.

By **MALEEHA BENGALI** [+ FOLLOW](#) Feb 22, 2022 | 03:35 PM EST

Russia Ukraine

As we are sure you know, the Russia and Ukraine conflict has been brought to the forefront over the last few weeks.

The media and Western nations have been accused of hyping up the war by Ukraine. Ukraine has demanded that NATO and the West help them in a conflict. Russia has denied their part. The whole situation seems to be a mess.

This past week, Putin announced Russian military members would partake in peacekeeping missions in Eastern Ukraine. Luhansk and Donetsk (populations: 1.5 million and 2 million) are self-declared independent nations. Russia has recognized both nations as independent of Ukraine.

The West has taken this as an act of war.

UKRAINE-RUSSIA CRISIS

Conflict at a glance

The threat of conflict looms in Eastern Europe with more than 100,000 Russian troops amassed along the border with Ukraine. **Russia denies it has any plans to invade.**



Germany has finally halted the Nord Stream 2 pipeline, something the U.S. and Canada approved months ago. The \$11.6 billion pipeline can transport 151 million cubic meters of gas a day. The U.S.,

Canada, Japan, Australia, and European allies have sanctioned Russian companies and have targeted Russian banks. Each country took separate actions but, all will hurt Russia for now....



More than 80 percent of Russia's daily foreign exchange transactions and half its trade are conducted in US dollars.

Washington [sanctioned](#) two of Russia's state-owned banks – VEB and Promsvyazbank – and blocked it from trading in its debt on US and European markets. The two Russian banks are considered especially close to the Kremlin and Russia's military, with more than \$80bn in assets.

On Tuesday, the UK announced sanctions against five Russian banks and three Russian billionaires: Gennady Timchenko, Boris Rotenberg and Igor Rotenberg.

The Rotenbergs are co-owners of SGM Group, which makes oil and gas infrastructure. Timchenko is the owner of private investment firm Volga Group.

Russia will look to China to fill gaps in trade deficits during this conflict.

However, Russia does have some leverage in terms of global trade.

The following are a list of Russian exported commodities as a percentage of the global supply provided by JP Morgan:

Palladium 45.6%
Platinum 15.1%
Gold 9.2%
Oil 8.4%
Nat Gas 6.2%
Nickel 5.3%
Wheat 5%
Aluminum 4.2%
Coal 3.5%

The moral of the story is that the Russian economy is rooted in natural resources, and like it or not, they help the world go round.

Prices will continue to rise and global conflict will lead to higher metal and energy prices. \$100 oil anyone?



After this conflict has heated up, the Biden Administration announced they are considering another release of the Strategic Petroleum Reserves. The Biden Administration knows oil is going to skyrocket and is panicking. This move might drop oil prices over the next month, but not in the long term.

In November when Biden announced a 50 million barrel release from the oil reserves, oil dropped from \$80 to \$66 over the next few weeks. Over the last 2 months, oil has soared from \$66 to well over \$90. History will repeat itself if this happens again.

Tech Bubble

The Nasdaq 100 has essentially lost all of its 2021 gains.

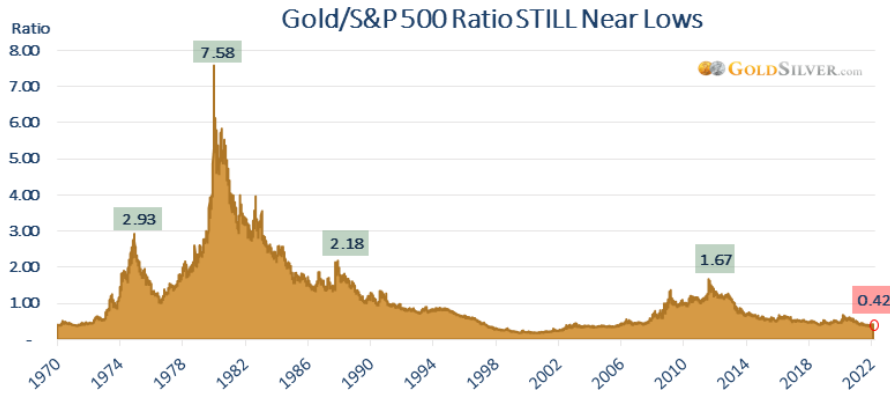


The technology-focused index is up 1.5% over the last year. Correction territory is official. The Nasdaq is down 18% year to date and almost 20% from its all-time high. Technology stocks were overvalued and remain overvalued at current levels. The correction could continue and high multiple companies will be the reason for it. Stay away from the hype. Even with these corrections, these stocks are not cheap. To us, they remain expensive.

Gold

Aside from the economic case for Gold (we are in a good environment), Gold remains extremely cheap relative to broader markets.

The Gold/S&P 500 Ratio remains at all-time lows. Gold will be a good place to hang out especially in times of uncertainty.



MacNicol & Associates Asset Management Inc.
February 25, 2022