

## 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.*



Bali Hai Lighthouse, Pattaya, Thailand



Green Point Lighthouse, Cape Town, South Africa

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



## Costco Trading Like a Tech Stock

When you think of Costco's comparables, you think of Walmart or Loblaws (for us Canadians) or even Target. You do not think Costco and immediately think big technology companies like Amazon or Nvidia or even a Tesla or Adobe. Reality is different than our perceptions.

Well, Costco's stock has more in common with those technology names than the group of stores that sell regular consumer goods like it does.

Costco, Walmart, and their competitor belong to a major sector known as "consumer defensive". These names are supposed to be low growth but, provide stability during market downturns (ie. Defensive). Everyone always shops at Walmart even in a recession.

We say Costco's stock has more in common with the technology names because its P/E (Price to Earnings) ratio is now above 40x. At Tuesday's close, Costco was trading at 46 Price to Earnings. Amazon trades at the same P/E ratio.

Nvidia trades at a P/E of 55, Adobe at 42, and Tesla's is over 200 (do not get us started).

Most of the other big technology companies that we think are expensive trade at lower ratios than Costco. Netflix trades at 32, Microsoft 30, and Alphabet 28.

Walmart trades at 31, Loblaws 22, Target 16, and other competitors much lower.

So, what gives with Costco? Why is it trading with Amazon and not with Loblaws or at least Walmart?

Did they rotate to online sales?

No, they are still the same company, only 7% of sales last year were completed online. In essence, it's the anti-Amazon. Bulk purchases are made in person with select brands versus online orders that are very specific.

Costco shares are up 59% over the last year. Amazon shares are down 11% over the same period. **\*\*\*As of April 12<sup>th</sup>, close.**

Costco could be the new king of retail at least in equity markets.....

Even though Amazon is a retailer, it trades quite expensively. Investors have historically valued it like a technology company, not a retail store. Amazon dominates the global cloud computing marketplace (Amazon Web Services) so it makes sense why Amazon trades at a higher multiple than other retailers (it's a retail company with technology upside).

Even though we appreciate the business Costco has built and the business model is as close to flawless as possible, we believe buying Costco right now would be quite risky. Costco might not be a high multiple technology stock but, it is certainly trading like one.



Costco shares have gone on a run over the last 5 years especially. They hit their all-time high last Thursday and are projected to smash earnings yet again (inflation-driven price hikes and future supply concerns). The main issue: their earnings have not grown at the same rate as their stock price.

Costco shares are up 240% over the last 5 years.....

Market Summary > Costco Wholesale Corporation

**581.36** USD

NASDAQ: COST

+410.59 (240.43%) ↑ past 5 years

+ Follow

Closed: Apr 12, 4:23 p.m. EDT • Disclaimer  
After hours 581.36 0.00 (0.00%)

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



While indexes have lagged on a relative basis.

Market Summary > S&P 500

**4,397.45**

INDEXSP: .INX

+2,048.76 (87.23%) ↑ past 5 years

+ Follow

Apr 12, 4:20 p.m. EDT • Disclaimer

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



Even though it has been an outperformer and we prefer its fundamental business model to some of the big tech stocks, entering Costco now could be a mistake and comes with larger than expected risk.

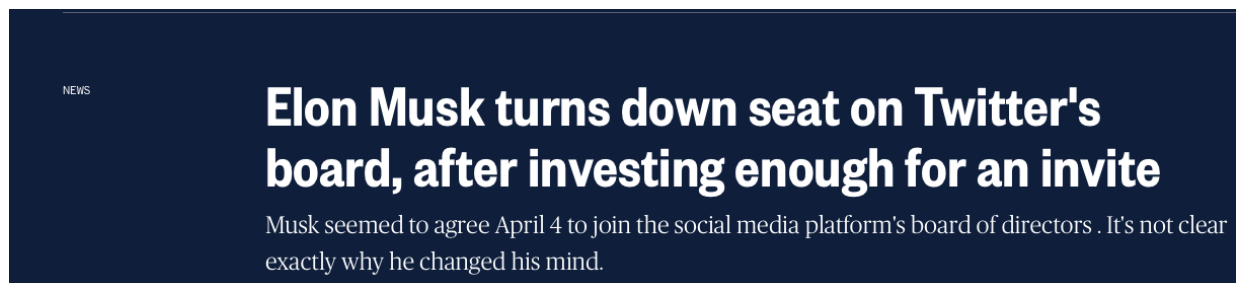


## **Musk Rejects Twitter**

In last week's edition of *The Weekly Beacon*, we highlighted Tesla Founder and CEO Elon Musk buying the largest stake in Twitter. The stake was worth a few billion dollars and was 9.2% of shares. After he made his disclosure, shares of Twitter surged. He eventually was granted a board seat by the company CEO.

For a few days, all was going well, Musk was tweeting polls to his followers on what direction Twitter should go in. Twitter had finally found a spark for its stock price. Censorship looked to be coming to an end.

That did not last very long, Twitter announced Musk had rejected the board seat on Monday, April 11<sup>th</sup>.



As a part of the deal for a Twitter board seat, Musk agreed to a 15% cap on ownership of Twitter. This would limit the chances of a corporate takeover led by Elon.

Nobody knows why he rejected Twitter's board seat after buying a large stake and communicating his interest in helping the social media company. The reasons could be endless, unwillingness to work with him, the promotion of censorship, or even Musk having bigger plans for Twitter (ie. Corporate takeover).

Even though he remains the largest shareholder of Twitter, Musk's rejection of the board seat should be a warning to investors.

Shares of Twitter have given up half of their gains since the original announcement of Musk's block buys. Preannouncement shares were trading at \$39 and post-announcement, shares peaked in the \$49-51 range. Over the last 5 days, shares have slid to \$44 and are off 11%.

Twitter will continue to struggle for several reasons. We would recommend remaining on the sidelines and watching Musk do his thing. This takeover could be the first corporate takeover that is completed with complete public transparency. Get your popcorn ready.

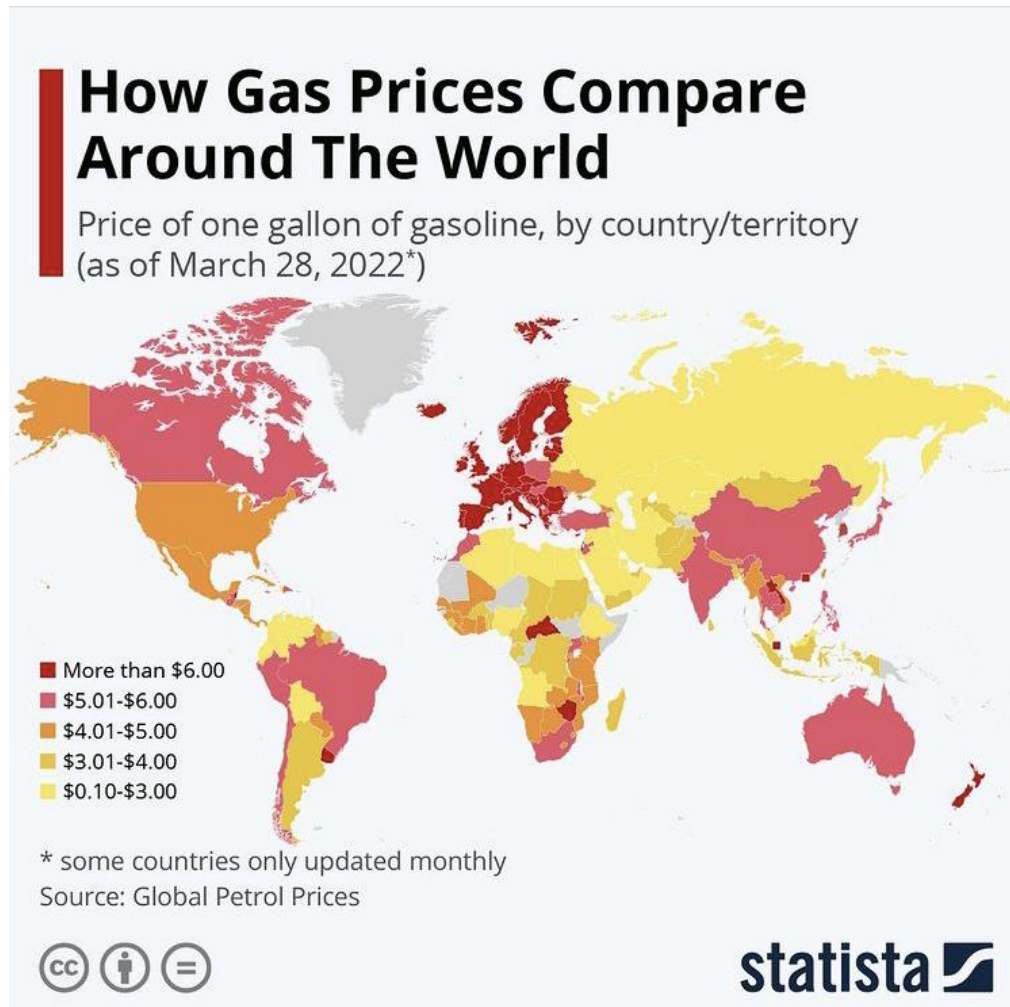
## **A Picture Worth a Thousand Words**

The most pressing issue across the western economy right now remains elevated energy prices. We say this because people notice this daily. It is a political topic and it spreads beyond borders.

Either way, people are noticing.

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Even though oil is a global commodity in which the global marketplace sets prices relative to supply and demand, many leaders in the west think they can control oil prices (they can't). The only way the west could control oil prices would be if they opened up exploration in Alberta and increased drilling across the U.S. (Trudeau and Biden will not comply).



In reality, U.S. gas prices are not as high as most western nations. Why is this? Carbon taxes. (Note Europe, which has the highest cost of gas and has the highest carbon taxes, globally).

Taxes also make up the majority of the price of gas in many industrialized nations. This is the reason gas prices are quite low in developing and undeveloped nations and quite high in developed countries.

Look on the map at the Middle East and Russia, gas prices are among the lowest across the globe. These countries are the major players in OPEC and OPEC+ and drive policy. If their consumers are still seeing reasonable gas prices and are not burdened with extra taxes, why do they care to increase output? They won't and will let oil prices surge over the next decade as the west deal with their underinvestment problem that was caused by ESG activists.

## We Called It

In last week's edition of [The Weekly Beacon](#), we stated "Inflation continues to be underreported and we will continue to tell you." We went on to explain, that with rent, energy, and food prices surging at rates above the reported CPI, it is almost too obvious to know the government is misleading us.

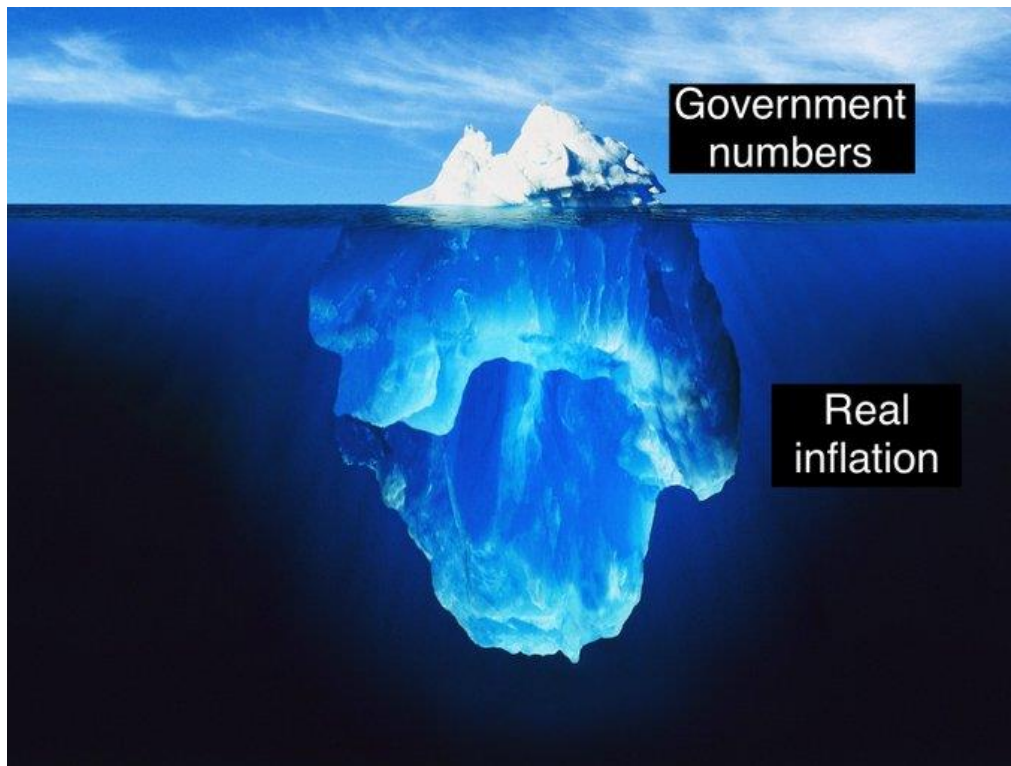
We bring this up because the U.S. CPI for March was released this past Tuesday.

Another month and another record. That sentence may sound old and repetitive but, remains true.

# U.S. inflation soared 8.5% in past year, the fastest pace since 1981

PAUL WISEMAN, ANNE D'INNOCENZIO AND MAE ANDERSON  
WASHINGTON  
THE ASSOCIATED PRESS  
PUBLISHED YESTERDAY

We also found the perfect graphic for inflation on Twitter shared by the account @Not Jerome Powell (The U.S. Government would be better off if the real Jerome understood this image).



**“Government Reported CPI’s: The tip of the iceberg.”**

Share the image with your friends and family. Perhaps the iceberg reference will help!



8.5% inflation is close to the average annual return for the S&P 500 since 1957 (10.5%).

We know over the last 5 years you are used to seeing 17-20% average returns but, those numbers are unsustainable. We also would steer investors away from indexing going forward.

Most investors and all consumers are getting killed in terms of purchasing power. Hopefully, you put your money to work over the past year and did not keep it in a chequing account. The unfortunate part is most investors probably lost money over the last year even if they were fully invested. Indexes and large-cap technology names had one of their most flat to down years ever. Inflation paired with flat markets and stretched valuations will expose retail investors. It will also increase the value of smart, value-oriented investment managers.

Getting back to inflation.....Where are prices increasing the most?

**Overall CPI: +8.5% since last year**

**Gas: +48%**

**Electricity: +11.1%**

**Meat, Poultry, & Fish: +13.8%**

**Milk: +13.3%**

**Eggs: +11.2%**

**Bread: +7.1%**

**Coffee: +11.2%**

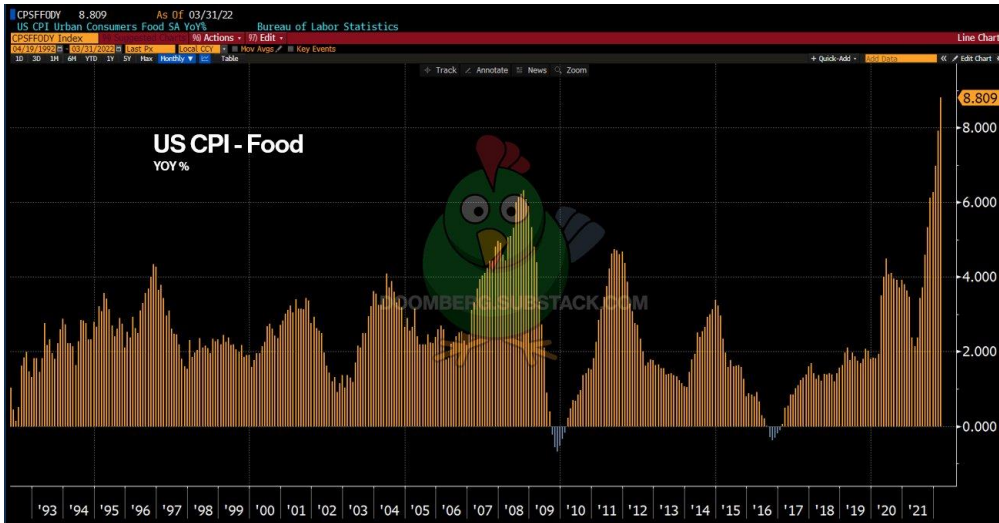
**Used Cars: +35.3%**

**Car & Truck Rentals: +23.4%**

**Airline Fares: +23.6%**

8:35 AM · Apr 12, 2022 · Twitter Web App

Food alone is increasing at a rate faster than the U.S. CPI.



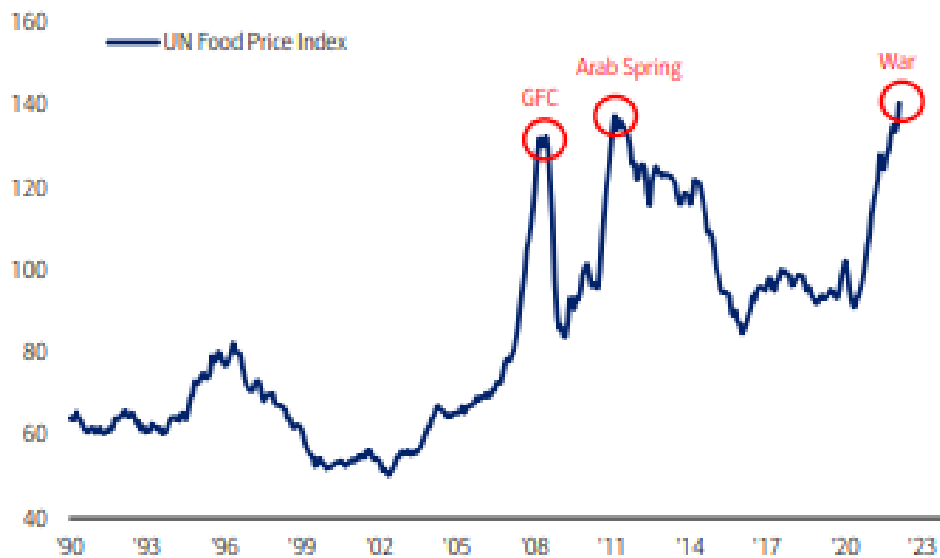
Food. Energy. Rent. All increasing at a rate greater than 8.5%. These are not luxury items; they are necessities and this is a crisis.

The only thing growing at a slower rate than the CPI is probably wages which hurts the middle and lower class the most!

Food prices are the highest they have ever been. They are higher than during the Arab Spring and we are barely in April. Russia's invasion of Ukraine will lead this chart higher. Ukraine's crops not being planted will cause famine across the world. (Fertilizer stocks, where are you)

**Chart 3: UN food price index @ all-time high...**

UN Food Price Index



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH



The least surprising thing is the narratives that are being pushed on why inflation is so high.

The most recent narrative is Putin and prices are rising due to Russia invading Ukraine, while that might be a contributing factor, inflation has been running hot for 14 months and Putin invaded Ukraine 6 weeks ago.



Timothy Noah / April 12, 2022

## This Is Vladimir Putin's Inflation Number, Not Joe Biden's

We say this is a narrative because there has been a pattern.

Cameron Winklevoss highlighted this narrative pattern quite well (Yes, Social Network Winklevoss).



**Cameron Winklevoss** ✓  
@cameron

...

Inflation broken down by month/"reason":

**2021**

Oct = 6.2% "transitory"

Nov = 6.8% "greedy corporations"

Dec = 7.0% "supply-chain bottlenecks"

**2022**

Jan = 7.5% "supply-chain bottlenecks"

Feb = 7.9% "oil prices"

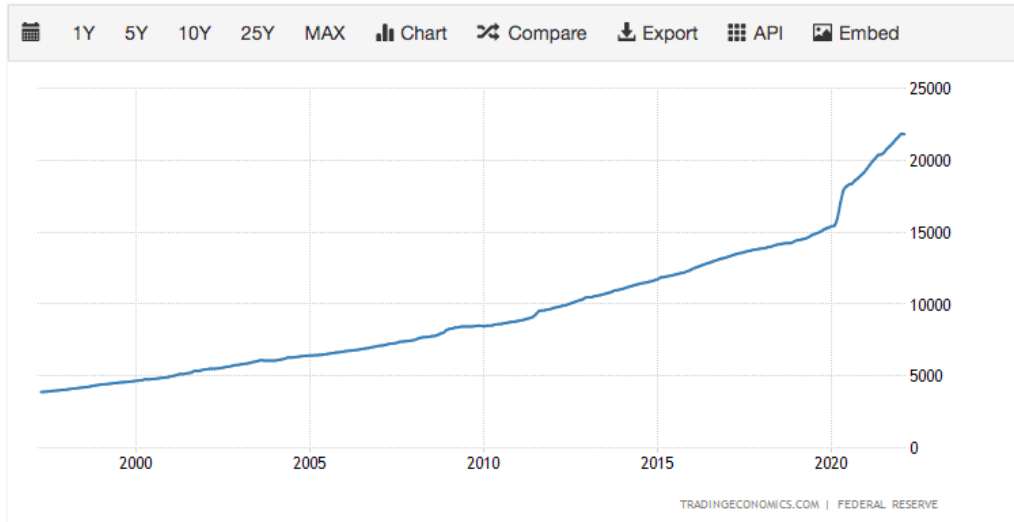
Mar = 8.5% "Putin price hike"

What will they blame next?

11:42 AM · Apr 12, 2022 · Twitter Web App

**4,261** Retweets **258** Quote Tweets **15.1K** Likes

Everything rising in price is an external problem the U.S. government cannot control. They will never accept reality. Even though Russia and supply chains are partially to blame, there is something bigger.



Our favourite chart is the U.S. M2 which has exploded since April 2020. Both Trump and Biden fueled this fire with pandemic printing and Biden has continued this with multiple trillion-dollar Bills that target infrastructure, health care, and climate change.

We hope you never bought into the transitory narrative; we certainly never did.

**Bloomberg**

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## Biden Says Inflation at 'Peak' And Should Soon Decline Rapidly

- President says gas, auto prices edging down since November
- Republicans point to latest inflation data as 'Biden boom'

By Justin Sink [+Follow](#)

December 10, 2021, 10:36 AM EST

Updated on December 10, 2021, 2:37 PM EST

We are not here to tell you "we told you so", we are here to help you going forward.

The U.S. FED also announced they believed inflation had peaked in March, we disagree.

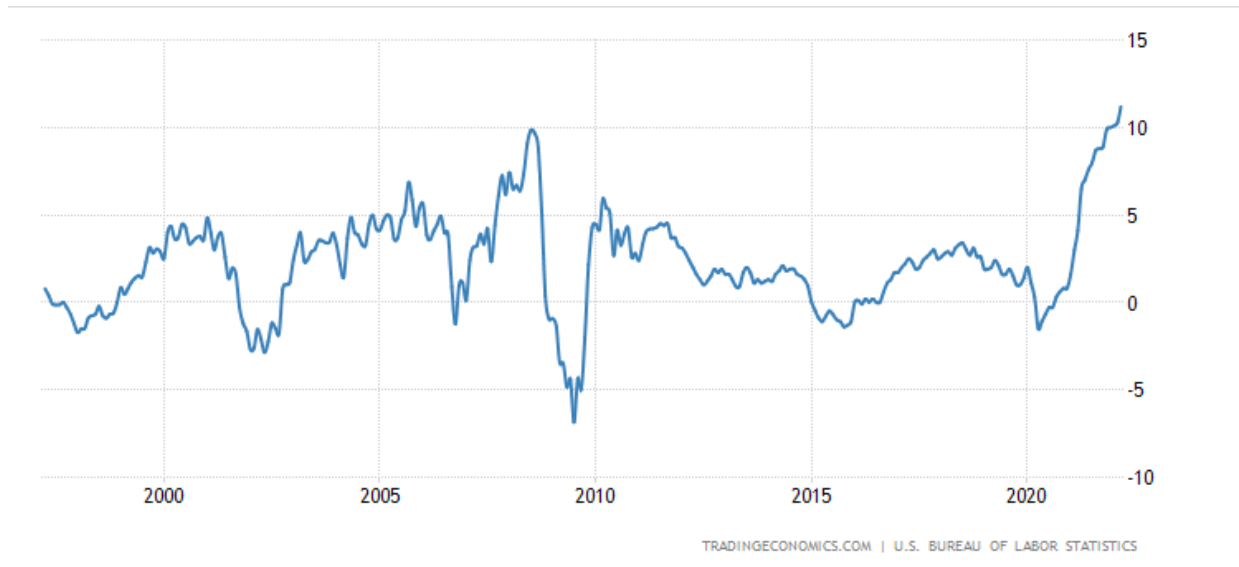
Energy shortages, food shortages, and increased demand in the summer. There might be some ugly numbers in the following months.

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We did not think inflation had peaked in December and we still think it has room to run, we had our funds and portfolios set up to combat this inflation. Do not get caught with your head in the sand.

Speaking of the U.S., PPI was released on Wednesday and producer prices surged 11.2% over the last year. Analysts' consensus projected the U.S. PPI for March to be 10.6%. This is one of our key leading indicators for consumer inflation. Do not expect consumer prices to slow down anytime soon.



The PPI for March was the highest since the 1970s. The chart since mid-2020 looks like a meme stock not a major economics metric for the best economy in the world.

Either way, do your research and do not fall for the narrative that is being spread by most publications.

Buy inflation-protected assets. Buy real assets.

### **Nuclear Narrative**

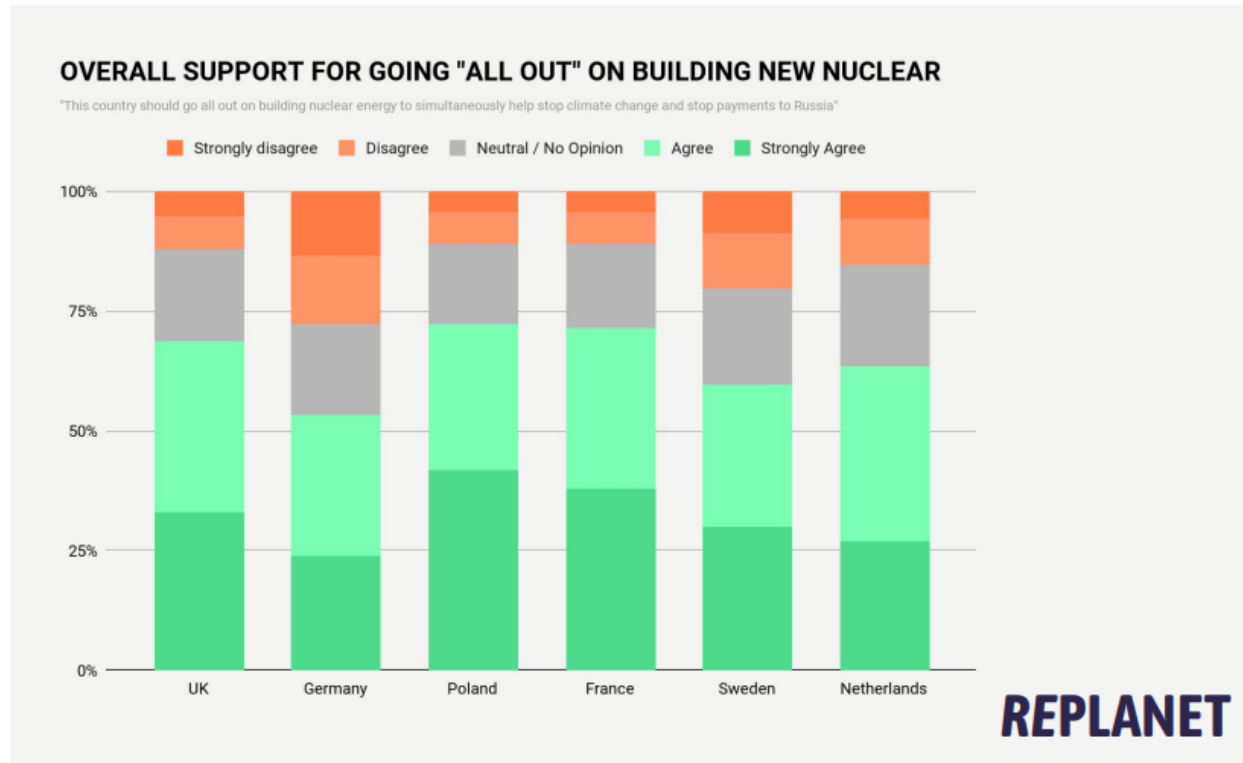
The tides have slowly started to change in the world of nuclear energy.

The nuclear trade could be one of the stories of the decades. We like to stay informed on everything nuclear, we will always share all the macroeconomic signals we see in this space with our readers as the sector is undergoing rapid change.

The tides are appearing to change in Europe. numerous western European nations look to be joining France in their support of nuclear energy usage.

The German population appears to have strayed from their government. Over 50% of the population agree with the country "going all-in on nuclear energy". This is a massive change as Germany has

historically rejected the use of nuclear energy and has been a reason the EU has not classified nuclear as a renewable source of energy. Whether Germany admits it or not, solar and wind energy will not solve our climate problems, nuclear energy, and natural gas will. Solar and wind energy will only cause more problems (shortages).



In the U.S. there was also some big news, Senators Manchin (D) and Risch (R) introduced a new nuclear Bill that could be quite bullish for Western nuclear power.

*"This bipartisan legislation establishes an Executive Office for Nuclear Energy Policy to promote engagement with ally and partner nations to develop a civil nuclear export strategy and offset China and Russia's growing influence on international nuclear energy development."*

In other words, the Senate knows nuclear energy will have a critical role in tomorrow's economy and we must decrease Russia and China's monopoly in the space. The U.S. currently imports uranium from Russia (it was left off the energy sanctions).

Introduced in Senate (04/07/2022)

117TH CONGRESS  
2D SESSION

## S. 4064



To facilitate the development of a whole-of-government strategy for nuclear cooperation and nuclear exports.

IN THE SENATE OF THE UNITED STATES

APRIL 7, 2022

Mr. MANCHIN (for himself and Mr. RISCH) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

## A BILL

To facilitate the development of a whole-of-government strategy for nuclear cooperation and nuclear exports.

Within the Bill, two major things will be established that could be good signs for nuclear energy investors.

~~~~~

(1) for the Nuclear Fuel Security Program, \$3,500,000,000 for fiscal year 2023, to remain available until September 30, 2031; and

(2) for the National Strategic Uranium Reserve Program and the American Assured Fuel Supply Program, such sums as are necessary for the period of fiscal years 2023 through 2030, to remain available until September 30, 2031.

*#1 "Enriched uranium is a critical component for both civil nuclear power generation and military nuclear weapons. The International Atomic Energy Agency attempts to monitor and control enriched uranium supplies and processes in its efforts to ensure nuclear power generation safety and curb nuclear weapons proliferation."*

#2 would make the U.S. establish a strategic uranium reserve similar to the strategic petroleum reserves (SPR) which hold oil. We have talked about the SPR in recent weeks. This is a move in the right direction for nuclear energy activists.

The uranium trade will not be something, fast and straight up, it will be a slow drawn-out process that could take years.

The good thing is the tide is slowly changing.

## Investment Banks Doing Their Thing

Goldman Sachs officially changed their rating on Robinhood to a sell. Goldman was one of the lead underwriters for the Robinhood IPO.



It took eight months and a historic collapse.

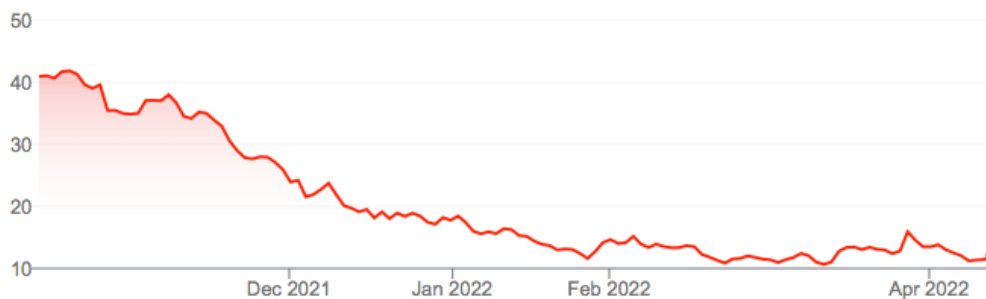
Market Summary > Robinhood Markets Inc

**11.88** USD

-29.04 (-70.94%) ↓ past 6 months

Apr 13, 3:58 p.m. EDT • Disclaimer

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



Down 71% in 6 months, rough buy. Wonder who bought Robinhood? Some of Goldman's wealth management clients are definitely shaking their heads right now. Good news for those buyers: it was up 4% on Wednesday!

Good news for our clients: In the [August 27<sup>th</sup> edition of \*The Weekly Beacon\*](#), we gave our comments on Robinhood. We commented on Robinhood due to JP Morgan, one of Robinhood's underwriters recommending investors sell the stock.

Our thoughts from August 27<sup>th</sup> *“Even though Robinhood created an innovative product that popularized investing with a new generation, the technology does not give it a significant advantage over competitors, and investing in the company comes with numerous risks. Shares have been on a roller coaster from the start and right now the risks, in the long run, outweigh the reward.”*



We still agree with our thoughts from August 2021 and believe Robinhood will face an uphill battle, especially with the potential payment of order flow ban looming over the industry. Even if U.S. regulators do not ban the practice, they can make life hell for the relatively new financial services firm.

We believe private investors will do more due diligence going forward as public markets do not accept astronomical valuations. Robinhood flopped, Rivian flopped, and DoorDash has arguably flopped. These are three of the largest IPOs over the last 16 months whose initial public investors are down. This is without us mentioning several SPACs that are down 60-70% of their issuance price. Not every company is a unicorn, no matter what certain venture investors tell you.

Jumping back to Goldman, do not always listen to Wall Street analyst ratings, banks do not have our best interests in mind.

**MacNicol & Associates Asset Management Inc.**  
**April 15, 2022**