

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.*



Ra's Umm Hasah Light, Al Ghariya, Qatar



Mazatlán's Lighthouse, Angel Flores s/n Centro, Mazatlán, Sin., Mexico

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



Ark is in “La La Land”

We have often critiqued Cathie Wood and Ark Investments for their investment style and price targets throughout [The Weekly Beacon's](#) history. We do not do this for fun but, because some of the stuff she says, and her company does are ridiculous. Her company seems to follow Twitter trends and retail investors rather than fundamentals.

We all know Ark is extremely bullish on Tesla. It appears they may have turned it up over the past week. This is because Tesla shares are one of the most liquid assets in Ark's portfolios and is a reason Ark shares have not cratered even more than they already have.

Market Summary > ARK Innovation ETF

59.67 USD

-37.32 (-38.48%) ↓ year to date

Closed: Apr 20, 8:59 a.m. EDT • Disclaimer
Pre-market 59.73 +0.060 (0.10%)

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



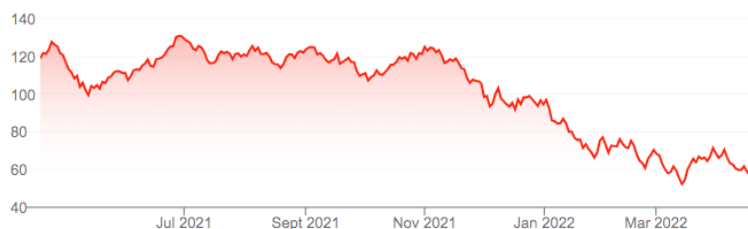
Market Summary > ARK Innovation ETF

59.67 USD

-59.33 (-49.86%) ↓ past year

Closed: Apr 20, 9:03 a.m. EDT • Disclaimer
Pre-market 59.72 +0.050 (0.084%)

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



Even though Tesla shares are down over the last few months, they are a major outperformer when considering the rest of Ark's assets. Down 14% and one of the best!



Market Summary > Tesla Inc

1,028.15 USD**-171.63 (-14.31%)** ↓ year to date

Closed: Apr 20, 9:06 a.m. EDT • Disclaimer

Pre-market 1,033.30 +5.15 (0.50%)

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

We bring this up because Ark released its latest research and price target for Tesla. Ark has done this for a few years and pushed the target out by 1 year on an annual basis (updating their research).

The recent release has 3 price targets for 2026 (4 years from now). A bear case, a bull case, and the expected value.

Expected (Base), Bear, and Bull Case Tesla Per Share Price Targets

ARK's Simulation Outputs	ARK's 2026 Price Estimate (Per Share)	Significance
Expected Value	\$4,600	This projection is our expected value for Tesla's stock price in 2026, based on our Monte Carlo analysis.
Bear	\$2,900	We believe that there is a 25% probability that Tesla could be worth \$2,900 per share or less in 2026.
Bull	\$5,800	We believe that there is a 25% probability that Tesla could be worth \$5,800 per share or more in 2026.

Source: ARK Investment Management LLC, 2022

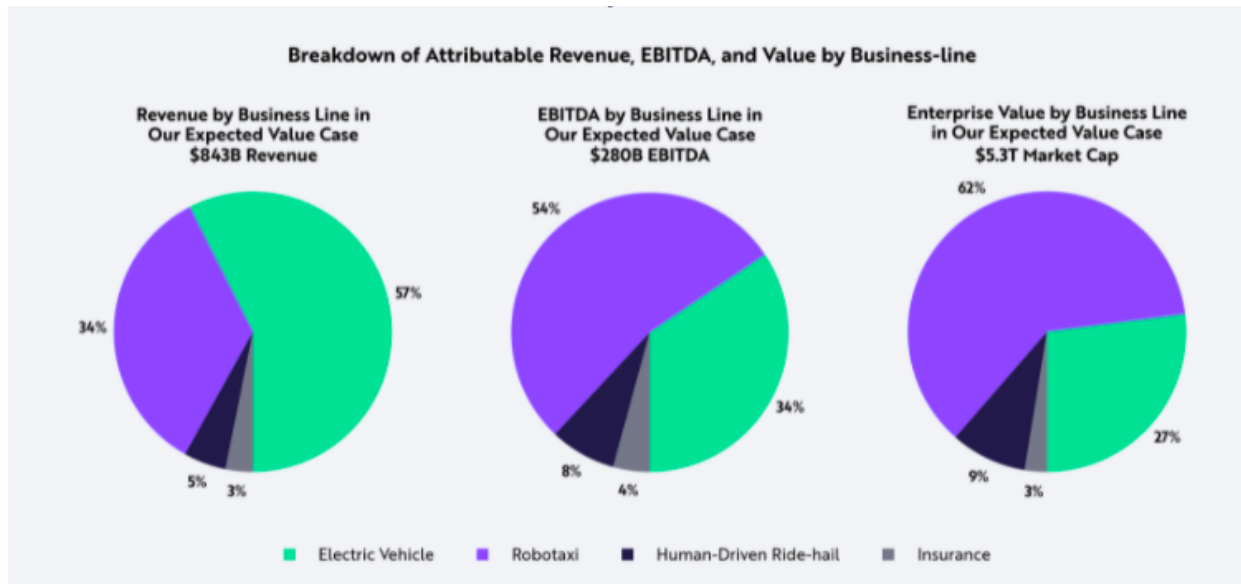
A bear case of \$2,900 when shares are just above \$1,000 seems quite bullish. This would equate to a 190% gain over the next 4 years (30.5% annualized). We think everybody in North America would sign up for consistent 30% returns but, it is not the reality. 30% annualized is very bullish but, that's Ark's "bear case". So, what gives? How did they get to those price targets?

[If you are interested in looking at the excel model. Click here, Ark has open-sourced their model.](#)



We will not jump into every detail and every assumption made by Ark (as there are 30-40 inputs), instead, we wanted to look at the outputs that they have created.

Below is a chart that includes 2026 Revenue, EBITDA, and enterprise value for Tesla by business unit for the expected value (base rate).



The numbers that jump out at us:

- **54% of EBITDA will be from “Robotaxis”.** This is a business unit that Musk has mentioned but is in its infancy and is something that has yet to earn a dollar. So Ark wants us to think that in 4 years Tesla will have \$140 Billion in EBITDA from it. This is without us mentioning the regulation and hurdles “Robotaxis” will have to jump through to be approved. 2026 seems quite ambitious for the idea.
- **Revenue will jump to \$843 Billion in 2026.** 2021 Revenue was just over \$50 Billion, the jump seems quite steep especially when looking at how they will get there.



Example Output*	2021 Actual	Example Bear Outcome 2026	Example Bull Outcome 2026
Cars Sold (Millions)	0.9	10	17
Average Selling Price (ASP)	\$49,000	\$38,000	\$30,000
Electric Vehicle Revenue (Billions)	\$46	\$372	\$513
Human-Driven Ride-hail Revenue (Net, Billions)	\$0	\$67	\$0
Autonomous Ride-hail Revenue (Net, Billions)	\$0	\$51	\$486
Electric Vehicle Gross Margin (Ex-credits)	27%	46%	34%
Total Gross Margin	25%	50%	56%
Total EBITDA Margin**	21.6%	37%	35%
Enterprise Value/EBITDA	86	14.5	17

According to Ark, unit sales will jump to at worst 10,000,000 and at best 17,000,000. The reason those sales are quite outlandish is Toyota had the most global auto sales in 2021 selling 8.7 million cars. As the western population ages, where will this excess demand come from, especially when Tesla has numerous formidable competitors in the EV space. The unit sales estimates made by Ark are foolish and out of reach. Unless Tesla's become extremely cheap and 3rd world nations start driving more, the numbers do not make sense.

The one thing we agree with Ark and Cathie Wood is Tesla's valuation needs to come down from the multiples it currently trades at. As of April 20th, Tesla shares traded at an EV/EBITDA of 103x. We both agree they will retreat from that multiple, we just disagree with Ark on how that will happen. Ark thinks they will print money through earnings, and we think the stock could take it on the chin and drop in the coming months.

We are not judging Elon Musk on the company he has built; we are simply voicing are issues with his company's valuation and how one fund manager seems to live in La La Land.

Netflix TUMBLES and a few Experts go DOWN with it

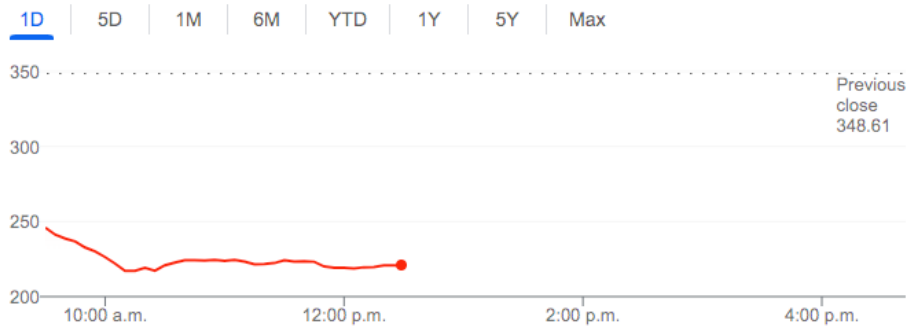
In hours trading on Tuesday, Netflix shares cratered. Shares were down 30% after hours and traded even lower on Wednesday.

Market Summary > Netflix Inc

220.65 USD

-127.96 (36.71%) ↓ today

Apr 20, 12:29 p.m. EDT • Disclaimer



Shares were not only at a 52-week low but, at the lowest point they had been at since January 2018 when shares were in the low \$200s. Netflix's market cap also dropped below \$100 Billion. FAANG stocks might need a new name. It's quite crazy to think that 6 months ago, Netflix shares were trading at \$700, look where we are now.....

The key piece that made the stock crash was subscriber losses. Netflix lost 200,000 subscribers in the first quarter, which is expected to grow to a loss of 2 million customers in the second quarter. This was the first reported subscriber loss in 10 years for Netflix.

TECH

Netflix stock plunges 37% on shocking subscriber loss

PUBLISHED WED, APR 20 2022-9:41 AM EDT | UPDATED 29 MIN AGO

The best days for Netflix look to be behind it. Netflix is still trading a little expensive compared to other entertainment stocks. However, it trades like a technology stock not like an entertainment stock. Every new-age company has been classified as a technology company over the last 10 years to justify absurd valuations.

No matter what company you are, you reach a peak where customer acquisition disappears and it appears Netflix has reached that point. Netflix has increased its price and multiple competitors have entered the marketplace. These new competitors offer different content. Users can simply couch surf entertainment platforms on a month-by-month basis as no commitment is needed.

In late January, Netflix shares dropped on its 2021 Q4 earnings, many signaled this as a great entry point and a "bottom". Shares dropped from the mid \$500s to \$360. Shares dropped due to weak projections and a bleak company outlook. As many entered positions in Netflix at that time, we thought the stock still traded quite expensively. If you bought the dip back in January, you probably woke up biting your tongue on Wednesday.

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Netflix shares may jump over the next week or so but, they could have a deeper fall as investors finally realize growth cannot last forever.

Speaking of the late January “dip buy”. Billionaire and Pershing Square Hedge Fund Manager Bill Ackman bought up a massive position in Netflix from January 21-26.



At the time the trade was worth over \$1 Billion. Ackman has historically been an activist investor and publishes his largest trades online as well as speaks about them on CNBC. Ackman’s position has lost almost \$400 million since the buys.

Ackman has been criticized over the years of his transparent short selling of certain companies where he essentially attacks them as a Wall Street titan in the public arena. For the time being it looks like this titan of Wall Street lost on this specific trade and lost BIG.

After Netflix shares tanked, we thought we would check in on one of our favorite “experts”. No not a fund manager like Cathie Wood or Bill Ackman, a news personality, Jim Cramer. The expert on all things hype.

We will just put this picture here and recommend one of our readers develop an anti-Cramer index, we think you might become very rich.



Unlike Ackman who entered his position after the first drop, Cramer chose close to the peak to recommend Netflix.

Hopefully, his “Mad Money” viewers did not buy-in.

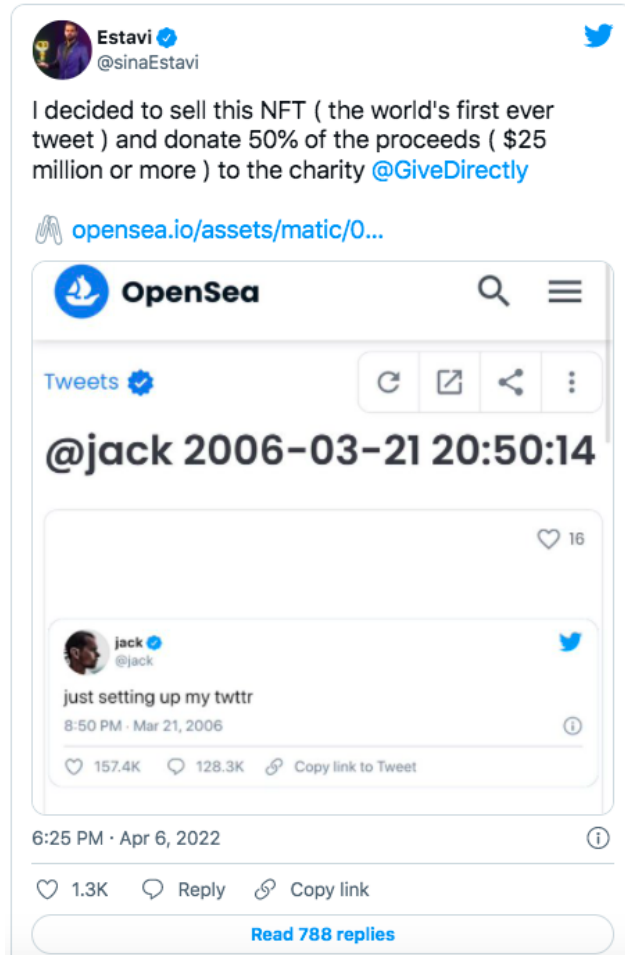
Bubble Bursts

We were a little skeptical about the NFT market (non-fungible tokens) over the last 16-18 months, images and items were being tokenized at extreme values, yet they had no use other than being a collectible. Call us old school but owning a collector’s car from the 1940s is cooler than owning a virtual photo of a pixelated rock.

We are not proclaiming the NFT space as a dead-end or that it has no future. We are simply stating that it has a lot of space to move and a lot of the things that ballooned in price will eventually pop.

This past week, we were proven right.

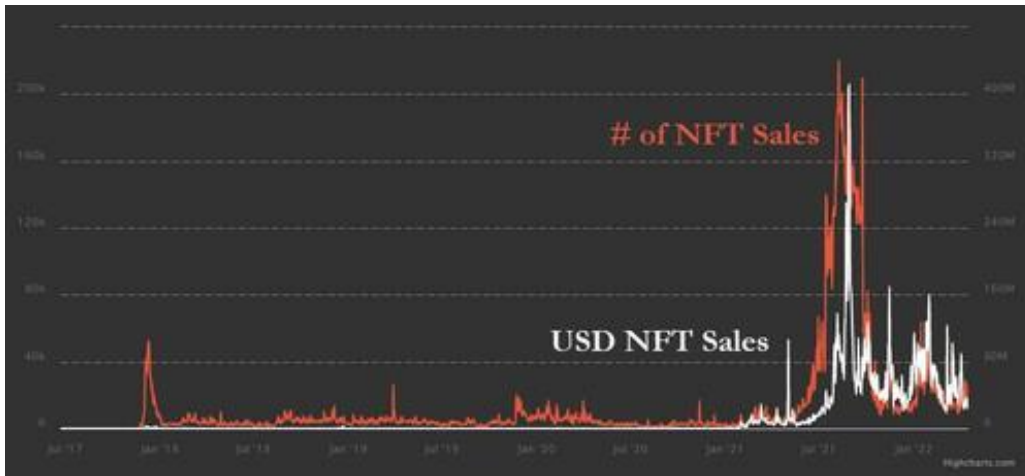
The man who bought the first-ever tweet (sold by Twitter founder Jack Dorsey) is reselling the tweet. He listed the item on OpenSea for \$48 million, he bought it last year for \$2.9 million, sounds like a sweet return to us.



Just because he listed it at an absurd price does not mean it will sell for that. As of Sunday, April 17th, the highest bid for the Tweet was \$30,000. Tough go for the original buyer as the value of his purchase has collapsed by 99%. Who would have guessed that? Well, it is an extremely illiquid and niche market that is a part of an asset bubble.

It appears the bubble in NFT land has popped. Sales and value of sales have cratered over the last 5-6 months. The Wall Street Journal linked the trend to Tulip Mania, a phenomenon that occurred in the 1600s in the Netherlands. According to the WSJ, in March, total NFT sales totaled \$2.4 billion versus \$5 billion last August. The major issue, this asset class probably has more room to run (to the downside).

[We posted on Instagram over the past week where we talked about Tulip Mania in the Netherlands. We posted because Tulip season has officially begun in the Northern Hemisphere. Click here to see the post and to follow us.](#)



Is the Greatest Empire Ever on the Decline?

Ray Dalio released an image that got us thinking. It is not specifically financial, economic, or political. The image outlines why the U.S. is on the decline. If the U.S. is on a decline or continues on a decline, one may think where do I rotate too? Who will be the new “great empire”?

The 6 Key Signs of an Empire in Decline

Interest Rates Hit 0%

Money Printing

Financial Crisis

Wealth Gaps

Internal Conflict

External conflict

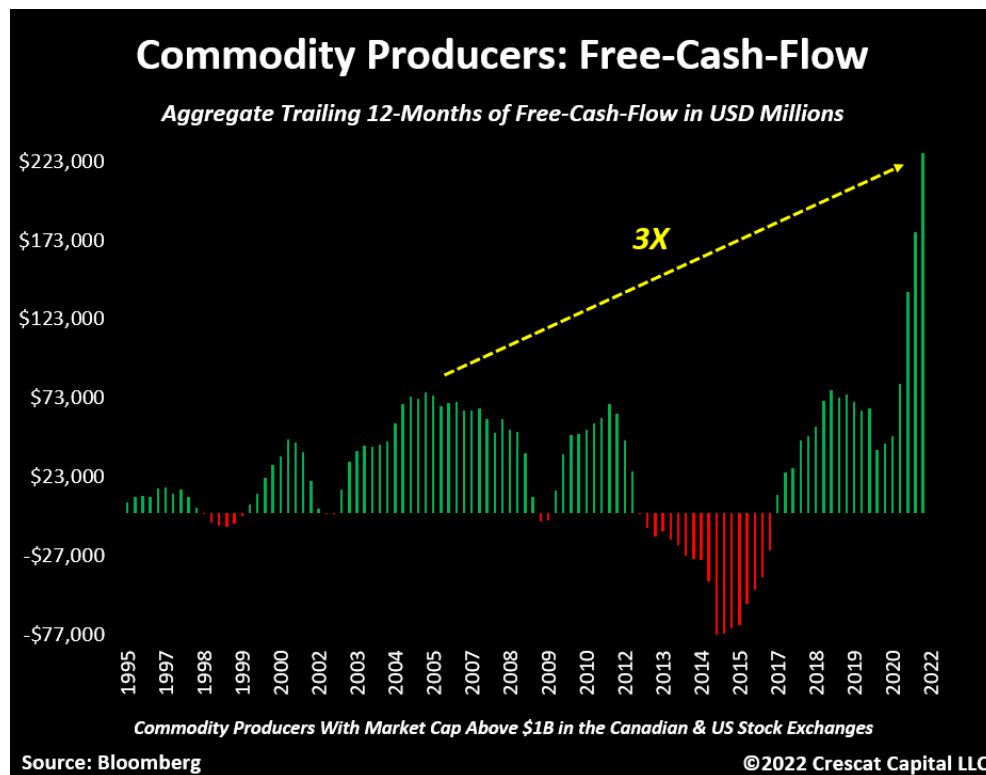
THE CHANGING WORLD ORDER **RAY DALIO**

The image is supposed to make people think. Have we reached this point in the West? Are the West and more specifically the U.S. on the decline? We are not sure but, it is simply something to think about. All 6 of the images are or have occurred, so what happens next? An American resurgence (Act 2 of greatness) or the slow decline of the once-great empire. The East is hoping for a fast decline, and China and Russia are salivating at the idea.



Good Chart for Commodity Investors

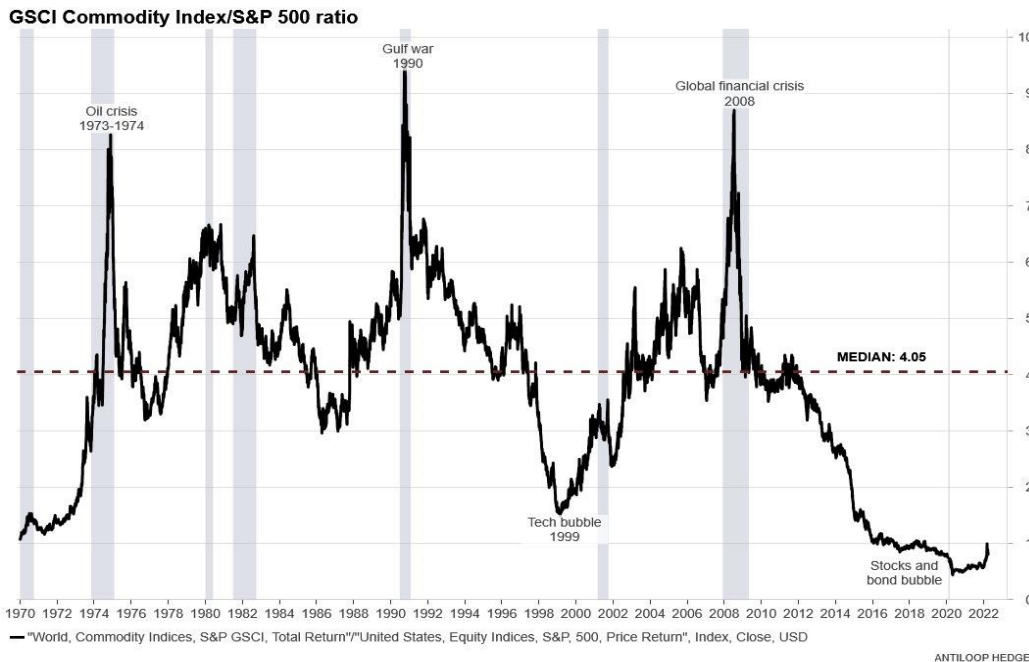
For our regular readers, charts like these should be nothing new but, some more confirmation.



Record level free cash flows for commodity producers that are 3x as high as the 2000s commodity cycle. Everything from oil to copper to fertilizer is printing money. Wait for those Q1 financials over the next few weeks. Share buybacks, dividend increases, upside potential.

These shortages we are seeing could get worse especially as the Russia-Ukraine war escalates. We are also approaching the time when the oil and gas markets will eventually see a decrease in Russian supply. This is without mentioning the driving season increase in demand and summer food shortages we could see (Arab Spring 2.0???)

Even if some media pundits and tech bros tell you the commodity trade is dead and has no more room to run, remember how beaten down many of these areas have been especially relative to the broader equity indices.



History Usually Repeats Itself

As interest rates rise for the first time in years, we like to look at: what worked the last time this happened?

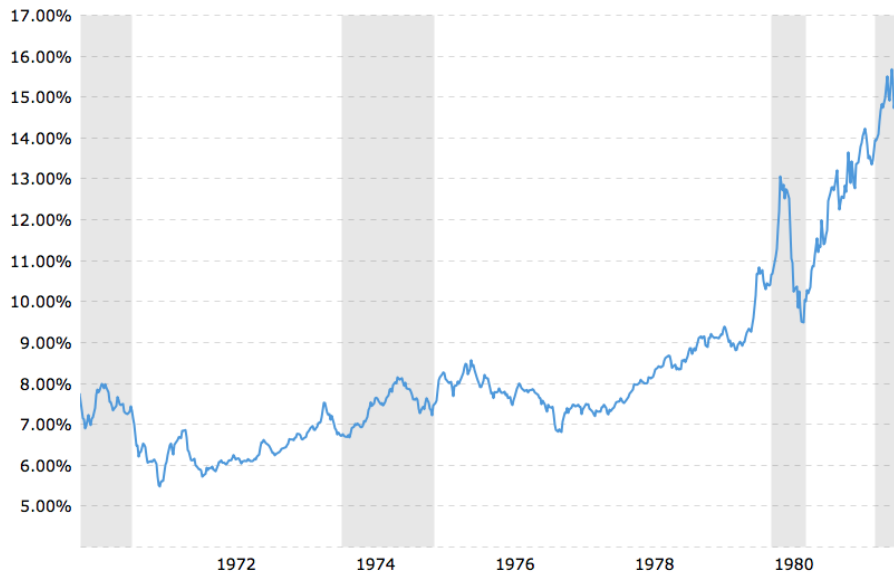
The U.S. 10-year is approaching 3% and has almost doubled year to date.



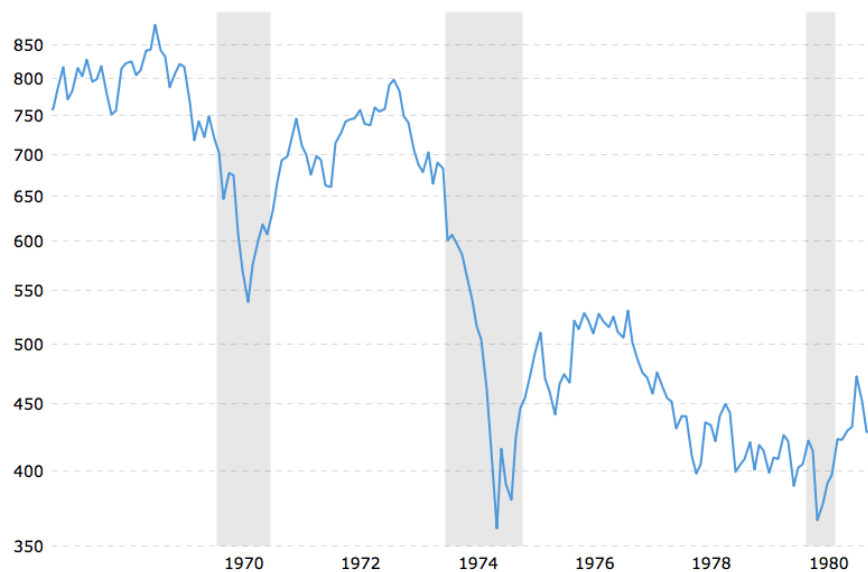


Now, when we say the last time interest rates rose, many might say they rose for a year here or a year there or ____ (citing short-term trends). Whether they admit it or not we have been on a 40-year run where interest rates have declined on a secular basis. The 10-year Treasury decreased from 15% in 1981 to 0.5% in 2020. The last time interest rates made any major move upward was in the 1970s:

The U.S. 10 Year Treasury:

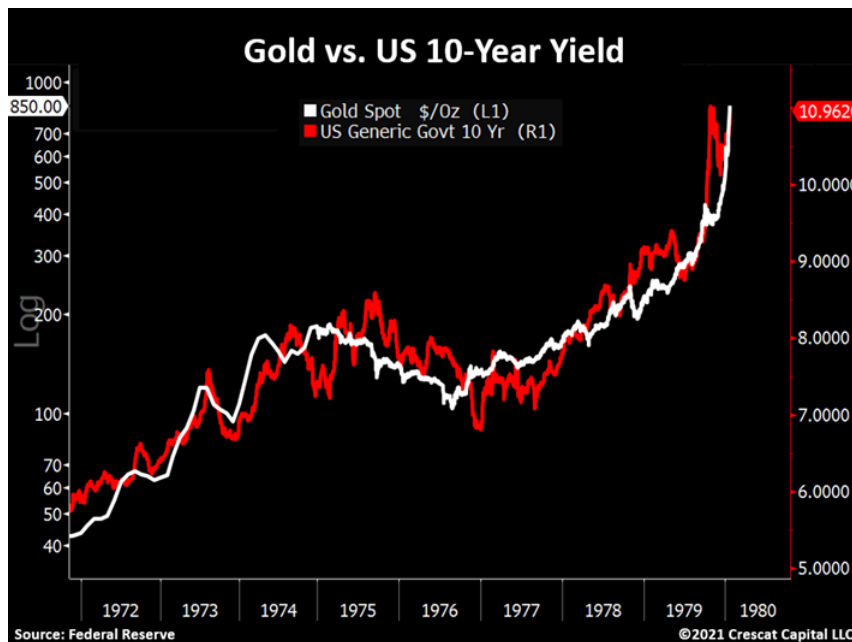


At the same time, equity investors got smacked. The S&P 500 over the same decade. A decade where the major index in the U.S. almost lost 50% of its value.



Here is where we say history may repeat itself. If interest rates were to rise over the next 5-10 years (likely), what will perform well?

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History tells us that Gold could have quite strong performance if interest rates continue to rise. Gold prices in the 1970s performed better than technology stocks over the last few years. Watch this trend closely, especially if interest rates continue to heat up.

MARKETS

Mortgage Rates Hit 5% for First Time Since 2011

Bank of Canada raises key rate half a point to 1% and warns of further hikes to come

Craig Wong, The Canadian Press
Apr 13, 2022 4:23 PM



EV Realities

We have warned our readers for months about the coming EV metal shortages. As the world demands more EVs, companies will not be able to produce them. This will be because of metal shortages which will result in extremely expensive metal prices and decreased consumer demand.

Even our buddy from Rivian, our least favourite unicorn is warning the world of these shortages.

BUSINESS | AUTOS & TRANSPORTATION | AUTOS INDUSTRY

Rivian CEO Warns of Looming Electric-Vehicle Battery Shortage

Much of the battery supply chain isn't built, challenging an industry aiming to sell tens of millions of EVs in coming years, RJ Scaringe says

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The west might love the idea of everyone driving EVs and comparing their Tesla's and Nio's but that is not realistic. We will note most of the people who love Tesla's and driving them, hate the idea of Musk owning Twitter (something has to give!).

We highlight this as a study was conducted on the impact of rising EV metals over the last year and the impact is huge for producers.

Year on Year Change in Costs of the Battery Cell Cathode Materials of Tesla Model 3 (60 kWh)



Quite the dramatic price increase in a matter of 12 months.

MacNicol & Associates Asset Management Inc.
April 22, 2022