

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.*



Hillsboro Inlet Lighthouse, Florida



Point Cabrillo Lighthouse, California

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

Full Elon

It's official, Elon Musk is the owner of Twitter (pending any major deal collapsing).



The Tesla Founder bought Twitter for \$44 Billion at \$54.20 a share. Even with the premium Musk paid, Twitter shares have underperformed for over a decade. Musk will have the same issue Twitter management has had since going public: how to monetize all their loyal users. We know one thing, do not count Musk out.

The deal is as follows:



FUNDING SECURED for [@elonmusk](#)

\$46.5B in financing committed by Morgan Stanley & Elon Musk broken down as follows:

- \$500M revolver
- \$6.5B term loan
- \$3B secured bridge loan
- \$3B unsecured bridge loan
- \$12.5B margin loan
- \$21B equity commitment from Elon

Lots of leverage and Tesla stock used as collateral, hopefully, Tesla share prices do not drop significantly. If they do drop in value, there could be a fire sale due to a forced sale from margin requirements.



A significant change to Twitter's advisors going forward will be the Investment Bank that is used. Musk will move forward with Morgan Stanley which has historically been his and Tesla's lead advisor. Twitter has historically used Goldman Sachs.

Maybe that is why Goldman originally advised the board not to take this deal. The advisement team would lose 8-9 figures in revenue.



Here is that recent equity research from Goldman that says "SELL" Twitter:

Sell

Twitter Inc. (TWTR)

Q4'21 Review: Investments Continue To Fuel Multi-Year Transition

[Table of Contents](#)

AA

In analyzing Twitter's Q4 '21 earnings report (& forward operating commentary), a few key themes (many of them reiteration of the past year) were front and center. First, Twitter mgmt expressed optimism on their ability to grow users (by YE '23) at an accelerated pace vs prior periods – however, we remain below that forecast. Second, Twitter remains in investment mode (as evidenced by mgmt 2022 opex / capex / SBC guidance) against goals aimed at user growth, product innovation, advertising diversification & measurement/attribution. Over the medium term, we still see the main debate for Twitter being whether the company can either: a) morph its core use case to appeal to a wider, more scaled audience base; and/or b) execute against a wide array of monetization opportunities (e.g., creator monetization, etc.) that align with the platform's current distribution. Twitter's new CEO (formerly CTO) expressed an alignment with prior mgmt commentary on key objectives in the years ahead.

Given Twitter's need to make heavy opex/capex investments, we see its GAAP EBIT margin structure (and, as an output, its earnings power) as capped relative to peers (especially over the medium term). For instance, on our estimates, TWTR (at current levels) trades at ~57x EV/24E GAAP Operating Income with our forecast of ~L-MSD % GAAP EBIT margins in FY23 & FY24. As a result, we still see a more negative risk/reward skew from current levels until

TWTR's valuation is more reflective of the current multi-year investment cycle. We reiterate our Sell rating and lower our PT from \$36 to \$30 reflecting the same valuation multiples on lowered forward operating estimates (discussed herein).

A price target of \$30-36 yet \$54 is a no-go. Weird?

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

Yes we are not naive and understand, that both these recommendations are from different business units that sometimes have competing goals (advisory vs. sell-side research). We just find it ironic and A MASSIVE coincidence. End of the day, advisory fees may trump shareholder rights.

Goldman was not the only flip-flopper on this deal.

Numerous financial professionals, news pundits, and users on Twitter questioned Musk's offer, and intentions, and laughed at his proposal.

Mark Cuban Says There's an Ulterior Motive Behind Elon Musk's Twitter Offer

Cuban notes that Musk's offer echoes the tweet that got him in trouble several years ago.

By [Amanda Breen](#) April 15, 2022



Swisher on Musk: 'He's not the king of Twitter'

🕒 Apr 10, 2022

Kara Swisher, Claire Atkinson and Oliver Darcy discuss Elon Musk's big investment and board seat at Twitter. "He can't just decree things," Swisher says. Still, "he has a big voice," Atkinson adds.

Large shareholders even publicly rejected Musk's offer.

The Saudi Investment fund went on Twitter and rejected the deal on the day it was proposed by Musk. Vanguard even bought more shares of Twitter after Musk disclosed his holdings. They did that so Musk was not the largest shareholder anymore. You may say why do these people care? It could be about control or about keeping the status quo. If certain people had it their way, Musk would not be a billionaire because he goes against the status quo. Musk does not stay in the stereotypical Billionaire lane.

Speaking of "against the status quo", text messages between Musk and Bill Gates were released last weekend and it makes Musk even more likable.

Musk confirmed the texts were real but that he did not leak them.



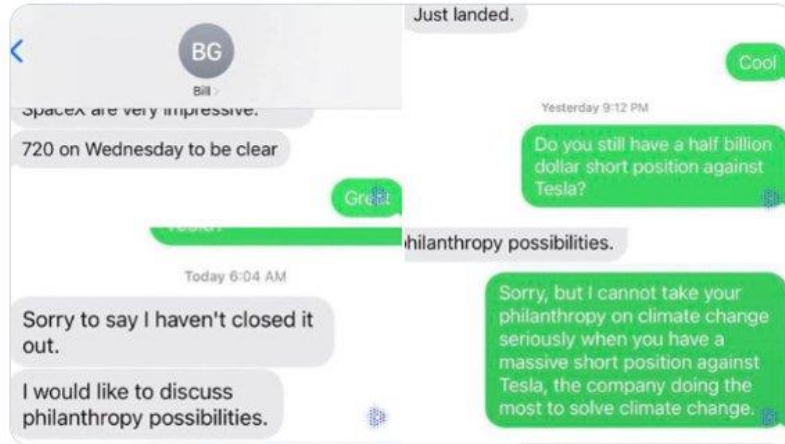
Whole Mars Catalog
@WholeMarsBlog

...



So apparently Bill Gates hit up @elonmusk to discuss “philanthropy on climate change” but Elon asked if he still had a half billion dollar short position on \$TSLA.

Bill said he hasn’t closed it out, so Elon told him to get lost. No idea if this is true lol



6:10 PM · Apr 22, 2022 · Twitter for iPhone

The texts are hard to read but essentially reveal that Bill Gates has a half-billion-dollar short position against Tesla and wants to do “philanthropic possibilities” with Musk. Musk wants nothing to do with him. The texts and short position also reveal Mr. Eco Friendly (Gates) does not care about the climate as much as he leads on. He cares about money.

Perhaps this exchange is a major reason, the traditional elites do not want Musk in charge of a social media company. The man does not care what people think.

He openly admitted the Twitter purchase was not about money but, about free speech. We kind of believe Musk when he says that. Paying \$44 billion for these cash flows seems quite painful.



**Twitter Annual Net Income
(Millions of US \$)**

2021	\$-221
2020	\$-1,136
2019	\$1,466
2018	\$1,206
2017	\$-108
2016	\$-457
2015	\$-521
2014	\$-578
2013	\$-645
2012	\$-79
2011	\$-164
2010	\$-67

Regardless of what you think, taking Twitter private is an impressive move. Who would have thought, Elon Musk could “meme” his way to owning Twitter?

Even though we like this move for the platform and Twitter investors, we still think Tesla is one of the most overvalued companies in the world.

Mortgage Payments Soar

As interest rates rise numerous mortgage rates are running at their highest levels in over a decade. Headlines like these have been the norm over the last week:

Adjustable-rate mortgage demand doubles as interest rates hit the highest since 2009

PUBLISHED WED, APR 27 2022 7:00 AM EDT



SHARE [f](#) [t](#) [in](#) [✉](#)

We are not saying something will pop, there could be a bit of a cooling down period across various North American markets though. At the end of the day, these rate levels are not doomsday for homeowners, and demand still greatly outweighs supply, especially in high-growth regions (Sun Belt and South).

The one chart that has ticked up over the last few months is:

Mortgage payment-to-income ratio



*THE SHARE OF U.S. MEDIAN INCOME NEEDED TO MAKE THE MONTHLY PRINCIPAL AND INTEREST PAYMENT ON THE PURCHASE OF THE AVERAGE-PRICED HOME. THE APRIL 2022 FIGURE IS CALCULATED USING A 5% MORTGAGE RATE.

CHART: LANCE LAMBERT • SOURCE: BLACK KNIGHT

FORTUNE

The highest point since 2007, yikes.

This is due to monthly mortgage payments slightly rising due to rates and incomes rising at a very slow rate. Remember wage growth has grown much slower than inflation has over the last year.

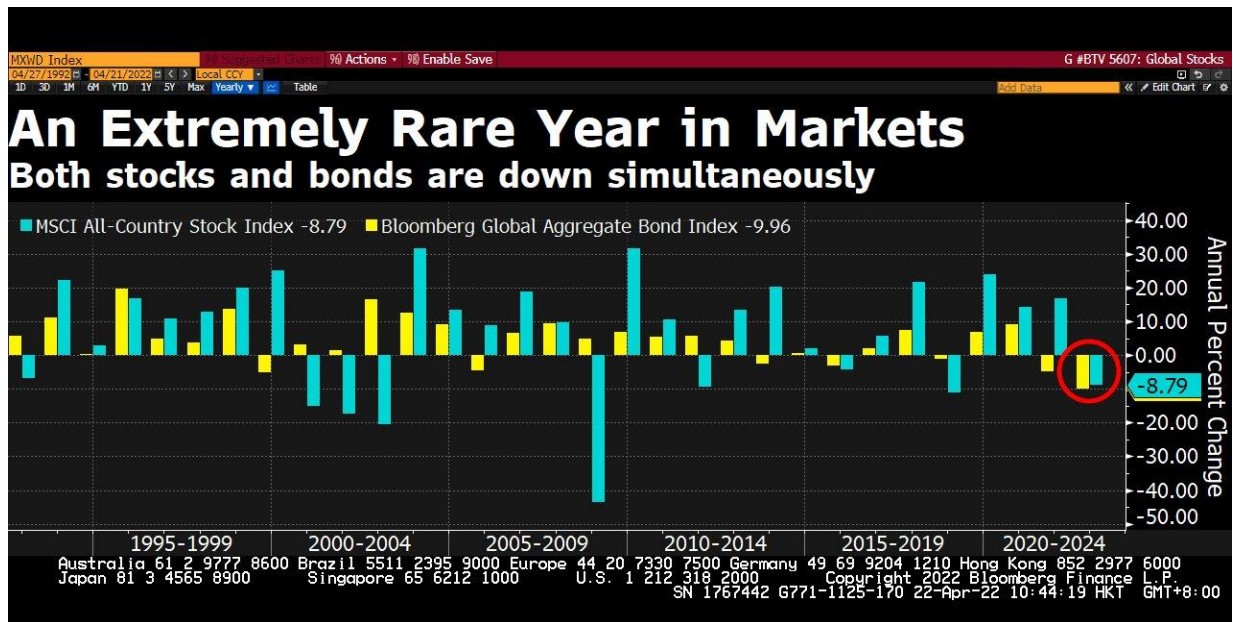
These data points are U.S.-based and are not focused on any Canadian Real Estate Markets.



Tough Year For Investors

Got Alternatives? Got Energy? Got Gold?

Unless you were invested in these asset classes or select equity funds, your portfolio is probably down year to date.



Both stock and bond funds are both down tremendously year to date. The traditional S&P Fund with a nice Barclays U.S. Bond Fund has destroyed savings in 2022.

We are sure you are aware of general market volatility but were you aware that it was this bad? We think this chart should expose to the final investors who use the classic 60/40 portfolio that the 60/40 is dead. If this year (and chart), does not help, we are not sure what will.

Alternative investments decrease portfolio volatility, increase diversification, and expose investors to higher returns. [Click here to learn about the MacNicol Alternative Asset Trust.](#)

More Sanctions: Higher Prices

We have reported on the sanctions that Western nations have placed against Russia over the last few weeks. We have also mentioned Russia's retaliation toward Western nations (economic). There also have been export bans across the world as countries secure national food supplies and energy. We are truly in a time of shortages of the three goods we need most, energy, food, and housing (Canada). We think the demand destruction price for energy specifically oil and gas are much higher than what many analysts project.

This past week, some more nationalism in global trade has occurred. Russia has also ramped up its actions toward Europe.

JUST IN - Russia to cut off more gas buyers that don't pay in rubles, Kremlin says. European gas prices up 24%. Ruble reaches 2-year high against the euro.

7:03 AM · Apr 27, 2022 · Twitter Web App



***Walter Bloomberg**
@Deltaone

***ALGERIA THREATENS TO HALT NATURAL GAS SUPPLIES TO SPAIN: APS**

1:38 PM · Apr 27, 2022 · TweetDeck

Onet: Russia has turned off the gas tap in Poland

Business Insider Polska

April 26, 2022, 4:31 PM · 1 min reading

Share the article



Russia's currency has gained even though the West has attempted to sanction them into economic collapse. Russia's self-sufficient energy economy may have a strong next decade especially as energy prices surge. Even with an outright ban by the EU, Russia will sell to India, China, Africa, and Asia.

We highlight this because even though many Western nations stopped buying Russian energy, most of Europe has not. They cannot operate without Russian oil and gas. Russia has all the leverage and is using it; they won't care if Germans are cold for a month.

We are sure many North Americans think the entire continent of Europe has cut off Russian energy but, the reality is different than perception. Germany and the EU continue to fund Putin's economy and its attack on Ukraine.

The EU is reportedly considering an outright ban on Russian energy imports which is where energy prices could go parabolic.

EU closes in on Russian oil ban – but how tough will it be?

Europe is weighing up various options that fall short of an all-out embargo.

We do not know if it will happen but, it is something to watch very closely.

Even without Russian sanctions, we see how tight the oil market is. The underlying issues are so obvious, yet they are being ignored. Think about it.....China is under lockdown in parts of Shanghai and Beijing, yet oil is trading above \$100/bb.



When Dip Buying Goes Bad

On February 3rd, Meta Platforms (Facebook) shares dropped by over 25%. Facebook missed earnings estimates and lost users during the 4th quarter. For the first time, Facebook lost users, the company's growth looked to be flattening out (it is).

Many thought this move was an overreaction as shares were already down 15% (before the February 3rd drop) from September 2021 highs.

We did not recommend "buying the dip" as we still thought Facebook traded at a high multiple (it still does). Even though Facebook is a communication and technology company, they provide a utility that many see as a necessity. Perhaps one day it will be valued closer to AT&T (telecom) or even a utility company. We think Facebook will continue to struggle for several reasons including legislation across Western nations.

We are glad we did not buy in at that low. Facebook shares have dropped another 25% since February 3rd. Shareholders are down over 40% over the last year, so much for a stock you can hold forever.

Many retail traders bought the Facebook dip and are down BIG. This is why valuations matter and due diligence matters.

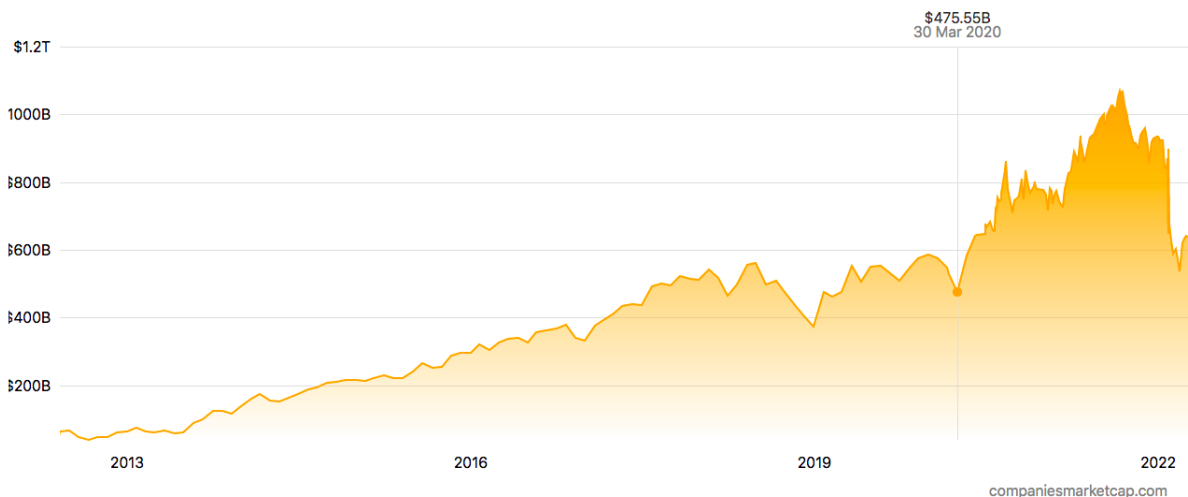
Retail traders are buying the dip in Meta stock, but on Wall Street Bets, users proclaim 'FB is over'

Natasha Dailey Feb 3, 2022, 10:10 AM



Less than a year ago, Facebook's market cap was over \$1 Trillion. Zuckerberg was on top of the world. Fast forward a few months and.....

Market cap history of Meta (Facebook) from 2012 to 2022



Facebook shares traded up 15% on Thursday morning as the website added customers and beat revenue estimates for Q1 2022. Investing in Facebook truly has been a whirlwind. We will see how sustainable this move upward was as the market digests these results throughout the coming weeks.



Blatant Inconsistencies

Inflation is underreported across the board. The calculation has been altered so the government feels good about the number. Inflation is in the double digits in both Canada and the U.S.

Just looking at the recent CPI for U.S. housing, how is this possible?

One of these is wrong

Housing Prices + 19%

Rent +17%

CPI for housing (OER) +4.5%

11:27 PM · Apr 21, 2022 · Twitter for iPhone

Must be another metric they use that is not rent or housing price growth!

MacNicol & Associates Asset Management Inc.

April 29, 2022