

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.*



Tourlitis Lighthouse, Andros, Greece



Georgetown Lighthouse, Georgetown, South Carolina

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



When All Else Fails

The Covid-19 pandemic changed numerous things across the global economy. One of those things was who invests. After easy money from CERB cheques (Canada) and stimulus payments (U.S.) were paid out to hundreds of millions of North Americans, many novice investors hit the stock market. We say hit the stock market because many treated and still treat the stock market like a Las Vegas Casino.

All of a sudden novice investors became gurus, day trading became cool, and every hype investor was returning 50% on an annual basis (sometimes more). People with no experience were even selling courses on how to trade.

Fast forward a year and a half and the narrative has completely changed. Those day traders have disappeared. Those hype investors on Twitter seem to not tweet anymore. This is because they did no research before and rode the train to profit. Now that creating a positive return is hard, they are stuck and do not want to look stupid online.

This is part of the reason against an edit button on Twitter. People could edit a stock call and look like geniuses.



The joke was on you if you used an uncertified TikTok account as a financial advisor.

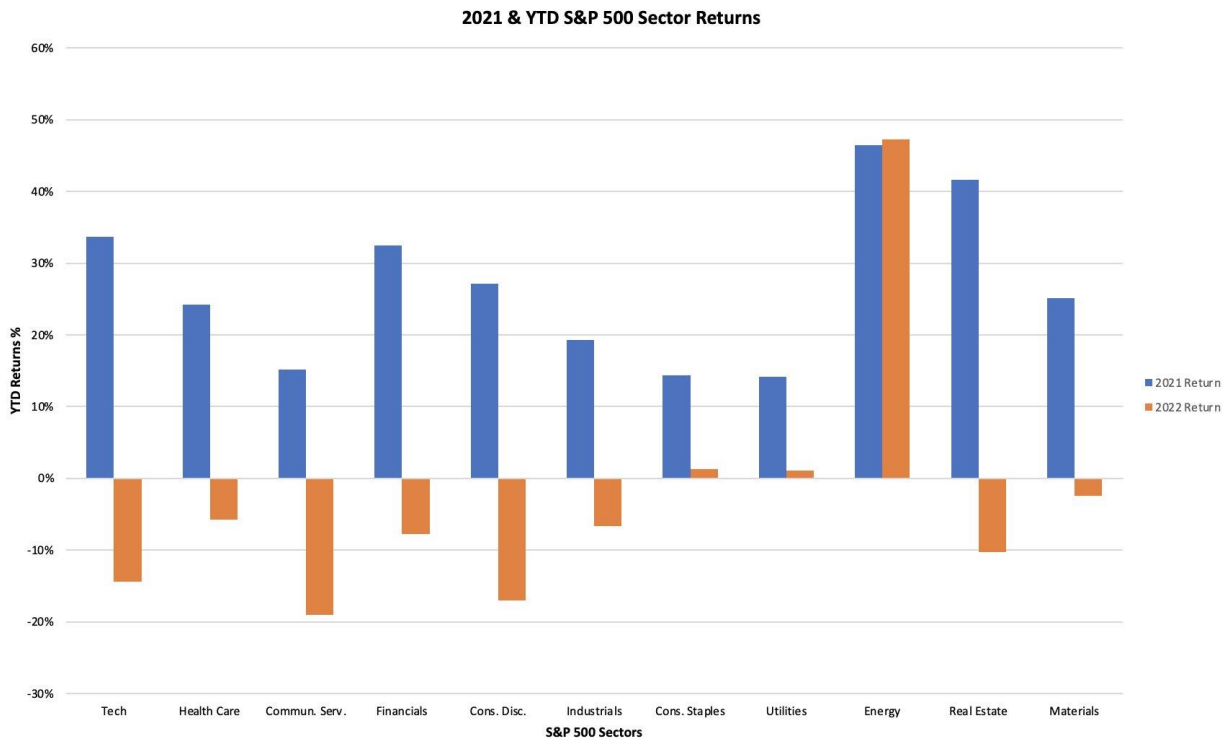
The real reason all these “advisors” have disappeared can be explained by a few images.

Unprofitable Technology Stocks are at their pre-Covid-19 levels:



Unprofitable names were loved by the retail crowd.

2021 & 2022 Returns by Sector for the S&P 500:



The outlier is energy. Who would have guessed (shortages for \$200). Most retail traders loved hype solar energy and ignored oil and natural gas.



Technology losses are not limited to unprofitable companies:

Company	52 week High	May 11 Price	% from 52 week high	YTD gain (loss)	Profitable
Netflix	\$ 700.99	\$ 175.30	-75%	-70.26%	Y
Facebook	\$ 384.33	\$ 196.00	-49%	-41.62%	Y
Coinbase	\$ 368.90	\$ 54.99	-85%	-70.93%	Y
Amazon	\$ 3,773.08	\$ 2,156.00	-43%	-36.12%	Y*
Peloton	\$ 129.70	\$ 13.30	-90%	-63.35%	N
Uber	\$ 52.36	\$ 23.56	-55%	-46.14%	N
Robinhood	\$ 85.00	\$ 9.00	-89%	-49.73%	N
Snowflake	\$ 405.00	\$ 140.15	-65%	-56.70%	N
Paypal	\$ 310.16	\$ 77.70	-75%	-59.60%	Y
Airbnb	\$ 212.58	\$ 114.98	-46%	-32.75%	N

Y* because Amazon is quite profitable but was not in 2022 Q1 due to a large investment in EV maker Rivian depreciating in market value

Market Summary > Rivian Automotive Inc

21.59 USD

-81.11 (-78.96%) ↓ year to date

May 11, 9:39 a.m. EDT • Disclaimer

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



Open	22.91	Mkt cap	19.30B	52-wk high	179.47
High	22.92	P/E ratio	-	52-wk low	21.00
Low	21.35	Div yield	-		

Losses have not been limited to the technology sector, but technology has been hit the hardest. The valuations of recent IPOs in the tech sector have been astronomical. If investors simply bought because they liked the company and did not look at the valuation, they have probably called their broker a few times and yelled at them. The interesting part of this melt down is the large-cap FAANG stocks have also been hit quite hard. (You know, those FAANG stocks people told you would only go up from here).

Growth can only last for so long. Especially annual 10-15% jumps.



We have a feeling that in this decade a major focus will be on constant sector rotations.

We also wanted to highlight that we are not recommending to our readers to buy all these technology stocks because they have been beaten down so much. Some remain overvalued and some have a slim road to positive cash flows. Contact us today for individual recommendations at info@macnicolasset.com

Larger Than You'd Think

We all know losses have been quite large over the last 6 months for major indexes and the last 15 months for crappy technology stocks (add in SPACs and ARKK too).

Did you know the drop has been as bad as it was in March 2020?



The loss in March 2020 was more pronounced and happened over a few days, rather than months, but a loss is a loss.


Will we get the major bounce we got after March 2020? Probably not. Valuations remain quite elevated, the FED is still raising rates, inflation is still quite high, there are shortages galore in hard assets, and even with the recent pullback, the last 2 years has created massive returns for investors.

Looking at how we started this year compared to other rough starts in other calendar years, a sliver of optimism can be found. Out of the 6 worst starts to a year for the S&P 500, 5 of those have created a

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

positive return to end the year, all in the double digits. (This is not advice to buy an index. We think indexing could really struggle over the next few years).

S&P 500: Worst Performance through 86 Trading Days (1928 - 2022)				
Rank	Year	Price Return: First 86 Trading Days	Price Return: Day 87 to Year- End	Price Return: Full Year
1	1932	-30.0%	21.8%	-14.8%
2	1939	-14.7%	11.2%	-5.2%
3	1970	-14.6%	17.2%	0.0%
4	2022	-13.0%	?	?
5	1941	-11.7%	-7.0%	-17.9%
6	2020	-11.2%	30.9%	16.3%
7	1942	-10.4%	25.4%	12.4%
8	2002	-8.3%	-16.4%	-23.4%
9	1960	-8.1%	5.6%	-3.0%
10	1962	-7.0%	-5.2%	-11.8%
11	1977	-7.0%	-4.9%	-11.5%
12	1974	-6.4%	-24.9%	-29.7%
13	1973	-6.0%	-12.1%	-17.4%
14	1953	-5.9%	-0.8%	-6.6%
15	1938	-5.1%	31.3%	24.5%

 **COMPOUND** @CharlieBilello

Either way, do not get trapped like this bull!



Our weekly humor was created by Hedgeye.

April's Inflation Release

On Wednesday the U.S. BLS released the inflation data for April 2022. The CPI came in at 8.3%. This is a good sign as inflation in March was 8.5%. Unfortunately, analysts once again undershot their projection which was 8.1% for April 2022.

We do not think inflation has peaked and think certain prices will continue to rise (energy and certain foods). Do not expect your gas bill to return to pre-pandemic levels. Do not expect your local restaurant to drop their prices either. Even if we return to 2% inflation, prices will not return to “the good old days”.

Many ask us why we think inflation is underreported. The calculation has been altered to favour governments. Energy, food, shelter, and many other basic items have grown in price by over 15% over the last year. So, how do you expect us to believe inflation is only 8%?

We can blame Putin, the supply chain, product shortages, Covid-19, or whatever else you want. Regardless of how you feel, government stimulus caused this problem.

From a U.S. Government Website: (Kinda funny that they are bragging about this while simultaneously complaining about inflation)



The Six Laws that Funded Pandemic Relief Programs

1. [The Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020](#) (Total \$7.8B)
2. [The Families First Coronavirus Response Act](#) (Total \$15.4B)
3. [The Coronavirus Aid, Relief, and Economic Security Act](#), (CARES Act) (Total \$2.1T)
4. [Paycheck Protection Program and Health Care Enhancement Act](#) (Total \$483B)
5. The [Coronavirus Response and Relief Supplemental Appropriations Act, 2021](#) (Total \$900B)
6. [The American Rescue Plan of 2021](#) (Total \$1.9T)

Lots of money was created out of thin air, billions of which went to corporations and to people who did not qualify for these cheques. Both the Biden and Trump administrations spent Trillions on Covid-19 relief. Every Bill beat the last. They treated the FED like a piggy bank. Money flew across the U.S. and the world as if it came from a pinata. Yes, USD in these Bills went to foreign Governments.

We understand government assistance but, in this magnitude, it was a recipe for disaster.

Wall Street Jumps the SPAC Ship

We have commented on the SPAC market throughout the history of [The Weekly Beacon](#). The market has completely deteriorated.

Retail investors who loved the idea have completely abandoned ship as the market has been completely overvalued and seems to only feature cash burning, mid-stage, growth companies. A lot of the SPAC mergers featured companies that needed more time in private markets before going public. They have been rocked by volatility.

The SPAC ETF has gone belly up and is basically at an all-time low.

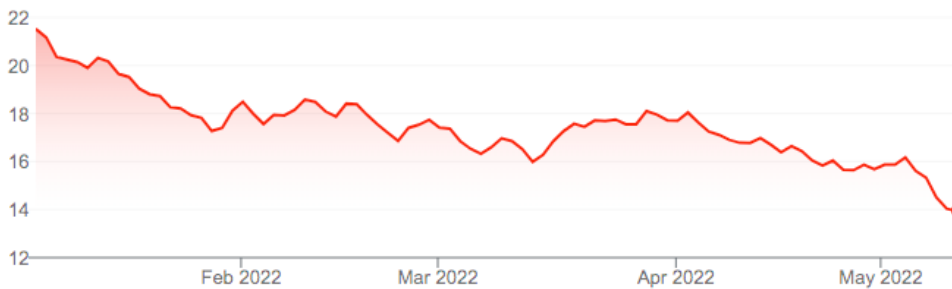
Market Summary > Defiance Next Gen SPAC Derived ETF

13.93 USD

-7.59 (-35.27%) ↓ year to date

May 11, 10:11 a.m. EDT • Disclaimer

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



Those who invested in this ETF to hit the SPAC trend and mitigate individual SPAC risk must be regretting buying into the hype.

It seems a few Wall Street institutions have quietly backed out of the space. Maybe they read [The Weekly Beacon!](#)

Goldman, Citi, & BofA Are All Quietly Backing Out Of The SPAC Business



BY TYLER DURDEN

MONDAY, MAY 09, 2022 - 08:10 PM

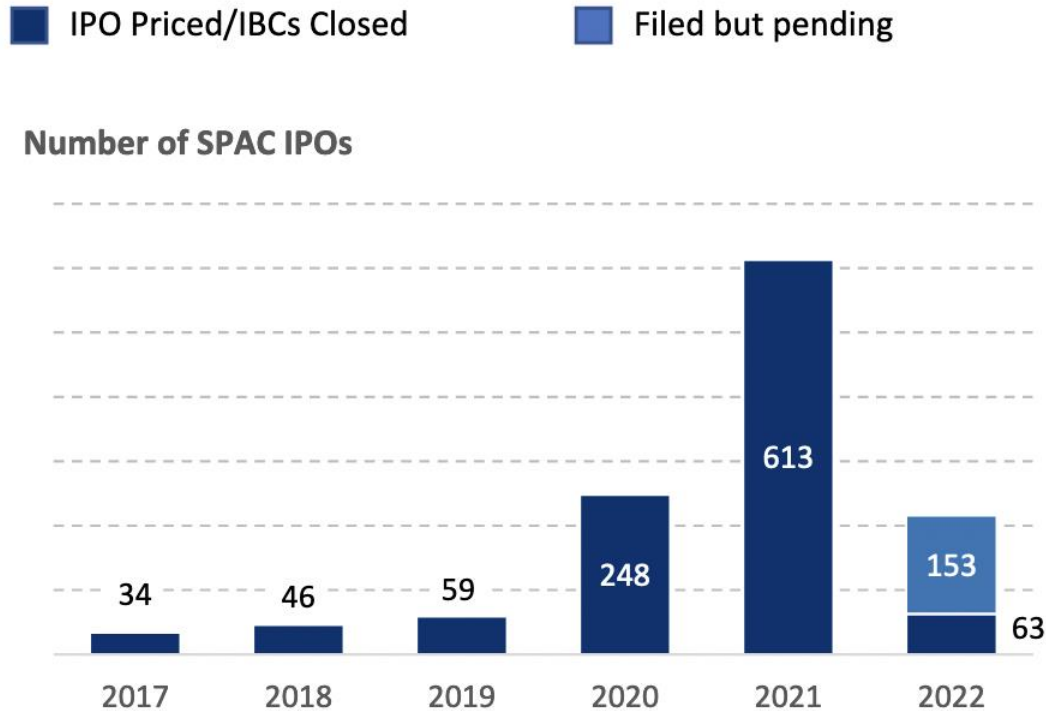
No, the banks did not back out because they felt bad for saddling the public with garbage valuations. They backed out due to a change in liability policy by the SEC.

Goldman has been the world's second-largest underwriter for SPACs. Goldman announced it will be halting all new SPAC issuances. A report also says that the bank may "elect to continue the advisory work with a small number of SPAC clients in rare cases".



Together, Bank of America, Citigroup, and Goldman accounted for more than 27% of U.S. SPAC deals since the start of last year, overseeing about \$47 billion of the transactions, according to data compiled by Bloomberg.

Even before this policy change, the SPAC market has imploded (in terms of the number of deals).



Always remember to sell the hype.

A Trend in Earnings Calls and 8Ks

Over the last few weeks, as companies release Q1 results for 2022, Bank of America noticed a trend.

Exhibit 15: Companies' mentions of weak demand jumped this quarter

Average mention of weak demand per company (2003-1Q22 as of 5/5/22)



Source: BofA Global Research

Note: mentions include 'lower,' 'softer,' 'moderating,' 'weaker'

Lots of companies blame weak demand for poor results. Perhaps your product has peaked and not as many people want it anymore?

Perhaps the reopening of the west has resulted in a major shift. During Covid-19 many western countries were goods focused, and the stock market was carried by companies that sell goods (Amazon, Microsoft, Apple, Nike). Now, not so much. We have shifted to services and we think this shift is here to stay. People want to do stuff and get out there after being limited for 2 years. Outside of China, this is the first fully open summer. Expect hotels, airlines, tourist services, and restaurants to be packed for months to come.

The major question to ask the companies reporting poor results is, how many quarters can you get away with blaming results on weak demand? When does this become the new demand?

Oil Titans



There is some major news in the world of energy, specifically the oil market.

The oil ministers from both the UAE and Saudi Arabia are warning the world of shortages. Yes, we are not dumb and understand these nations love high oil prices, but the supply problem is real. Demand will only grow from here and supply will not keep up.

OPEC Kingpins Warn About World's Dwindling Energy Capacity

- "I have never seen these things," says Saudi oil minister
- Comments come as gasoline prices rose to record in the U.S.

By Anthony Di Paola and Ben Bartenstein

(Bloomberg) -- The oil ministers of Saudi Arabia and the United Arab Emirates warned that spare capacity is decreasing in all energy sectors as producers slash investment, causing everything from crude to diesel and natural gas to trade at or near record highs.

"I am a dinosaur, but I have never seen these things," Saudi minister Prince Abdulaziz bin Salman, who's been attending OPEC meetings since the 1980s, said Tuesday at a conference in Abu Dhabi, referring to the surge in prices for refined products. "The world needs to wake up to an existing reality. The world is running out of energy capacity at all levels."

The prince's UAE counterpart, Suhail al Mazrouei, said that without more investment across the globe, OPEC+ wouldn't be able to guarantee sufficient supplies of oil when demand fully recovers from the coronavirus pandemic.

"We've been warning about the lack of investment," he said in an interview, also in Abu Dhabi. "That lack of investment is catching up with a lot of countries."

Saudi Arabia and the UAE are among the few producers investing in greater output. They're spending billions of dollars to raise their crude capacity by 2 million barrels a day between them by the end of this decade. Most other producers are struggling to get funding as shareholders and governments encourage a shift from fossil fuels to renewable energy.

They understand the problems but for some reason, we here in the west ignore those problems so we can focus on renewable energy.

It's also important to note that the Saudi Arabian Oil Company is now the largest in the world in terms of market cap.



Ranking	Company	Market value
1	Aramco	\$2.464 trillion
2	Apple	\$2.461trillion
3	Microsoft	\$1.978 trillion
4	Alphabet	\$1.485 trillion
5	Amazon	\$1.106 trillion
6	Tesla Inc.	\$815 billion
7	Berkshire Hathaway Inc.	\$692 billion
8	Meta (Facebook)	\$561 billion
9	Johnson and Johnson	\$467 billion
10	United Health	\$456 billion

Apple has lost half a trillion dollars in value since its peak on January 4th. This is the first time in recent memory that Apple has been surpassed by the oil company. It is also the first time since early 2020, that Apple has not had the world's largest market cap.

Crypto Market Down

The drop in the major indexes over the last few months has created a liquidity crunch. Investors are selling high-risk assets at an accelerated rate. Bitcoin is included in this.

Over the last year Bitcoin (that nice inflation hedge) has lost almost 50% of its value.



Market Summary > Bitcoin

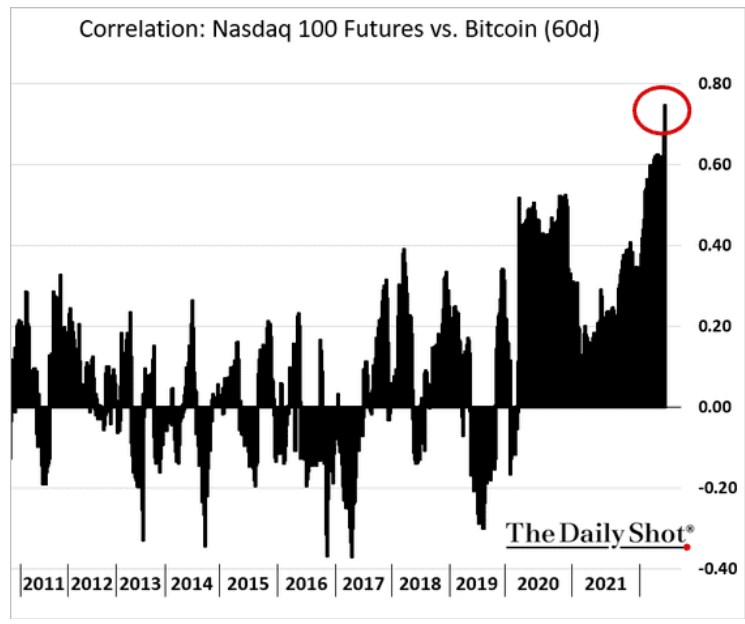
29,870.90 USD

-26,885.00 (47.37%) ↓ past year

May 11, 5:54 p.m. UTC · [Disclaimer](#)



The correlation between Bitcoin and the Nasdaq is uncanny. It is at its highest point on record. We have sometimes described Bitcoin as a high beta technology stock and its recent move is confirming that thought.



All this happened when “Stable Coins” collapsed in value. Stable coins are supposed to be pegged to the USD, yet they are trading below that value.



Markets

Investors Flee Terra's Anchor as UST Stablecoin Repeatedly Loses \$1 Peg

Deposits on the Anchor protocol plunged below \$9 billion from \$14 billion since Friday after Terra's stablecoin, UST, struggles to recover to \$1. ANC, the protocol's token, fell 35% during the day.

By [Krisztian Sandor](#) · [🕒 May 9, 2022 at 8:35 p.m. UTC](#) · [🕒 Updated May 9, 2022 at 10:12 p.m. UTC](#)

Stable coins are supposed to act as bank accounts in the crypto world - low volatility paired with a constant value. The drop-in value shows how fragile the entire crypto space can be. As markets continue to drop, expect crypto markets to do the same.

MacNicol & Associates Asset Management Inc.
May 13, 2022