MacNicol & Associates Asset Management Inc.
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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.*

Ponce Inlet Lighthouse, New Smyrna Beach, Florida

West Breakwater Light, Turgutreis

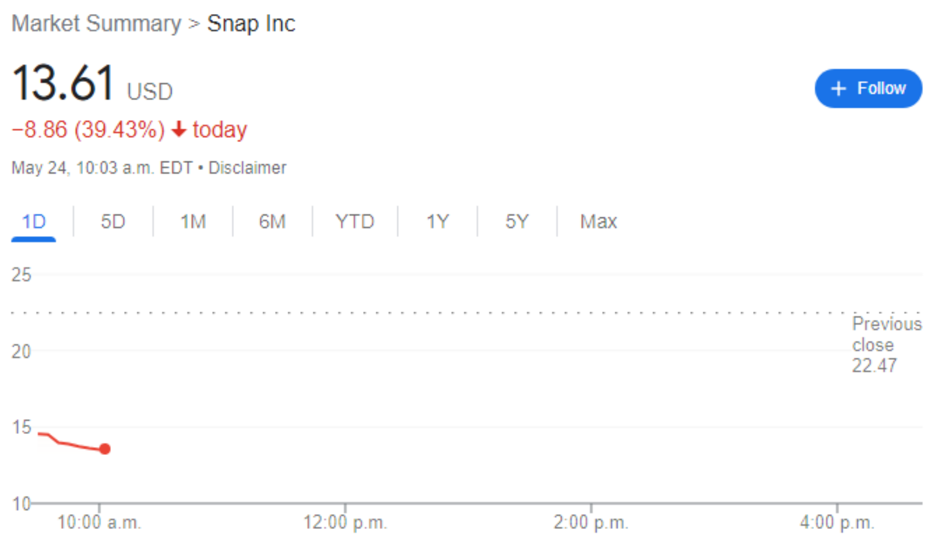
Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

Social Media Wipe Out

Tuesday was a horrible day for social media companies. It all started after Snapchat's CEO warned the company would miss revenue and earnings estimates. He also confirmed the company would slow hiring.

Before this news, Snapchat shares were already down over 50% year to date.

After this announcement, shares dropped another 40%.



As of lunchtime on Tuesday, Snapchat shares were down 70% year to date. The app might have high utilization and loyal users but the generation who grew up with the app is slowly aging and using the app much less. Other social media apps seem to grasp younger generations much better. We are not saying users will drop, we are saying advertisers will due to less usage.

Regardless of how you feel about Snapchat, the letter written by the CEO to employees was quite interesting:

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Team,

Thank you so much for your hard work executing through this challenging macroeconomic environment. Like many companies, we continue to face rising inflation and interest rates, supply chain shortages and labor disruptions, platform policy changes, the impact of the war in Ukraine, and more.

Today we filed an 8-K, sharing that the macro environment has deteriorated further and faster than we anticipated when we issued our quarterly guidance last month. As a result, while our revenue continues to grow year-over-year, it is growing more slowly than we expected at this time. We believe it is now likely that we will report revenue and adjusted EBITDA below the low end of the guidance range we provided for this quarter.

We believe that the progress we've made growing our revenue, combined with the strength of our balance sheet, has positioned us well for the current environment. The fundamentals of our business remain strong, our community is growing and engaged, and we are excited about the many opportunities ahead. As a result, 2022 remains a significant investment year for Snap, despite the ongoing market volatility.

Responsibly managing our expenses will allow us to invest through this period of time and emerge stronger as a business. Moving forward, we will be taking steps to reprioritize our investments – continuing to invest across our business priorities, but in many cases doing so at a slower pace than we had planned given the operating environment.

- We will continue to hire new team members, including recruiting for open roles.
- We will slow our pace of hiring for unopened roles for the remainder of the year, as well as push some planned hiring into next year.
- We expect to hire more than 500 new team members between now and the end of the year, representing nearly 10% company-wide headcount growth over the next seven months. This is in addition to over 900 offers already accepted this year, up 41% year-over-year, and the roughly 2,000 people added to our team in the trailing 12 months.
- We will continue to backfill existing positions that become available as a result of attrition if those roles remain a high priority for our teams.
- We will also evaluate the remainder of our 2022 budgets and leaders have been asked to review spending to find additional cost savings.

Our most meaningful gains over the coming months will come as a result of improved productivity from our existing team members, as we work together and help our new team members get to know Snap and learn how to contribute to their full potential.

Thank you so much for all your hard work and commitment to our community and partners. Through many ups and downs over the past decade you have made clear your ability to see through the short term and invest in our long term success.

Evan

Essentially earnings, revenue, EBITDA, and even app usage are down through the first 6-7 weeks of Q2. Estimates had already been downgraded for Snap and other social media companies during Q1 earnings releases. Either way, a bumpy road is ahead especially when you realize Snapchat shares debuted trading at $27 in March 2017, a -50% return over the last 5+ years.

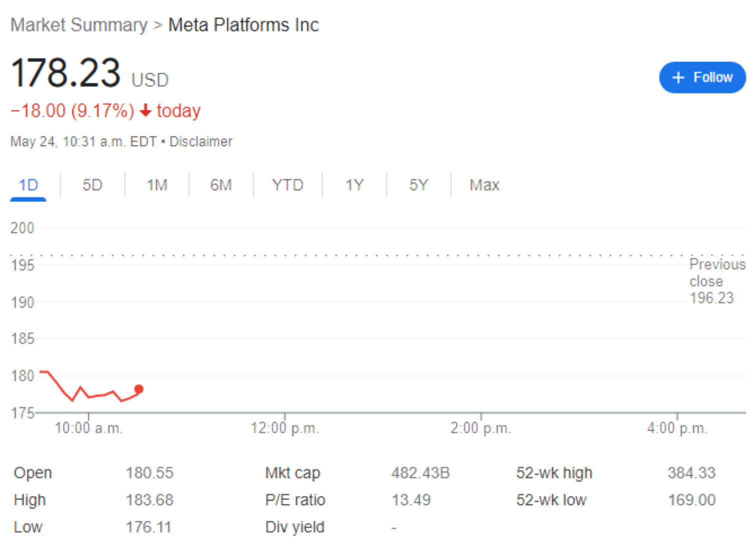
The weirdest part of the letter was the reasoning behind the downgrades. Supply chains, Ukraine, inflation, and interest rates. Snap's CEO must be a macroeconomic analyst and not an app developer.

While the reasons he listed are contributing factors to market turmoil, they are not the leading factor. We believe sky-high valuations fueled by easy money have caused the market to drop. But why do they contribute to snap's struggles? It's an app. How is the supply chain causing them issues? They certainly are not having trouble sourcing computers and laptops for their employees. Best Buy remains full. They are feeling the impact of advertisers spending less money on their apps. Maybe, companies are not seeing the returns they hoped on these apps, or maybe it's something else. Either way, the letter written by the Snap CEO is fascinating when you realize Snapchat is a selfie messaging app.

To put it bluntly, Snap does not generate capital on its own and is dependent on external companies that have the cash to spend to advertise to their users. Snap is a free service.

After the announcements and revisions, other social media stocks were down as of Tuesday morning.

Facebook was down 9% and only a few dollars off its 52-week low. It is also important to note, that Facebook's market cap was almost $1.1 trillion in September 2021, since then half a trillion dollars of wealth has been wiped out.



Pinterest shares were hit even harder and were at a 52-week low. Even with the pullback, Pinterest shares still trade above a 30 P/E. Pinterest shares now trade at the same level they did in December 2019.

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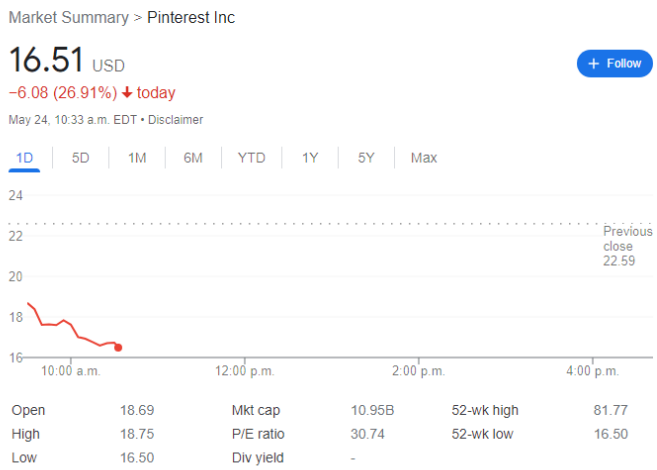
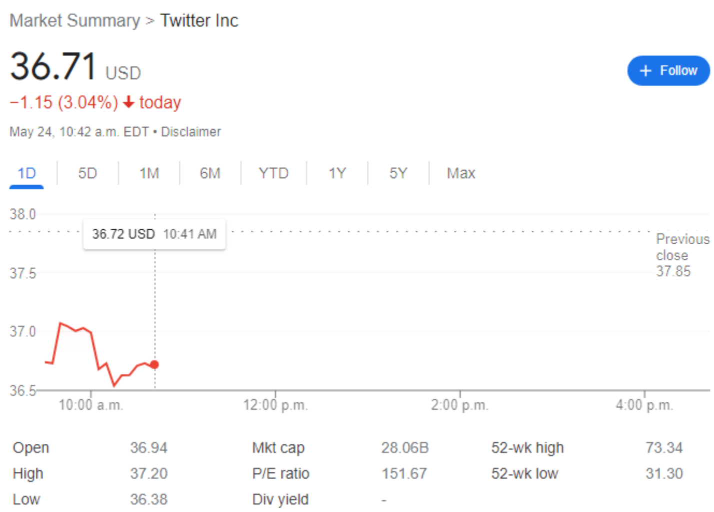


Even Twitter shares dropped on Tuesday morning.



Remember, Elon Musk's offer was originally $54.20/share. A massive premium to the current market price which Musk has said is too high after looking at the numbers and fake accounts. Musk went on Twitter last week to say, Twitter's estimates of fake accounts equating to less than 5% of all accounts is a fake number and the number probably sits closer to 20%. Either way, this is a major stay away, the deal could fall through, the SEC could get involved, or the deal price will drop. Regardless, Musk will not be paying $54.20 to take Twitter private.

We see a bumpy road ahead for social media companies. Do not buy these stocks just because they have already dropped by so much. It does not take a Ph.D. to realize a stock can lose 5% an infinite amount of times, even if social media "financial advisors" claim a stock can only lose 5%, 20 times.

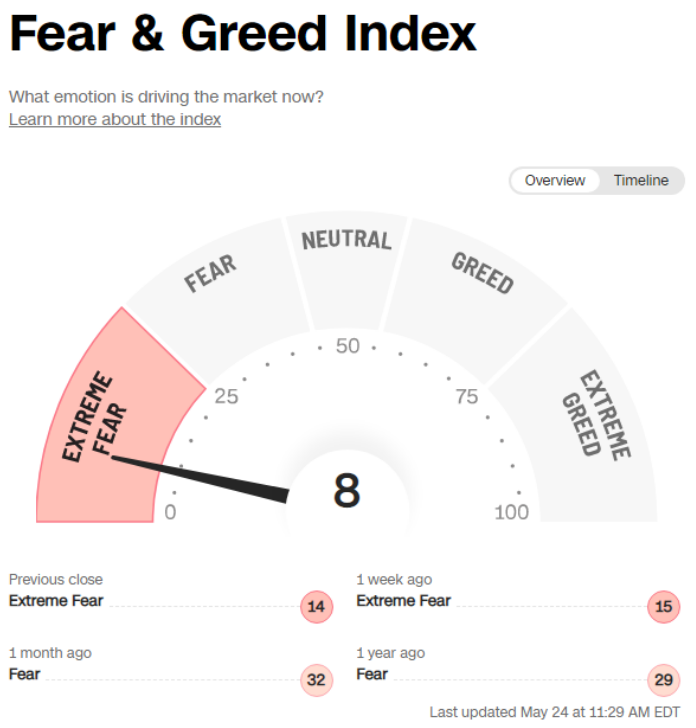
Investor Desperation

If 2022 was a movie, investors would more than likely call it a horror film. Institutions and retail investors have been smacked around. Tech stocks, SPACs, Crypto, and even Walmart, nothing has been spared. Anything overvalued has dropped significantly. Unless you were exposed to oil, gas, uranium, or coal (you know those evil, low usage companies (not our opinion, just the ESG community)), then you probably are down at least 10-15%, even more, if you were overexposed to the crap that Ark Investments own.

just a monthly update on how ARKK is doing, we do not check everyday but everytime we do it seems to keep dropping

It appears investors think we are at a new low. Investors are desperate and do not know what to do.

We did not check the history of this index produced by CNN, but it is at the lowest level we can remember. You would think we were in a steep, steep recession at this level.



Warren Buffett famously said that investors should be "fearful when others are greedy, and greedy when others are fearful." We tend to agree with this statement as we seek value as investment managers just like Buffett. Buffett has been on a bit of a buying spree lately, by the way.

We are not advising our readers at all. We ask you to contact us at info@macnicolasset.com if you have any questions on strategy or portfolio allocation and we will help you there.

Markets over the last 2 years have been extremely irrational and we thought that at market highs. Easy money, gambling mentalities, and valuations soaring have led us to where we are today. This all, simultaneously happened while the crypto Ponzi scheme was in full effect, it's no surprise numerous companies have wiped $100s of billions of wealth away and crypto projects seem to be disappearing.

Just a reminder:

Buy value. Buy tangible assets. Remember certain stocks still do great during market downturns.

Speaking of Cathie

Cathie Wood made quite the bold claim this past month and we are glad we did not miss it. This one is crazy. We are glad we can share it with you.

Cathie Wood Sees This Technology Accelerating GDP Growth To 50% Per Year

Shanthi Rexaline, Benzinga
May. 22, 2022, 11:37 AM

SHARE

Your Market View

Yes, she is referencing Gross Domestic Product which usually grows anywhere from 2-5% per year. She estimates AI (Artificial Intelligence) will eventually grow GDP annually. She also is not talking about 100 years from now, she said in 6-12 years there will be breakthroughs in AGI that will make this possible.

The record for U.S. Real GDP Growth over the last 90 years was in 1942 when it grew at 18.9%. The record number was due to World War 2.

Her projections would double the U.S. economy every 18 months. Maybe she got the 50% growth number when she looked at ARKKs 2022 return. Oh, wait its down 50% not up.

Gathering of the Elites

This week is the WEF Conference in Davos, Switzerland.

The World Economic Forum is an international non-governmental and lobbying organization based in Cologny, canton of Geneva, Switzerland. It was founded on 24 January 1971 by German engineer and economist Klaus Schwab. The WEF is an unelected body that was created by one man that has somehow gained tremendous power across the globe. The organization steers policy and lays the groundwork for certain movements.

The organization has complex goals that should worry people. We will let you do your own research and come up with a conclusion on your own. This week we just want to comment on the climate goals of the WEF. The group wants to dramatically decrease fossil fuel usage to slow down climate change. They warn of extreme harm to the globe due to greedy western companies and the western population's wasteful use of fossil fuels. U.S. Climate envoy John Kerry who is a part of the WEF notably ignored China's pollution during his speech this week in Davos.

Another member of the WEF even mentioned trackers that would track individual pollution down to what people purchase and where people travel.

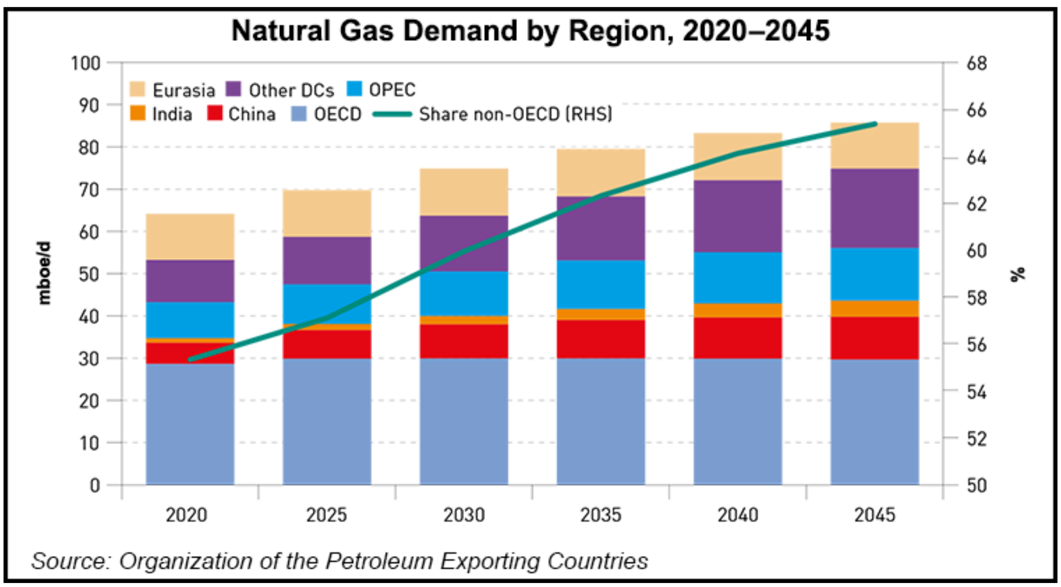
The most ironic part of the WEF is almost every member travel by private transportation. Hundreds of private jets traveling to a place where people demand we (commoners) use fewer fossil fuels. It's the most hypocritical thing. Yet they defend how they travel as they are influential and cannot travel like the rest of us.

While oil and gas prices are surging due to rapid underinvestment, these people blame companies and not the policies they help put in place. Either they own fossil fuel assets, they are dumb, or they own renewable energy stocks/companies. We would guess the third one. Even if the energy grid fails and people go without power, they could still profit.

Not Just Oil

This week, we had a webinar on Energy Shortages. Our investment Team highlighted everything from oil shortages to nuclear projections. The major focus of the webinar was the oil market so this week we will not talk about oil. We will talk about the clean fossil fuel that ESG investors seem to be okay with, Natural Gas.

That market is projected to rapidly expand even as prices hit decade highs.



The major issue with this market is supply imbalances. Russia will continue to be sanctioned, prices will continue to rise, and governments will realize natural gas is the smartest way to decrease pollution from coal but keep the lights on. Renewables will take a back seat to reliance going forward.

Keep watching this market, many individual natural gas producers across North America are extremely undervalued and trade at basement level multiples.

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