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.*

Point Bolivar Lighthouse, Galveston, Texas

Frisco Lighthouse, Frisco, Colorado

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

The Great Bubble of the 2020s

Many would not reference what we have faced in financial markets over recent months as a bubble popping. When investors think "*Financial Bubble,"* they think Internet Bubble (Dot Com Crash) in the early 2000s. The Nasdaq fell 78% in a matter of 2.5 years from its peak. Today's Nasdaq has only fallen 22% from its all-time highs. These markets are not the same but, they do have some similarities.

For one, the markets were led by unprofitable, hyped up, growth only, cash-burning businesses.

The stocks that have been hit the hardest in this cycle have been the same : unprofitable, hyped up, ridiculous valuation, cash burning, and promise to revolutionize/change the world.

Look at the stocks that have lost 50%+ over the last 12 months. Almost all of them use innovation, rapid growth, or revolution on their websites or 10Ks.

Netflix:

- Ecosystem Growth: The internet is getting faster and more reliable, while penetration of connected devices, like smart TVs and smart phones is also rising
- Freedom and Flexibility: Consumers can watch content on demand, on any screen, and the experience is personalized to individual tastes
- Rapid Innovation: streaming entertainment apps have frequent improvement updates and streaming is the primary source of UHD 4K video content.

Teladoc:

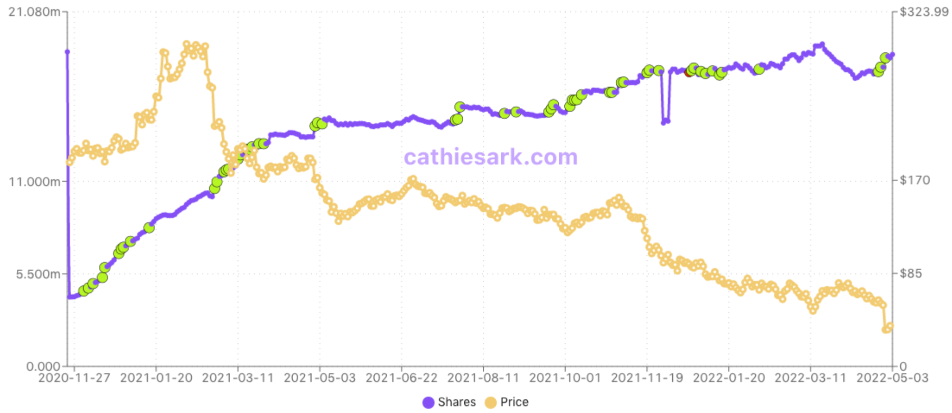
OUR MISSION

Empowering all people everywhere
to live their healthiest lives by transforming the healthcare experience

The list could go on in the hundreds. Hundreds of companies are down 50%+. We hope you did not listen to the hype trains on CNBC hyping up their SPAC mergers, new IPOs, or hyper-growth companies. We know Cathie Wood listened to the pundits. *Paging Robinhood, Coinbase, Peloton, Clover Health, WeWork, and all Chamath SPAC investors.*

Don't believe us?

Here are Ark Investments' total holdings of TDOC and the share price of TDOC over the last year and a half.



One line goes straight up and the other straight down. It's just unfortunate the share price is the one that collapsed yet Ark's holdings only increased. Ark even increased its position after the recent earnings miss by TDOC. One thing is for sure, at Ark, there is no fundamentally backed research.

Many retail investors have followed her like a cult and have had a rough year investing. We will not limit this only to Cathie Wood and Ark. Many other pundits have cult-like followings and only hype up the same high-growth companies that will have exponential growth according to them. We hope those retail investors have learned from this and have begun to do their due diligence. We know some will continue to follow them blindly.

For them we found a great picture that best answers why their portfolios have tanked:

Do not buy any of these hyped-up, beaten-down stocks. Even if people applaud their growth potential and value at IPO or SPAC merger. Many of these companies should be permanently avoided. Chances are the stock has more room to run and it will not turn profitable.

Good News in Nuclear

When we started *The Weekly Beacon*, one primary reason was to share our macro thoughts and ideas with our network. We wanted to share some of the stuff we are seeing. One of the areas we focus on at the moment is the nuclear sector. We think nuclear energy will play a critical role in tomorrow's economy. This week we got some more good news on that front.

In an announcement on Monday, Boris Johnson said nuclear energy will play a critical role going forward especially now as Europe looks to eliminate its dependence on Russian oil and gas.

Prime Minister Boris Johnson says the UK will build one new nuclear plant a year

PUBLISHED MON, MAY 2 2022·3:21 PM EDT | UPDATED MON, MAY 2 2022·5:11 PM EDT

We are glad to have you, Boris. Any person who wants to transition the energy grid and decrease fossil fuel pollution should read about uranium and natural gas. Wind turbines and solar energy sound good in practice but, in reality, they have more issues and obstacles than solutions in their current form (mass use).

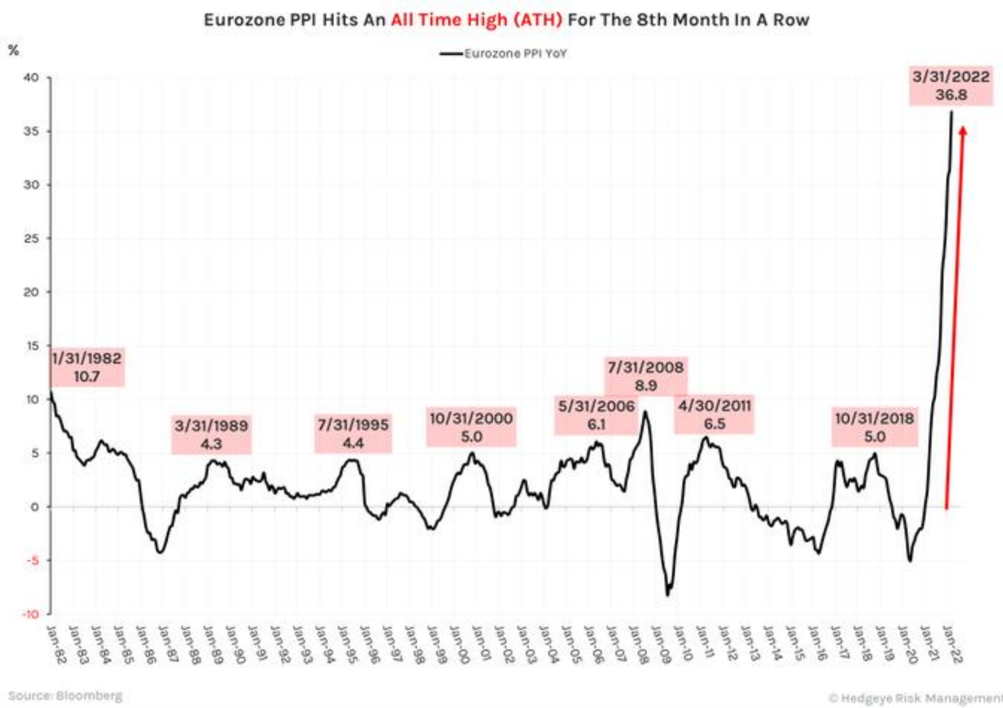
The Prime Minister claimed the UK should build one new nuclear plant a year, not one every decade. He claimed the energy was safe, reliable, and clean (true). In 2020 nuclear energy powered 21% of the UK compared to 9.4% in 2000. The trend has been slow and has some countries have been dragging their feet but, we are confident everyone will eventually jump on board (unless they want to continue using coal in an emergency shortage).

The government has outlined a plan to expand the country's nuclear power generation to 24 gigawatts by 2050, or about 25% of electricity demand.

European Producer Price Index

We have cited the PPI as a leading indicator for CPI (inflation),. We are certainly not the first firm to claim this and we will not be the last.

If this is true, what does the March 2022 PPI for the Eurozone tell us?



It tells us we are screwed if some of these price increases reach the same levels in Canada and the U.S. One thing we think will happen is natural gas will begin to rapidly increase in price in North America as it has over the last 8-12 months in Europe. For one thing, North American natural gas has lagged in terms of price compared to oil. It has also lagged relative to European natural gas. As the EU get off Russian gas, they will buy more from the U.S., allowing demand to surge.

On Wednesday natural gas prices reached the highest point since 2008.

The price of natural gas doubled in a matter of 4.5 months. North Americans are going to start seeing some massive price increases on their power bills. Those air conditioning bills will be quite a bit more expensive than last year.

Getting back to the PPI of Europe, these prices will continue to be reflected on to consumers. How did this happen? The most developed continent on Earth where every country is run by a democracy and we are seeing 37% price increases in a year. Underinvestment in essentials, easy money, and a focus on luxury goods.

Speaking of the EU

Many North Americans have long applauded European nations for their workers' rights, unions, and strong economies. It appears that this was misleading. Many news outlets and select politicians are highly complementary to select European countries that practice a socialist democracy. It appears workers' rights are where it ends. European salaries have lagged behind U.S. and UK wages over the last 7 years.

They have lagged by a significant amount (around 10%) relative to both the U.S. and UK.

We use this only as an example. Europe might be portrayed better but their workers' wages are losing tremendous value especially relative to the U.S. and UK.

This is yet another example of how facts stray from the narrative. Make sure to do your research.

The Ruble is How High?

After the West thumped Russia with economic and trade sanctions following their invasion of Ukraine, many thought the Russian economy would contract and spiral.

For a few short weeks, it did. The Ruble tanked by 50% and the country's economy looked weak. Oligarchs were stripped of their rights, assets, and connections. It was a mess. In the following month, Putin pegged the Ruble to Gold which essentially pegged the price of Gold to Russian Oil. The country rotated from exporting to Western countries to depending heavily on India and China. They have also threatened European nations with energy shortages as they know they hold all the leverage. All this resulted in a Ruble USD exchange rate that is the highest since March 2020. It is pretty remarkable. The Russian economy that was spiraling now seems stable.

We are certainly not condoning Putin and Russia. We are simply stating economic facts.

A major reason the Russian economy has been able to stay on its feet is self reliance. If Russia had a German-style economy, sanctions would sink them. They have no energy, limited agriculture, but lots of technology and renewable energy. If Russia relied on the West for essentials, Putin would never be able to declare war as we would simply cut him off (his people would then turn on him). Since he owns the essentials and imports the luxury goods (Designer Clothing, MacBooks), life might get worse for the Russian population, but they will survive.

The other fact is Putin's approval rating has gone up during the Ukrainian invasion. Russians love what they are shown on state T.V.

What does this tell us? Unless India, China, and the EU stop buying Russian energy, Russia will remain strong. The EU might stop but, India and China will not. Yhey are receiving steep discounts for Russian oil compared to other exporters.

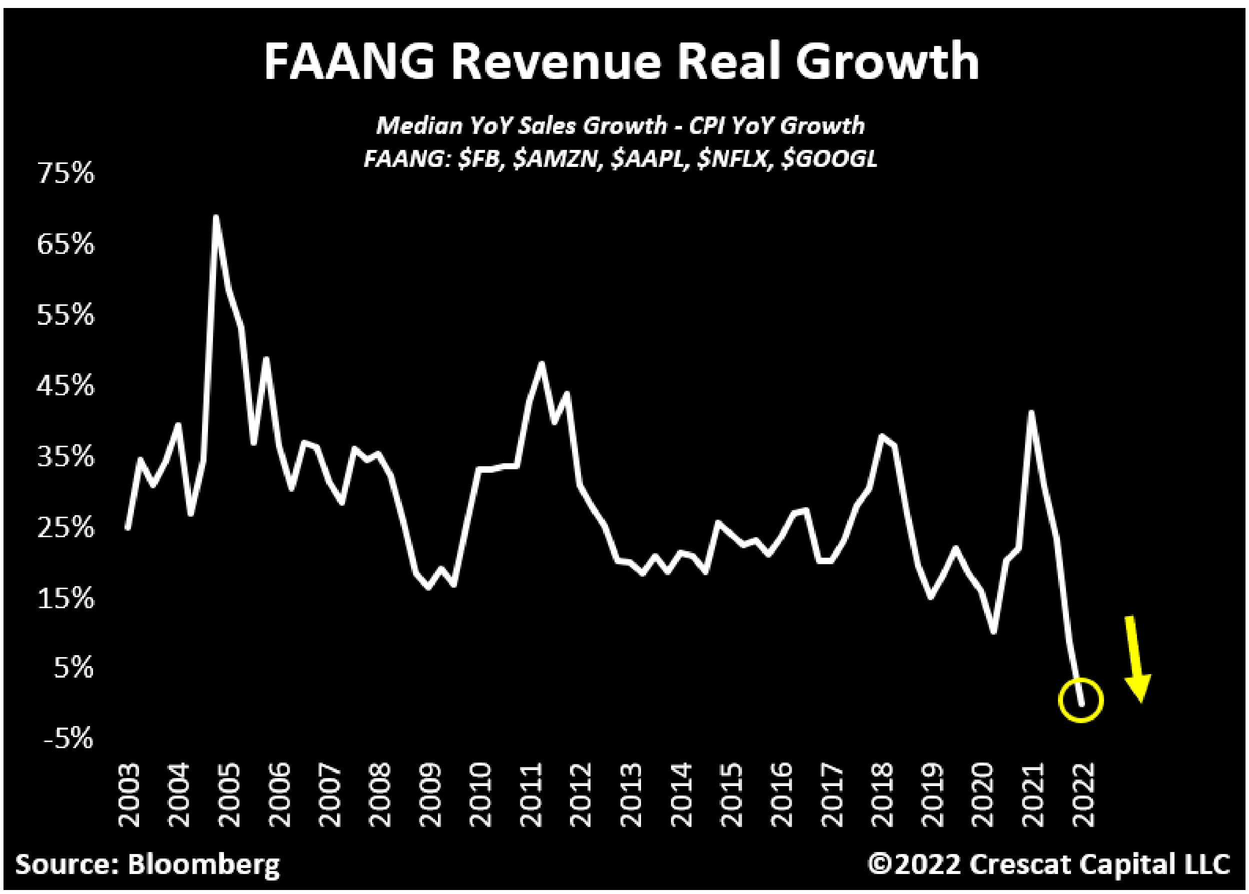
Even though it might be hard at times, it is important to look through the short term trends and the headlines. Russia has many of the products the world will be begging for in the years to come. Price surges commence.

High Growth Slows Down

The FAANG companies have enjoyed one of the best 15 years in recorded history for a group of stocks. The group of technology stocks has had some of the best returns which have been primarily driven by exponential revenue growth and growing demand.

All good things must come to an end is probably a good way to describe what could come for a number of these companies. Facebook and Netflix have been hit the hardest over the last few months but even Amazon got smacked at earnings last week.

We are not claiming this chart will go negative for years to come, but expect sales growth to be in the single digits rather than at an annualized 30-50% like at times over the last decade.



Some analysts think that this revenue growth is sustainable but the only way that happens is through Internet expansion immediately to new markets or price increases by these companies. We think analysts will catch on and will reign in on price targets.

Got Shipping?

The global supply chain has some serious kinks in it at the moment. All those issues countries claimed to solve at the end of last year seem to be back (they never really left). You know before Putin invaded Ukraine, the thing that inflation was blamed on, was the supply chain crisis. It appears the issue has remerged as a pressing issue according to the media. The crisis is being blamed on China's "zero covid" policy which has locked the country down. We know this is contributing to the issue but, the trend will continue going forward.

Business | The Big Take

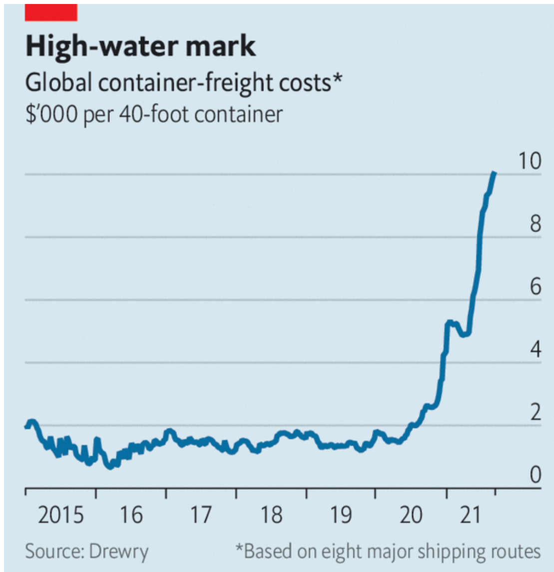
Global Supply Chain Crisis Flares Up Again Where It All Began

Ports are already snarled, with the $22 trillion trade in global goods facing months of severe disruption.

By Brendan Murray, Ann Koh, and Kevin Varley
April 25, 2022, 9:05 PM UTC

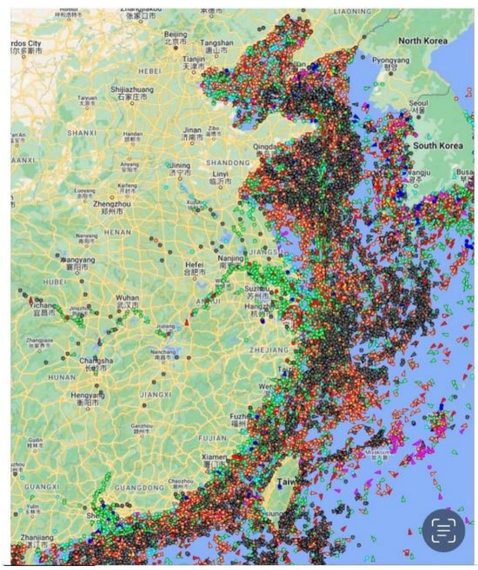
For us, it never left our minds. This trade correlates with many of the commodity areas we are bullish on for the foreseeable future.

Due to several factors, the undersupply in the shipping industry has already started to cause issues across the globe throughout the last year. The last decade has resulted in major underinvestment in this sector due to previous cycle bankruptcies. Certain shipping companies trade below book values and shipping prices are surging.



The Economist

The backlog of ships off the coast in China at the moment is a sight to see.



A colorful map that will not be solved overnight. Expect shipping fees to continue to increase in price. Expect shipping companies to increase margins and increase shareholder dividends. The entire sector is looked down on by traditional investors, yet it is one of the most heavily used across the globe.

MacNicol & Associates Asset Management Inc.
May 6, 2022

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