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.

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*The two main purposes of a Lighthouse are **to serve as a navigational aid and to warn ships (Investors) of dangerous areas**. It is like a traffic sign on the sea.*

Cape Notoro, Hokkaido, Japan

Qeqertarsuaq Lighthouse, Disko Island, Greenland

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

The U.S. Officially Entered a Recession

Last week when we wrote *The Weekly Beacon*, we foreshadowed the potential for a recession. We did this before the major data point was released and our speculation was confirmed when the U.S. Bureau of Labor Statistics announced the U.S. GDP contracted in the second quarter of 2022. This was the second quarter in a row the U.S. economy shrunk signaling a recession. Now the media and even the Biden administration have said that this is not a recession and that the definition of a recession is beyond a singular data point and is even more dynamic than static GDP numbers. Whatever way they spin - it ignores them, the U.S. is in a recession.

President Clinton, who is in the same political party as Biden, said a recession is defined as two quarters where the economy shrinks in a country while in office in the 1990s. All of a sudden it has changed and it is pretty sad. We do not need the government to confirm what we have known for months, people are hurting financially, and the little guy is getting screwed.

The word recession often gets thrown around in partisan arguments. We wanted to show how common (or uncommon) recessions have been over the last 80 years (post World War 2).

US Real GDP: Consecutive Quarters of Negative Growth (1947 - 2022)

Real GDP: # Consecutive Negative Quarters	Start Quarter	End Quarter	Recession
2	Q1 2022	Q2 2022	?
2	Q1 2020	Q2 2020	Yes
4	Q3 2008	Q2 2009	Yes
2	Q4 1990	Q1 1991	Yes
2	Q4 1981	Q1 1982	Yes
2	Q2 1980	Q3 1980	Yes
3	Q3 1974	Q1 1975	Yes
2	Q4 1969	Q1 1970	Yes
2	Q4 1957	Q1 1958	Yes
3	Q3 1953	Q1 1954	Yes
2	Q1 1949	Q2 1949	Yes
2	Q2 1947	Q3 1947	No

COMPOUND @CharlieBilello

They have happened 12 times over 80 years and the longest "recession" lasted for 4 quarters (1 year). They are quick, sometimes quite impactful, and eventually a rebound occurs. The issue is the last two recessions were solved/ended by massive government stimulus. Some of the largest financial packages ever signed into law by a government were the solution to past recessions. So what would we do? Mass government spending? Probably not, that's because government spending was a reason we are in this mess. Mass government spending, mass taxation, and not investing in necessities.

The problem is, we are not running the U.S. and it seems nobody who has taken an economics course is even involved in the decision-making.

ECONOMIC POLICY

Democrats race to ready Inflation Reduction Act for vote this week

Party leaders need to work to keep the caucus united — and present — to finalize a vote on their long-stalled climate, health-care and tax bill

By Tony Romm
August 2, 2022 at 6:00 a.m. EDT

U.S. Democrats are choosing now to steer their medical, climate, and taxation policies and are labeling it, "The Inflation Reduction Act of 2022". You cannot make this up. How dumb do they think the world is? Yes, taxes will rise for almost all Americans at a time when gas, food, and housing prices are at all-time highs, interest rates are rising, and inflation is almost at 10%.

The Inflation Reduction Act of 2022, would raise an estimated $739 billion over the next decade by increasing IRS funding, establishing a 15% minimum corporate tax targeting companies' book income, allowing Medicare to negotiate prescription drug costs, and closing a popular tax loophole used by private equity and hedge fund managers. Revenue raised by the policies would go toward initiatives designed to combat climate change and curb pharmaceutical prices, as well as efforts to reduce the nation's $30 trillion debt.

Not mentioned in the proposed Bill's explanation summary is personal taxes which will increase almost across the board. The Bill would increase tax revenue by $16.7 billion from Americans earning less than $200,000 a year, according to a nonpartisan analysis from the Joint Committee on Taxation (JCT) published late last Friday. Nearly every tax bracket would pay more in taxes with those making below $10,000 per year seeing the largest uptick, the analysis showed.

The proposed and current marginal tax rates can be seen below on the right side of the chart.

DISTRIBUTIONAL EFFECTS OF TITLE I - COMMITTEE ON FINANCE
OF AN AMENDMENT IN THE NATURE OF A SUBSTITUTE TO
H.R. 5376, THE "INFLATION REDUCTION ACT OF 2022"

Calendar Year 2023

INCOME CATEGORY (2)	CHANGE IN FEDERAL TAXES (3)		FEDERAL TAXES (3) UNDER PRESENT LAW		FEDERAL TAXES (3) UNDER PROPOSAL		Average Tax Rate (4)	
							Present Law	Proposal
	Millions	Percent	Billions	Percent	Billions	Percent	Percent	Percent
Less than $10,000..........	$122	3.1%	$3.9	0.1%	$4.0	0.1%	7.3%	7.6%
$10,000 to $20,000.........	$142	(5)	-$1.3	(6)	-$1.2	(6)	-0.5%	-0.5%
$20,000 to $30,000.........	$238	1.1%	$21.4	0.6%	$21.6	0.6%	4.3%	4.3%
$30,000 to $40,000.........	$397	0.8%	$48.3	1.3%	$48.7	1.3%	7.8%	7.9%
$40,000 to $50,000.........	$541	0.8%	$70.1	1.8%	$70.7	1.8%	10.4%	10.5%
$50,000 to $75,000.........	$1,908	0.8%	$244.7	6.4%	$246.6	6.4%	13.0%	13.1%
$75,000 to $100,000.......	$2,491	0.9%	$268.0	7.0%	$270.5	7.0%	15.8%	16.0%
$100,000 to $200,000......	$10,883	1.1%	$957.6	25.0%	$968.4	25.0%	19.1%	19.4%
$200,000 to $500,000......	$14,110	1.5%	$953.3	24.9%	$967.4	24.9%	24.1%	24.4%
$500,000 to $1,000,000..	$5,926	1.7%	$352.0	9.2%	$357.9	9.2%	28.5%	29.0%
$1,000,000 and over........	$17,571	1.9%	$908.3	23.7%	$925.9	23.9%	30.2%	30.8%
Total, All Taxpayers.......	**$54,328**	**1.4%**	**$3,826.3**	**100.0%**	**$3,880.6**	**100.0%**	**20.3%**	**20.6%**

Source: Joint Committee on Taxation

Detail may not add to total due to rounding.

Every income level sees an increase in taxes, even if those increases are small, they are still increases. A time when people cannot afford necessities and the economy is contracting does not seem like the right time to take more money out of consumers' hands via taxation.

Even though the corporate tax might mean well, companies will continue to beat the system through accounting loopholes. It also seems like a bad time to raise taxes on businesses when large corporations are laying off employees for the first time in what feels like years.

'They Are Not Who We Need:' Meta Reportedly Advising Managers to Axe Poor Performing Employees

Amazon Shrinks Staff by 100,000, Joining Netflix and Google in Hiring Slowdown

After years of bulking up, the industry is bracing for recession.

Be Prepared For Hiring Freezes And Layoffs

Jack Kelly Senior Contributor

I write actionable interview, career and salary advice.

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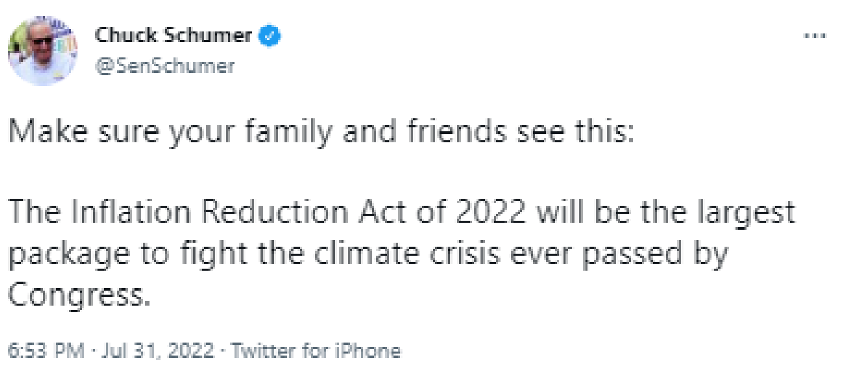
May 10, 2022, 08:54am EDT

The other interesting thing about this Bill, over half of the spending, will go towards climate goals, meaning green incentives, green subsidies, and no fossil fuel funding. The energy crisis becomes worse. There's even a $25 billion crude oil tax in this Bill. That's a regressive tax increase on middle-class people that raises their energy costs and raises the price of gasoline.

Senate Majority Leader Schumer even said the quiet thing out loud. This Bill might be labeled the "Inflation Act" but it's a Climate Bill wrapped in a buzzword that is unpopular now.


Chuck Schumer
@SenSchumer

Make sure your family and friends see this:

The Inflation Reduction Act of 2022 will be the largest package to fight the climate crisis ever passed by Congress.

6:53 PM · Jul 31, 2022 · Twitter for iPhone

Either way, whether it is increasing personal taxes, corporate taxes, carbon taxes, or climate spending, today's economic climate is not the time.

<u>Take the Under</u>

An old prediction from one of our favorite fund managers resurfaced over the last week and we are happy we can share it with you.

Cathie Wood: Ethereum Will Reach $20 Trillion Market Cap By 2030

CONTRIBUTOR

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PUBLISHED

JAN 31, 2022 11:18AM EST

This kind of prediction makes her sound like "Crazy Cathie" which many on Twitter have nicknamed her due to her brash and bold investing style that seemingly does not care about fundamentals.

We call this prediction "crazy" for a few reasons, 1. The performance of Ethereum and 2. How large is $20 Trillion in relative terms (obviously it is a lot of money)?

Ethereum is down 55% YTD and 50% since late January 2022 when she made her prediction. The performance of Ethereum would be much worse on the year if it were not for its significant outperformance over the last month, Ethereum is up 55% over the last month while Bitcoin is up 21% over the same period.

So, if she bought in, she might be a bit lucky that her losses are not worse.

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After looking past Ethereum's performance, we would like to illustrate how crazy a market cap of $20 trillion would be. Ethereum's current market cap is currently $200.7 Billion (USD). Ethereum's largest market cap ever was recorded in November 2021 when the asset grew to $550 Billion.

To reach a $20 Trillion market cap, Ethereum's price would need to increase by 100x. In mathematical terms, it might not seem that large but when you compare that size to other asset classes, it is an absurd number.

Only 5 companies in the world have a market cap greater than $1 Trillion, the largest being Apple at $2.6 Trillion, so Ethereum would be 7.7x bigger than Apple's present-day size (which seems normal).

Rank	Name	Market Cap
1	Apple AAPL	$2.628 T
2	Saudi Aramco 2222.SR	$2.332 T
3	Microsoft MSFT	$2.078 T
4	Alphabet (Google) GOOG	$1.534 T
5	Amazon AMZN	$1.398 T

Even Gold, the historical commodity that holds its value and is a hedge against inflation, political unrest, and currency debasement only has a market cap of $11 Trillion. A large portion of Gold's market cap can be contributed to all the physical uses of the asset in manufacturing, industrial use, and even personal luxury goods. So, Cathie is predicting Ethereum will be double Gold. The only issue is Ethereum cannot be worn on your wrist or be used in the manufacturing of industrial equipment, medical devices, cellphones, or any other product.

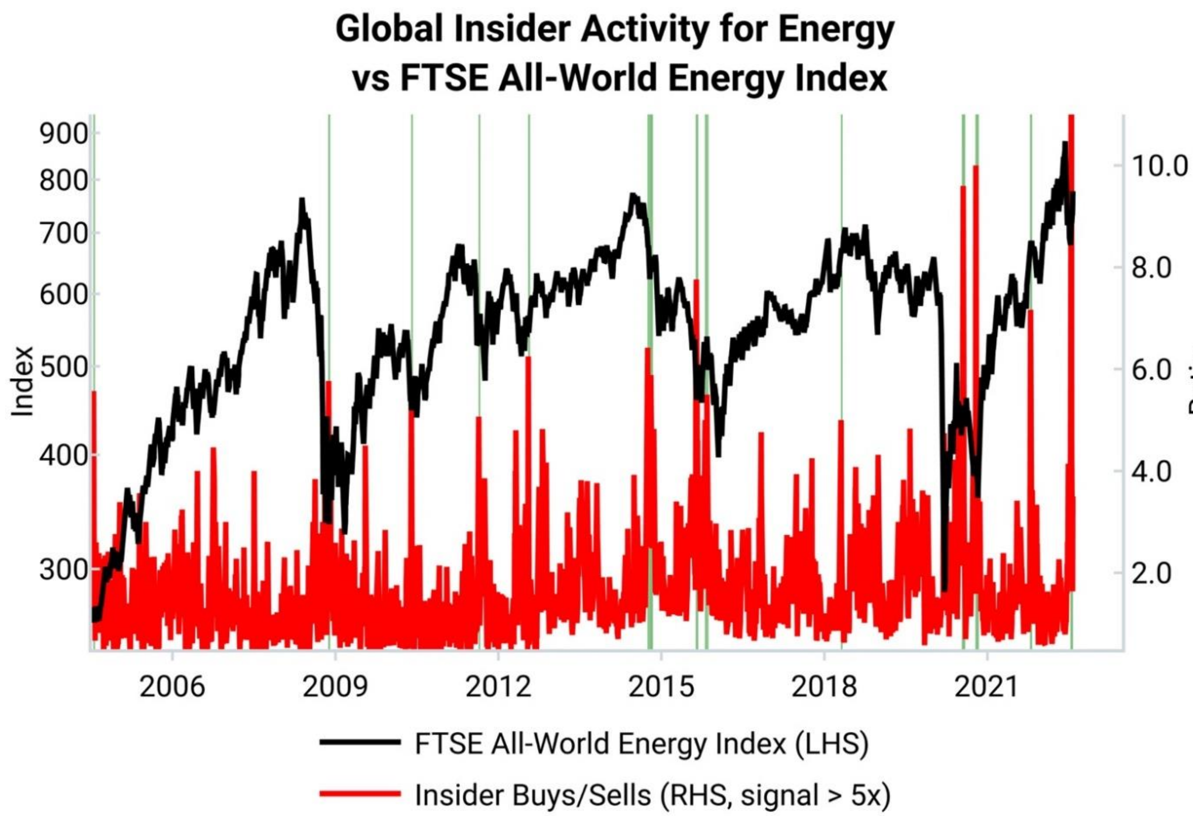
$20 Trillion compared to the entire U.S. equity market sounds ridiculous. The U.S. equity market is estimated to be worth $44 Trillion.

Why do we say all this? Do not listen to pundits who do not have to answer for their bad calls. Wood and Ark Investments continue to pile into bad investments. Although Ethereum may have some value in the future, it will not be worth $20 Trillion. The only way it will be worth $20 Trillion will be if the U.S. and the West see 10 years of 15% inflation and the S&P 500 reaches 400,000.

Let her buy her "disruptive" assets and companies and we will buy profitable low multiple cash cows. One of her favorites of the last year, Robinhood, the low-fee brokerage announced it was laying off 23% of its employees due to economic conditions. The company did beat earnings and the stock was up 12% on Wednesday. We still would not want to own it. The company is still not profitable, and its stock price is down 77% over the last year. Wood might need to cut her losses and just buy Berkshire Hathaway and learn about value investing.

Follow the Insiders

The recent pullback of energy stocks has seemingly given energy company insiders a chance to “dip buy” and jump on board if they missed the recent run-up. This is not a Canadian or American-specific chart. Globally shortages are hitting consumers and those working at the top of these companies understand the fundamental issues within the energy market.



Short-term price fluctuations for commodities are hard to predict due to increased volatility but the energy market fundamentals remain strong in the intermediate term and there seems to be no real long-term solution. Western governments seem to think green energy is the solution as they pledge to decrease fossil fuel use. Why not quit the renewables, allow private enterprises to increase their efficiency, and continue to use natural gas, uranium, and oil? The renewable dependency we have developed has caused certain countries to increase coal use at a dramatic rate to its highest point in years.

Tech Stocks: Time to Buy?

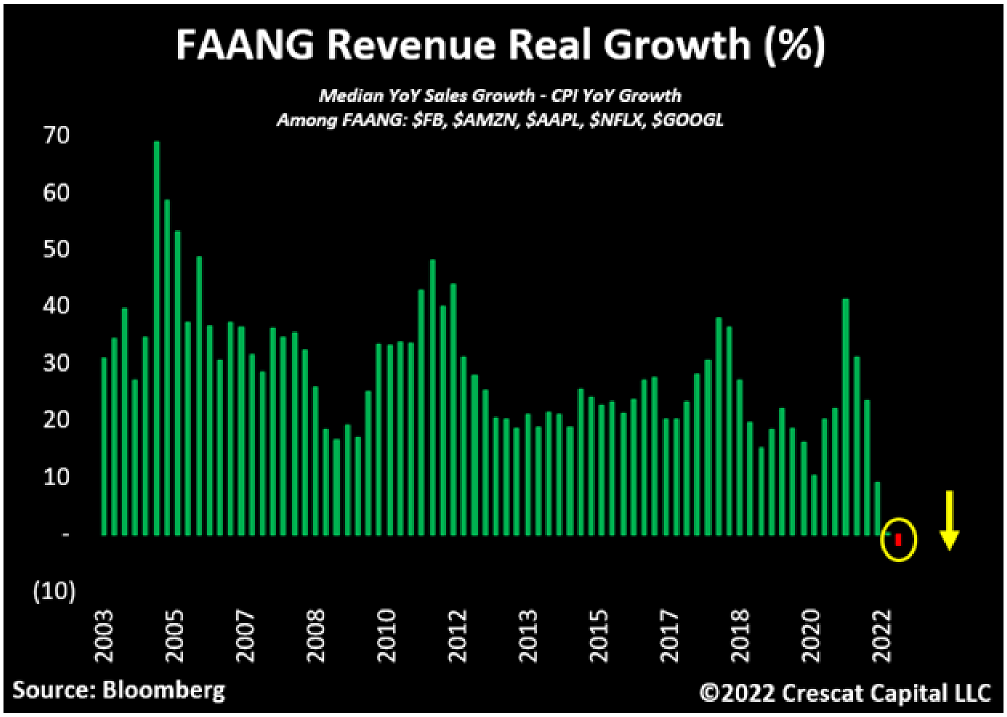
Many have pondered if it's time to buy the large technology stocks, many who thought they were too expensive for years are warming up to them. They cite the valuations. For us, the TSX and other segments of global equity markets remain much more attractive than the technology sector.

The Nasdaq 100 which is the most heavily weighted technology index remains historically expensive when you zoom out to a 20-year window. Sure, it looks cheap relative to its 2021 peak but things always return to their means…….

This is the Nasdaq's Price to Sales ratio dating back to 2001. This means the index's price is four times greater than the sales generated by the companies within the index.

One thing will change if historical averages will return, prices will tank even more, or sales will soar. We do not think sales will increase enough to make a dent in this chart moving downward. Most technology companies are laying off employees out of fears of a recession.

Crescat Capital also produces a wonderful chart.



If we need revenue (sales) to grow to make the Nasdaq more attractive, would annual revenue growth for the index's largest stocks not need to increase? It would and it will not increase. The chart above highlights the monumental shift we have seen in 2022, revenue for the FAANG group shrunk on an annual basis. We think this trend will continue or sales will run static for a few years. Even if there is growth in sales, it will be much below the 20-year average sales growth which seems to be above 20%. We think economic conditions, shifting demands, and consumer preferences will majorly impact these FAANG companies.

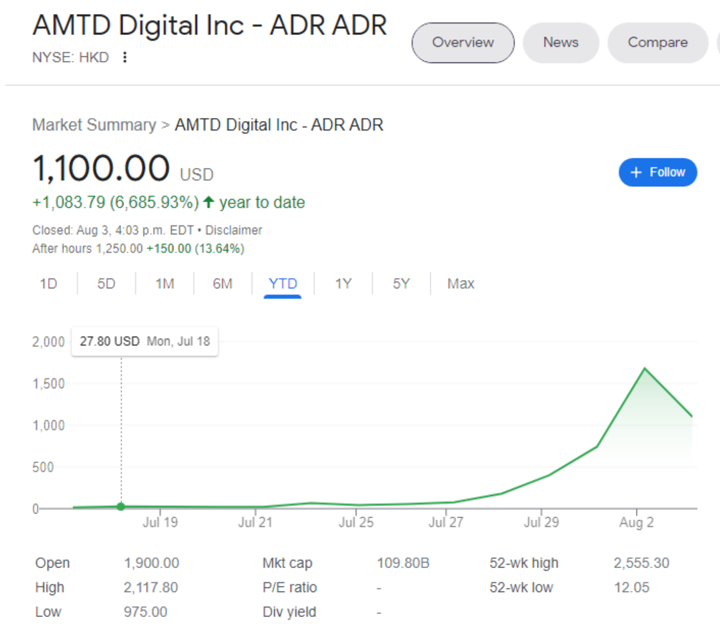
Facebook saw a decrease in users for the first time in history this year. Netflix saw it's first ever decrease in paid subscribers in Q1 2022. Amazon is laying off employees. Google has missed earnings in both Q1 and Q2. The technology dominance might be over. Even Apple's profits have slumped in recent quarters. We think for certain big tech stocks there is more downside especially when you zoom out.

If we are in for a recession or food/energy shortages get worse, people will spend less on luxury goods so they can continue to buy food and gas/electricity. People could cut back on their annual iPhone upgrade and their online purchases.

Chinese Tech Fraud?

Is a Chinese company that is listed on New York Stock Exchange actively committing fraud? We are not sure. Nobody is but something fishy is going on……

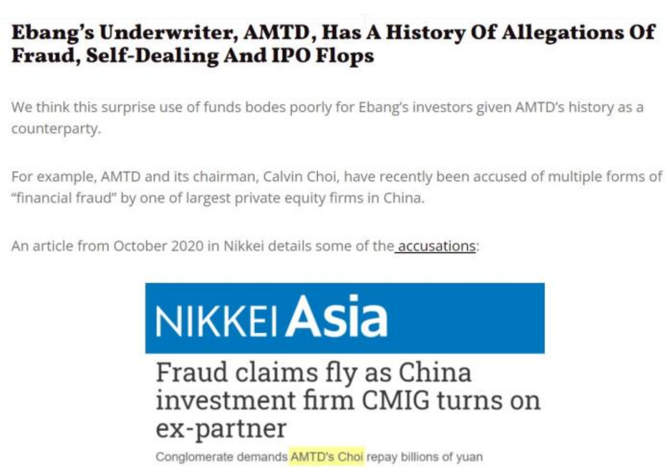
The stock is HKD on the NYSE, it is a Hong Kong-based company that was recently IPO'd earlier this summer. The company's market cap surged to $425 billion, yet the company has annual revenue inflows of $25 million. (No, that is not a typo).



The stock has been hit hard over the last 2-3 days as Hindenburg Research, a short-selling firm exposed the company online.

At its peak market cap, HKD was the 14th largest company in the world. It was larger than ExxonMobil which produced $115 Billion in revenue in Q2 2022, HKD did not even produce 0.5% of that. So how did this happen?

The company is 88.7% owned by AMTD, a Hong Kong-based underwriter who has been accused of fraud numerous times over the years.



Ebang's Underwriter, AMTD, Has A History Of Allegations Of Fraud, Self-Dealing And IPO Flops

We think this surprise use of funds bodes poorly for Ebang's investors given AMTD's history as a counterparty.

For example, AMTD and its chairman, Calvin Choi, have recently been accused of multiple forms of "financial fraud" by one of largest private equity firms in China.

An article from October 2020 in Nikkei details some of the accusations:

NIKKEI Asia

Fraud claims fly as China investment firm CMIG turns on ex-partner

Conglomerate demands AMTD's Choi repay billions of yuan

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A major trend Hindenburg noticed with AMTD was consistent IPO flops in which they underwrite:

AMTD US listings

Ticker Symbol	IPO Date	Decline since IPO
WEI	11/18	-98.5%
APM	12/18	-90.3%
MKD	12/19	-91.1%
MOHO	11/19	-98.2%
KRKR	11/19	-88.6%
XYF	09/18	-70.9%
TC	11/18	-74.7%
DUO	11/19	-81.2%
BLCT	07/20	-90.6%
LIZI	01/20	-89.8%
HKIB	08/19	-1.3%
KUKE	01/21	-85.6%
LXEH	10/20	-68.6%
QFIN	12/18	-14.9%
TIGR	03/19	-55.8%
Average		-73.4%
Median		-85.6%

Now we talk about American investment banks labeling companies with ridiculous multiples as misleading. This seems to be on a whole new level. It looks to be outright fraud and a pump and dump. This is also why the U.S. should only list companies that are completely audited by U.S. authorities and not approved by Chinese banks.

The thought is this could be a massive squeeze and eventually, the rug will be pulled out and certain investors will be caught holding the bag. The unfortunate thing is that the NYSE and Nasdaq have allowed international companies to list on their exchanges who have direct ties to fraud, many of them tied to China and the Chinese government. They do this to collect listing fees associated with IPOs. Investors are the ones who will get hurt and the exchanges increase revenue.

Although this is an ongoing and complicated story, it is a good reminder to do your due diligence and not buy into the hype. It should remind investors that no matter the position size, monitor their investments and never buy anything that is “too good to be true”.

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August 5, 2022

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