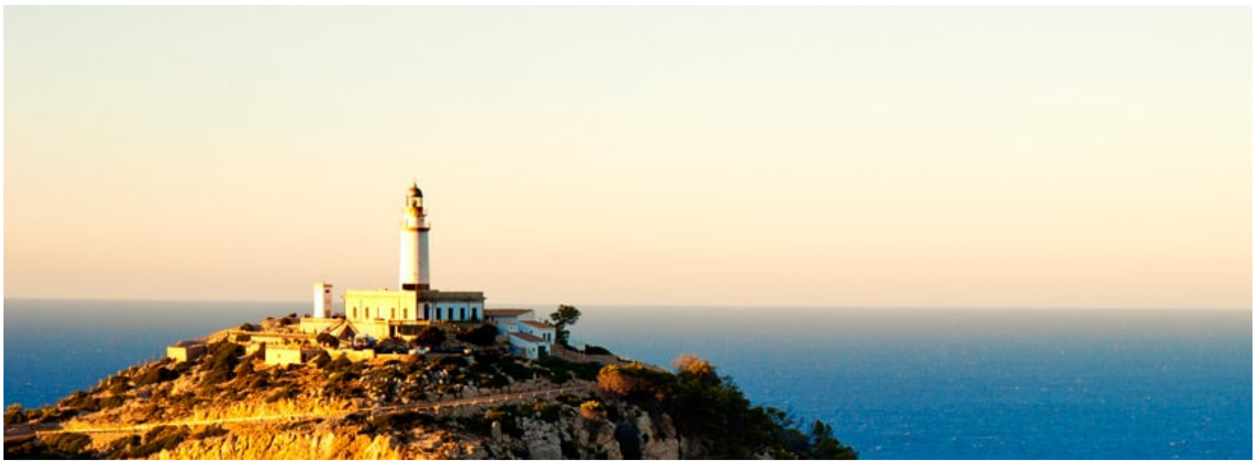
The Weekly Beacon

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 ships (Investors) of dangerous areas**. It is like a traffic sign on the sea.*



Formentor Lighthouse, Spain

Peñíscola Lighthouse, Spain

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

Not a Normal Correction

Many have labeled this year's market downturn as typical, however, this year's bear market is anything but typical.

S&P 500 Bear Markets (defined by 20% Peak to Trough Decline): 1929 - Present						
Bear Market Period	Length of Bear Market (Months)	NBER Recession	Length of Recession (Months)	S&P Start	S&P End	% Change
Jan 2022 to Oct 2022	9	?		4819	3568	-26%
Feb 2020 to Mar 2020	1	Feb 2020 to Apr 2020	2	3394	2192	-35%
Sep 2018 to Dec 2018	3			2941	2347	-20%
May 2011 to Oct 2011	5			1371	1075	-22%
Oct 2007 to Mar 2009	17	Dec 2007 to Jun 2009	18	1576	667	-58%
Mar 2000 to Oct 2002	31	Mar 2001 to Nov 2001	8	1553	769	-51%
Jul 1998 to Oct 1998	3			1191	923	-22%
Jul 1990 to Oct 1990	3	Jul 1990 to Mar 1991	8	370	295	-20%
Aug 1987 to Oct 1987	2			338	216	-36%
Nov 1980 to Aug 1982	22	Jul 1981 to Nov 1982	16	142	102	-28%
Sep 1976 to Mar 1978	18			109	86	-20%
Jan 1973 to Oct 1974	21	Nov 1973 to Mar 1975	16	122	61	-50%
Dec 1968 to May 1970	17	Dec 1969 to Nov 1970	11	109	69	-37%
Feb 1966 to Oct 1966	8			95	72	-24%
Dec 1961 to Jun 1962	6			73	51	-29%
Aug 1956 to Oct 1957	14	Aug 1957 to Apr 1958	8	50	39	-21%
Jun 1948 to Jun 1949	12	Nov 1948 to Oct 1949	11	17	14	-21%
May 1946 to May 1947	12			19	14	-28%
Nov 1938 to Apr 1942	36			14	7	-46%
Mar 1937 to Mar 1938	12	May 1937 to Jun 1938	13	19	9	-54%
Jul 1933 to Mar 1935	20			12	8	-34%
Sep 1932 to Feb 1933	5	Aug 1929 to Mar 1933	43	9	6	-41%
Sep 1929 to Jun 1932	33	Aug 1929 to Mar 1933	43	32	4	-86%
Average With No Recession	**12**					**-29%**
Average With Recession	**16**					**-42%**
Average All	**14**					**-36%**
Median With No Recession	**7**					**-26%**
Median With Recession	**16**					**-39%**
Median All	**12**					**-29%**
COMPOUND						@CharlieBilello

At 9 months, this bear market is the longest we have seen since the Financial Crisis (2007-2009). However, if you zoom out and compare 2022 to the Dot Com bear market or even the Financial Crisis bear market, we could just be getting started.

This is not 2018 or 2020 and we are nowhere close to 2009 levels. Imagine if this year's market performance continues for a year or two more, investor sentiment which is already at major lows would implode.

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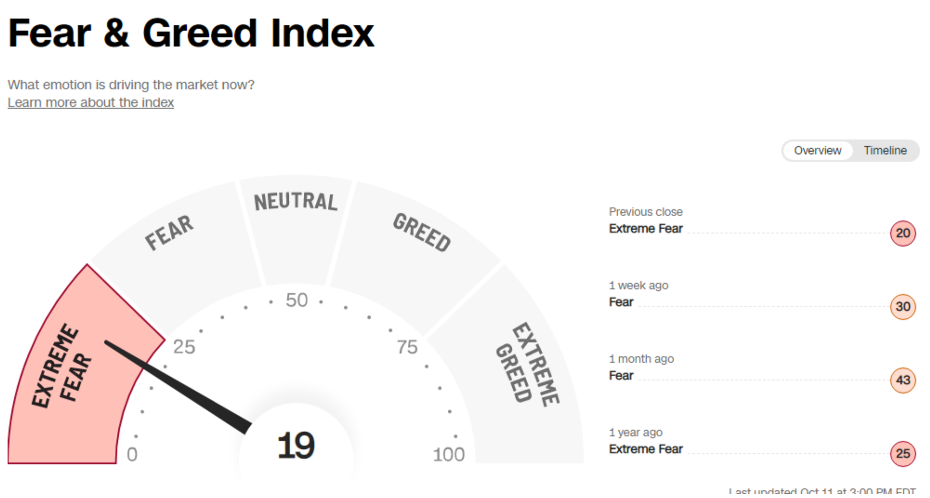
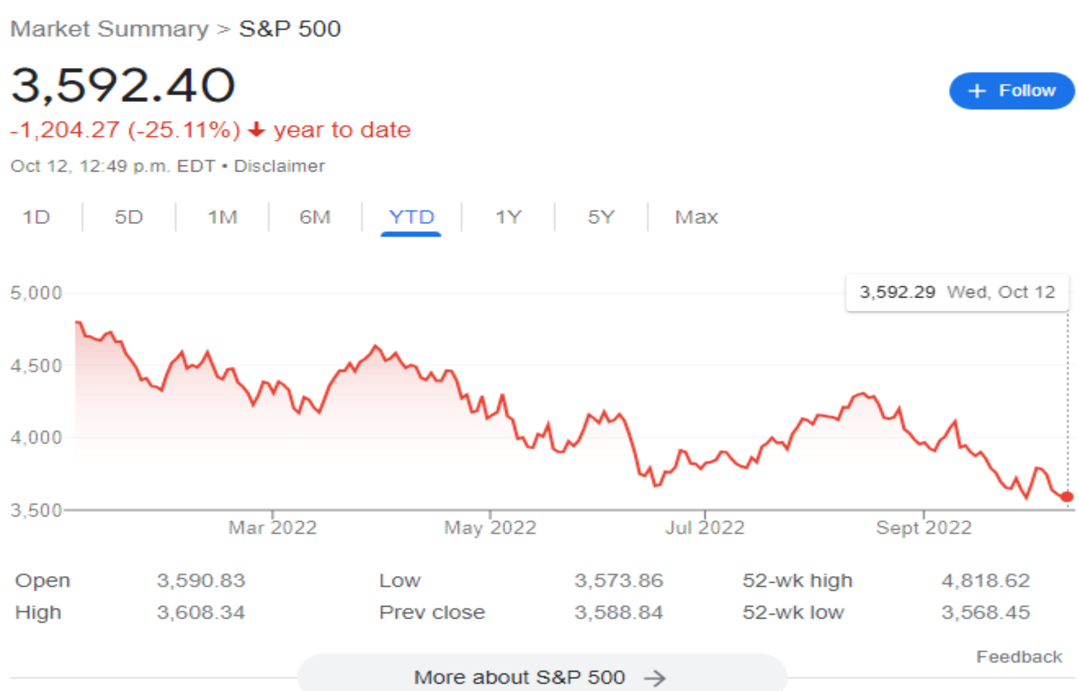


Nevertheless, it is important to note that usually points of maximum pessimism are inflection points and a good time to invest if you have a long investment horizon and a strong stomach to handle the volatility. Like Nathan Rothchild, a 19th Century British financier and member of the Rothchild banking family used to say- **"The time to buy is when there is blood in the streets"** and blood we have seen.

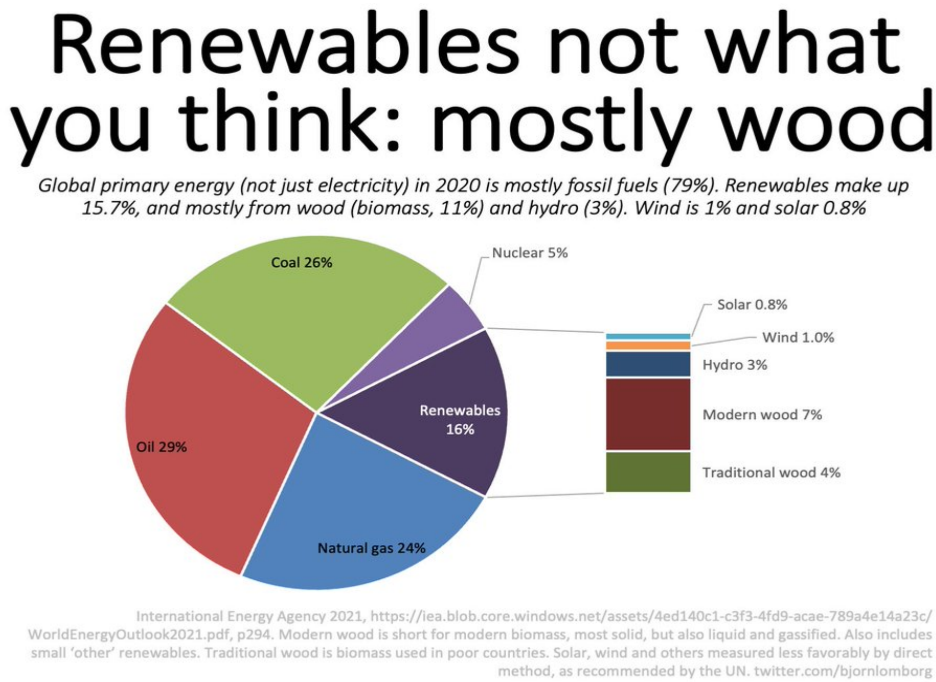


Now, you may be wondering, is this the bottom? The truth is nobody knows. We could see further downside if earnings guidance comes down or inflation proves to be more entrenched than what the market is expecting. However, a good investor knows that trying to time the absolute top or bottom is a fool's game. The best way to invest is to focus on companies with good fundamentals and to average in and out of positions. Remember, like Buffett said, it is not about timing the market but about time in the market. Stay calm and be patient, one day this bear market will be behind us.

Energy Update

We all know how important fossil fuels are to the global economy.

In 2020, 79% of primary energy consumption was sourced from fossil fuels (not a surprise to us but maybe to some).

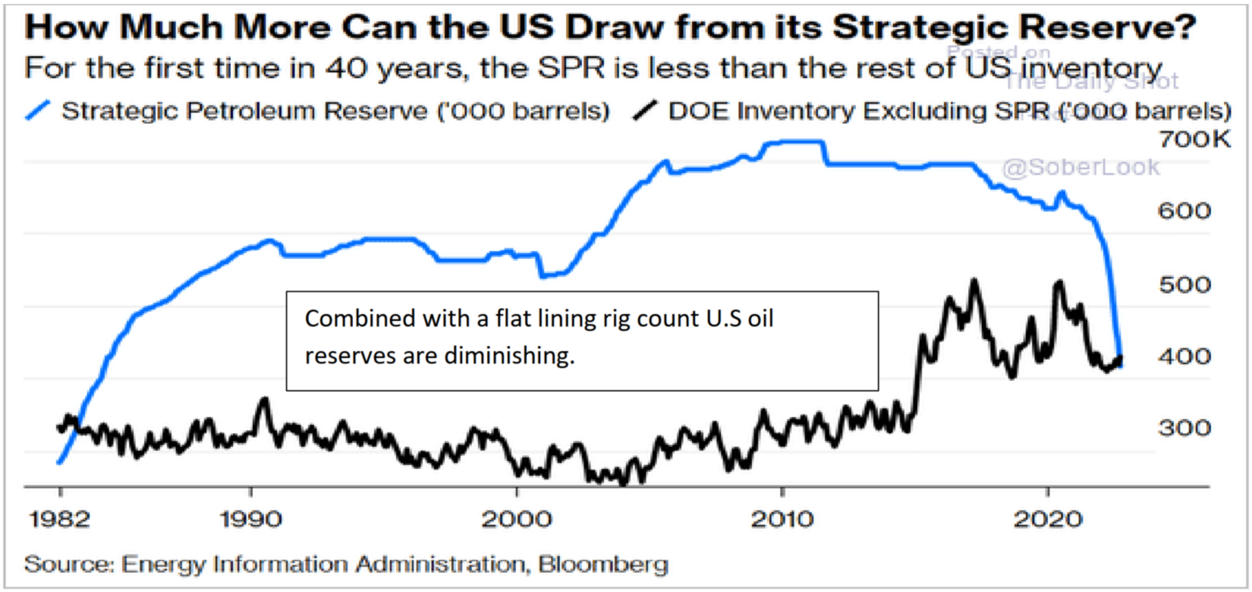


We found the breakdown of renewable sources of energy very interesting. Renewables which made up 16% of energy consumption are very misleading. Most of that 16% is from lumber (burning wood). The issue is lumber is worse to burn than fossil fuels, especially in areas where it has a high dependency (Africa, Middle East).


Pollutionwatch: wood burning is not climate friendly

Burning wood releases more CO2 than gas, oil and even coal for the same amount of heat, so to make it climate neutral we need an increase in forests

For now, we will continue to watch and recommend investors take exposure to traditional energy as we see further upside and at the very least good dividend yields where you can get paid to wait. Some catalysts that are supportive of the sector are OPEC+ supply reduction which put a floor on the oil price, the decline of U.S. inventory especially in gasoline, low U.S. rig count relative to the pre-COVID era, structurally low investment in the sector, the end of the Strategic Petroleum Reserve (SPR) release as midterms elections pass and incentives to keep prices artificially low diminish. Also, it is important to understand that over 35% of the SPR has already been released over the past year and at some point, it will have to be bought back which could put further upside in the future.



Of course, like with anything in markets, there is also potential risks and short-term downside if we were to enter a recession where demand declines and oil prices adjust. However, we believe any downside pressure would be short lived.

Cathy Woods letter to the FED.

It is no secret that the past couple of years have been incredibly tough for Cathy Wood and her flagship Ark Innovation ETF. Since the beginning of 2022 the fund is down 67% and since it's peak in February 2021 the fund is down over 77%. The fund invests mainly in companies with very weak balance sheets but high potential for growth in the future. These companies depend on low interest rates and high liquidity in order to finance operations and stay alive. Given how fast the Federal Reserve has increased interest rates it is no surprise that the fund has been getting crushed.

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Market Summary > ARK Innovation ETF

36.08 USD
-60.82 (-62.71%) ↓ year to date
Oct 12, 2:50 p.m. EDT • Disclaimer

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

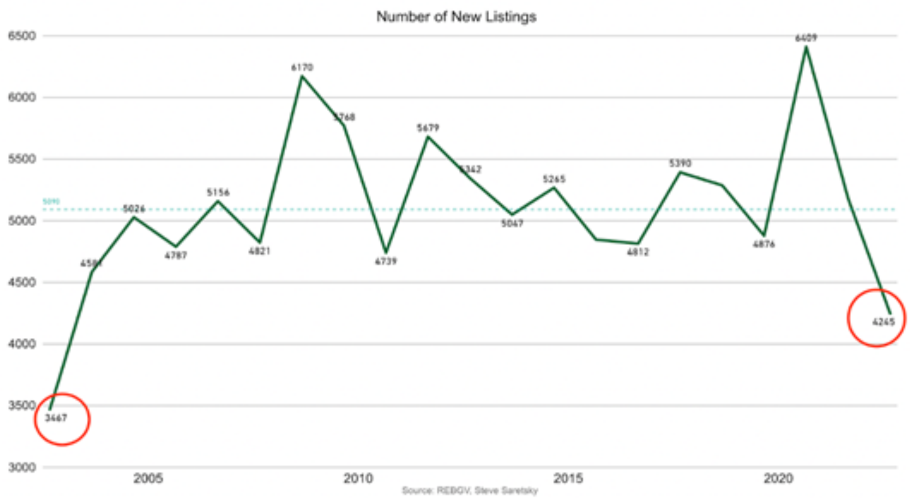
Open	35.64	Mkt cap	-	52-wk high	125.86
High	36.20	P/E ratio	-	52-wk low	34.63
Low	34.82	Div yield	-		

So, what do you think Cathy Woods is doing to protect investors capital? Maybe hedging? Maybe moving to more defensive less growthy parts of the market? Well, the answer is NO. Her best idea was sending a letter to the Federal Reserve stating that they were making a mistake by raising interest rates to combat inflation. Her main argument was that the Fed was focusing too much on price indices and employment which are both lagging indicators and that the decline in commodity prices is a better indication. According to her, we are risking going into a deflationary spiral. The funny thing is that core PCE is accelerating, and wage growth remains extremely strong, both indicators that inflation is persistent. We are not surprised that she keeps pushing a deflationary narrative, in the end her fund benefits from it and she needs to attract more capital as her funds keep losing value.
Cathy Woods seems to be following the country Turkey which has President Recep Tayyip Erdogan's unorthodox belief that high interest rates cause high inflation. I guess Erdogan must have missed the Economics Class talking about Supply and Demand. Turkey is battling some of the highest inflation in the World at over 80% while their currency is down 40% YTD. Traditional economic thinking says raising interest rates fights inflation.

Price Anchoring and the Canadian Real Estate Market becoming illiquid.

Anchoring refers to a behavioral finance bias where individuals subconsciously use irrelevant information, such as the price of an asset and use it as a reference point to take decisions. This is exactly what happens often in the housing market during periods of market stress as people tend to anchor prices to the market peak and are unwilling to take lower offers even as market fundamentals change. Therefore, it is said that housing prices are sticky to the downside.

Greater Vancouver home sales fell 46% year-over-year. Other than 2008, 2012 and 2018 it was one of the slowest Septembers on record. Also new listings are at a 15-year low. All of this is indication that buyers and sellers do not like today's prices and are refusing to transact. In other words, the market is becoming illiquid.



We are seeing similar issues in the Greater Toronto Area. Toronto new listings plummeted to 20-year lows for the month of September. This is keeping prices from correcting even further as many sellers are choosing to put their properties in the rental market and wait for conditions to improve. At some point, something will have to give. In just 7 months, mortgage rates shot up from sub 2% to almost 6%. To put it in perspective if you had a $500,000 variable mortgage your monthly payments went from $2,108 to $3,205 (52% higher) and if you want to get a new mortgage to purchase a home, banks are stress testing clients at 7.5% mortgage rates further reducing purchasing power. We believe that if the Bank of Canada does not pivot soon and lower rates, those mortgage payments will start biting homeowners and some of them will have to put their house in the market at lower market prices. Therefore, although we have already seen strong corrections in suburban markets, we may see more downside in primary cities such as Toronto and Vancouver.

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