

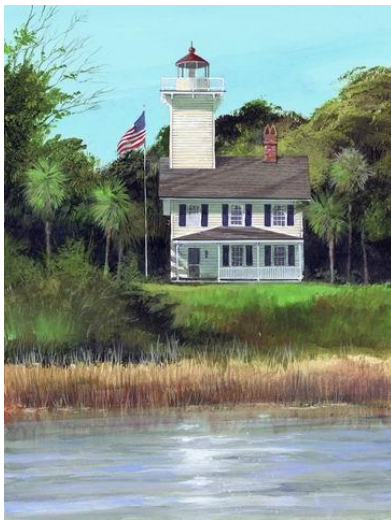
The Weekly Beacon

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.*



Makapuu Point Lighthouse, Hawaii



Haig Point Lighthouse, Dafuskie Island, South Carolina visited by David and Diane MacNicol.

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

52 Week Low

With Elon Musk taking over Twitter suffocating most business channels, many might have not realized something big happened to Musk this week. His baby and where most of his wealth is tied up reached a 52-week low. No, not Twitter, or Tesla.

Market Summary > Tesla Inc

190.06 USD

-209.93 (-52.49%) ↓ year to date

Nov 8, 9:38 a.m. EST • Disclaimer

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



Open	194.03	Mkt cap	595.36B	52-wk high	402.67
High	194.03	P/E ratio	58.53	52-wk low	188.02
Low	188.02	Div yield	-		

We knew Tesla was overvalued and have stated for a long time that our investors should not invest in Tesla, especially after the post-Covid-19 run-up. The stock trades at massive multiples and sell-side analysts justify it with massive growth numbers on an annual basis paired with low terminal rates. Well, both of those seem unlikely as inputs in their models, interest rates have spiked in 2022, and Tesla has quietly struggled to sell more. Many Tesla fanboys think they will be the only major market player in an EV world and seem extremely delusional. Earlier in the year, an online user went viral as he was trying to sell his Tesla as his battery needed replacement (the original battery had permanently died). He could not afford to replace the battery so he decided to sell the car (as is), the only issue he could not access the ownership papers as they were inside his dead car. Now, we did not verify this instance but either way, it is funny to think about.

Tesla Model S Battery Replacement—How Much Does It Cost?

While battery replacement reports from stateside owners of the Model S outside of warranty are few and far between, we have found a few cases where a full battery replacement visit has cost up to \$20,000. That sounds pretty high, but the breakdown in price shows that **the Model S battery itself costs somewhere in the realm of \$12,000-\$15,000.**

Our point is Tesla has a lot of obstacles and even has some reputable competition in the EV space, traditional automakers are also jumping headfirst into the space and numerous new EV makers are finally hitting the market. Consumers have more choices than ever when going electric. Tesla is no longer alone.

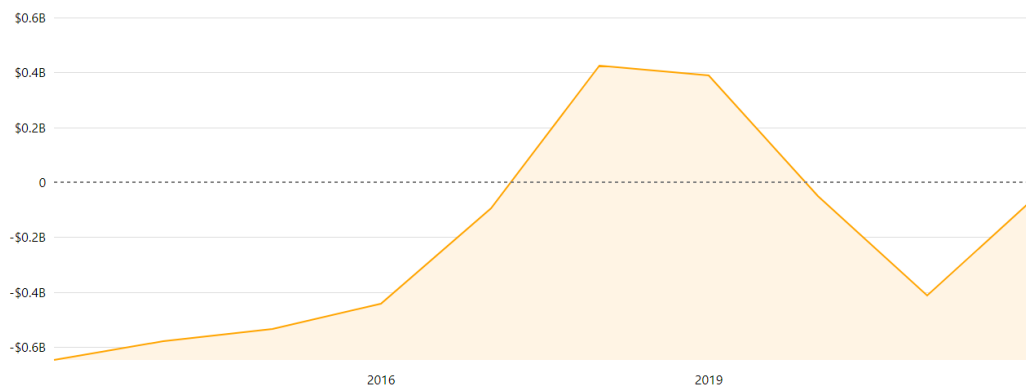


This week, Tesla announced 40,000 cars were being recalled due to some steering issues. It seems Musk has been focused on his free speech conquest that he forgot about Tesla.

The thing to remember for Musk is Twitter is financially tied to Twitter, not because of his wealth but because he used his Tesla stock as collateral for the purchase of Twitter. What happens when your collateral drops in value? You need to put up more collateral and sell more stock to eventually pay off the loan. If Musk cannot pay portions of this, the banks who dealt with this transaction could take his controlling interest in Tesla (now that is the worst-case scenario and is extremely unlikely due to him still being worth \$200 billion but it is something to think about). We are sure he thinks of this and occasionally wonders why he overpaid by so much for a company that already had MAJOR issues. Twitter has historically lost money, the company has had a positive income only twice, the last being in 2018. Elon also quietly sold almost \$4 billion of Tesla stock last week, perhaps to cover some himself.

Musk is attempting to make Twitter profitable immediately by cutting employees and charging for verification. He is also struggling with corporations cutting advertisements on the platform due to his takeover.

Earnings history for Twitter from 2013 to 2022



We ask ourselves, “how has a company that has so many users not been able to properly capture value from the App's popularity over the last decade?”. Perhaps, incompetence, perhaps laziness, or perhaps, Twitter has a failed business model. Whatever way you slice it Elon is looking to try something new and change the ending.



Meta Finally Cuts

Meta has been one of those companies that has only ever grown and has rarely gone through pain. The company is one of the most successful companies created in the last 20 years. They were able to do this by scaling up and acquiring companies that relate to or complement their core product offering (Facebook).

While Facebook grew, they also grew the number of employees they employed (makes sense), at some point, we think they reached a point of diminishing returns with their massive staff count. As of the end of 2021, Meta employed over 70,000 people.

Meta Platforms Annual Number of Employees

2021	71,970
2020	58,604
2019	44,942
2018	35,587
2017	25,105
2016	17,048
2015	12,691
2014	9,199
2013	6,337
2012	4,619
2011	3,200

Fast forward to 2022 Q3 earnings and supposedly they have around 87,000 staff, a 28% increase year-over-year. This is a massive jump in a year when almost everything has gone wrong for Meta as well as the economy.

Those hires seem like they were temporary. This week Meta joined Twitter in laying off many employees to increase profitability. Meta plans to lay off 11,000 employees, 13% of their workforce. However, this 13% is only 1/3 of the jobs created at Meta since Covid-19 began. No wonder they have issues, tens of thousands of jobs were created in an at-home environment, and while many companies laid off, Facebook ramped up hiring.

TECHNOLOGY

Meta to Cut 11,000 Workers as Tech Sector Job Losses Deepen

By [Callum Keown](#) [Follow](#) Updated Nov. 9, 2022 6:37 am ET / Original Nov. 9, 2022 4:55 am ET

REA

REA

We are not tech developers and cannot speak on their jobs and daily duties but from what we see and what we read, many in the industry believe that Meta over-employs and could increase efficiency by laying staff off. It is a tough thing to do but something that could help shareholders who got trounced by holding Meta's stock in 2022. As readers of this publication, we hope you have followed the tea leaves on Meta and stayed away down 53% YTD.

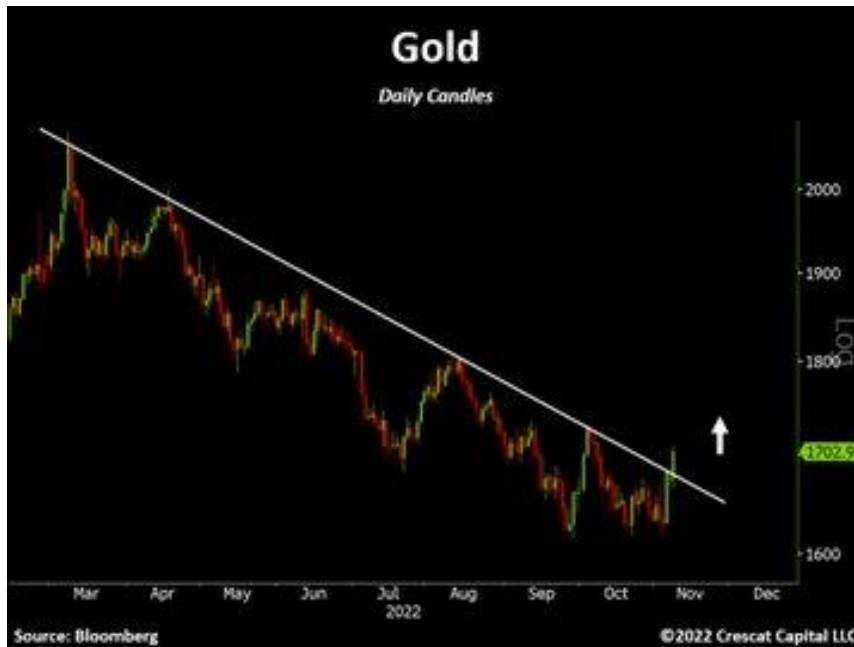


Perhaps, Zuck looked at Musk and said “maybe, we do not need 85,000 employees.” Or perhaps, he is seeing the harsh reality of a recession and his net worth collapsing. The other way to look at this move by Meta is maybe this is a way Zuck can decrease his cash burn without pulling back on his Metaverse plans. The share price of Meta has tanked over the last year on poor growth numbers, decreasing revenue, and cash burn. Investors think the billions that they have sunk into their development of the Metaverse could be costly and perhaps fatal to Meta's survival in years to come. Zuck and Meta have already sunk over \$9 billion into the metaverse in 2022 and have nothing to show for it.

Zuck was not the only CEO planning to cut his workforce in the technology sector. Payment's start-up Stripe announced plans to cut 14% of its staff Thursday, while ride-sharing app Lyft said it is axing 13% of its employees. Amazon also declared a halt to corporate hiring earlier this month, citing the “unusual macroeconomic environment.”

Gold Breaking Out

Just a technical update from our friends at Crescat Capital. Gold has broken a significant downtrend that began in March. This move could be a big breaking point for Gold after months of decline. The price of Gold peaked just weeks after Russia invaded Ukraine.



Crypto Exchange Blows Up / Detonates / Exposed

After talking about Gold which has not performed as well as we thought it would this year (down 9-10%), we transition to the wild west, cryptocurrency. It's been a few months since we talked about the crypto industry in this publication. The entire asset class has imploded in 2022. We thought no need to continue beating down on the highest-risk asset. After all, "virtual Gold" or Bitcoin, the largest cryptocurrency is down over 60% YTD. Wonder if those who said Gold is dead and Bitcoin is the future has been as loud on social media this year as they were in years past?

It's no surprise the crypto market detonated harder than any other asset class. It's the riskiest asset class and is not backed by anything. It just seemingly continues to free fall. After numerous scandals across the crypto industry this year, we have perhaps found the white whale of stories.

This week a crypto exchange, not a currency imploded, and we mean imploded. FTX a popular cryptocurrency exchange that was valued at \$32 billion in January essentially imploded. This happened because a competitor of theirs, Binance who was an early investor in them decided to sell the shares they owned in FTX which are denoted in a token called FTT. FTT is the native token for the exchange FTX.

FTT collapsed in value almost immediately, from \$25 to \$4 in a matter of a day and a half. Binance held over \$1 billion worth of FTT and essentially crashed the crypto market. The exchange, FTX did not have enough liquidity to cover withdrawals as their native token was crashing. They eventually paused withdrawals on the platform in any token. In the 72 hours leading up to Tuesday morning, there had been roughly \$6 billion of net withdrawals from FTX, according to Reuters. On an average day, net inflows are in the tens of millions of dollars.

FTX had halted withdrawals from its platform, after spooked investors attempted to pull their funds — in a move that resembled the collapse of other crypto firms this year, including Celsius, Voyager Digital, and Three Arrows Capital.



Binance then bailed FTX out by agreeing to buy them out and help them with liquidity. Makes us think was this original move by Binance purposeful? We will never know. Terms for the transaction were not released but billions in raised capital had been erased. FTX investors included the Ontario Teachers Pension Plan, Sequoia Capital, Tiger Global Management, SoftBank's Vision Fund, and many other sophisticated investors (including the greatest Quarterback ever Tom Brady, and his now ex-wife, Gisele Bündchen). FTX's CEO Sam Bankman-Freid's net worth dropped by 94% (losing \$14.6 Billion), in a matter of days. This move dropped him off the Forbes Billionaires list.

Ontario Teachers' Pension Plan faces a hit on investment in crypto trading platform FTX

DAVID MILSTEAD > INSTITUTIONAL INVESTMENT REPORTER

TEMUR DURRANI > TECHNOLOGY REPORTER

PUBLISHED YESTERDAY

FOR SUBSCRIBERS

Tom Brady and Gisele Bündchen Attached Almost Their Entire Net Worth of \$600 Million Into FTX Venture That Has Now Seen a 72% Drop in Value

Published 11/09/2022, 5:09 AM EST

By SHIVAM PRATAP SINGH

Some believe all the invested capital could be gone due to the value of FTX plummeting.

Interestingly enough, in September with crypto down badly and exchanges defaulting, the OTPP doubled down on their FTX investment and labeled it the lowest-risk asset.

COMPANY NEWS SEPTEMBER 13, 2022 / 5:17 PM / UPDATED 2 MONTHS AGO

Ontario Teachers Pension sticks with FTX Trading amid crypto volatility

By Divya Rajagopal

3 MIN READ



TORONTO, Sept 13 (Reuters) - Canada's Ontario Teachers Pension Plan's (OTPP) bet on crypto exchange operator FTX Trading carries the lowest risk in the entire crypto asset class and its investment in the firm has grown well in uncertain times, the OTPP said last week.

Canada's third-largest pension fund OTPP, which oversees C\$242 billion (\$185 billion), invested in FTX Trading in 2021 as part of a \$420 million funding round, along with Tiger Global, Sequoia and Light Speed Venture Partners.

"In terms of the risk profile, it is probably the lowest risk profile you can have in that it's everybody else is trading on your platform," OTPP CEO Jo Taylor told Reuters last week.



We know they did not mean harm but anything crypto must be labeled with the highest risk rating. Good thing their investment was extremely small relative to the entire fund size.

The saying goes somebody's true colors come out when things are bad. Many crypto exchanges have shown us who they are in 2022 when they paused withdrawals and halted conversions. Although many say crypto is truly the safest currency, locking your money in the exchange has shown much more risk than a Western bank. Crypto exchanges do not want to do this, but they are forced to do so when public sentiment changes and investors hit them on a bank run.

We are not sure if we would trust some of these exchanges. Imagine you required some money to pay bills and Coinbase or Binance or FTX closed withdrawals and you were screwed. Until regulation increases in this space, we will continue to look at it like it's the wild west. Do we think a small exposure to crypto assets could be a way to diversify large pieces of your net worth? Way too risky now.

If you do not think this space needs more regulation, we point you toward all the commercials on crypto, all the celebrities promoting crypto on social media, all the rug pulls by developers in crypto, and everything else that seems shady in the space. We know the blockchain and certain aspects of cryptocurrency have a place in society and the technology is ground-breaking but there are major flaws that must be pointed out. After all, there is a reason you cannot go on Instagram and promote a new penny stock as the next Apple without consequences. So why are you allowed to do it for a crypto token?

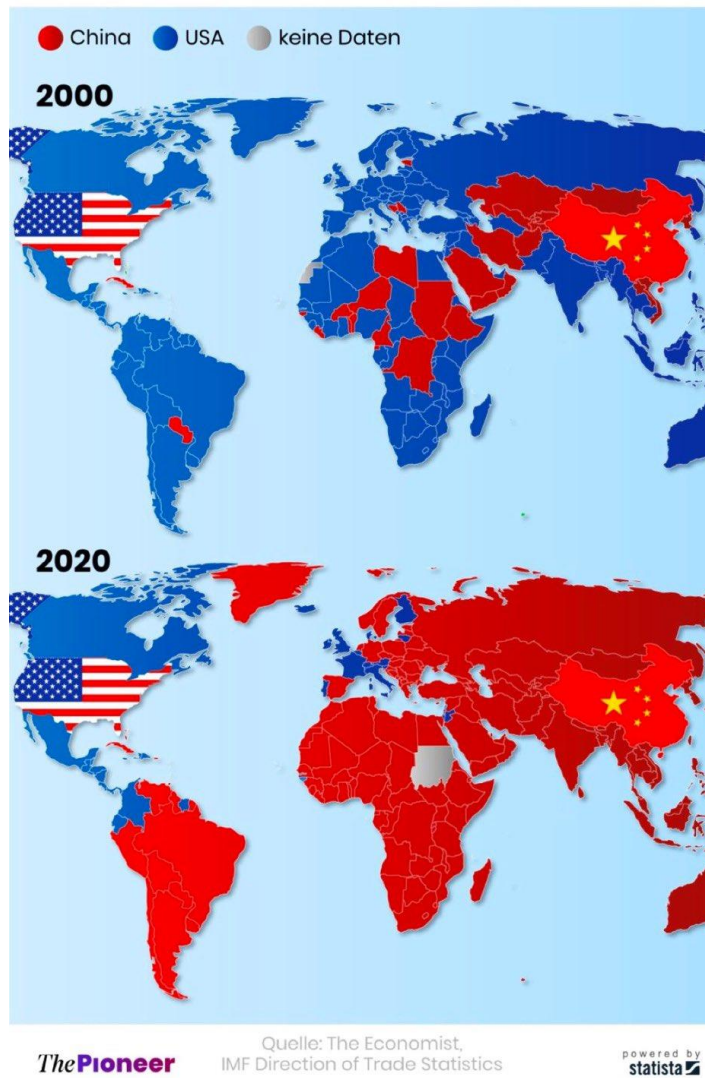
All this negative crypto sentiment seemed to crash Bitcoin again as it dipped below \$17,000 a coin. This is Bitcoin's lowest price since 2020.



*Important to note: after writing this edition, Binance seem to have pulled out of their deal with FTX after getting a look at their financials. Rumors are swirling that FTX mismanaged investor money on the platform. We will continue monitoring the situation.

Map Break

When we first started [The Weekly Beacon](#), we shared maps quite regularly. We may try and get back to that, especially when you come across such telling maps like these:



The world has changed, and it changed quickly. In 20 years, almost every country has rotated from the U.S. to China. We are so China-dependent it's scary, especially as they continue to be the West's adversary. They are the old Soviet Union, but they can compete with the west and are arguably ahead on numerous fronts.

We would also assume this chart would be even bluer in 1980 or 1990. This was a slow shift that is unfolding in front of our eyes. What happens in 10 more years? China seems to have built a production line to source, refine, and produce rare earth metals without any help from the western world. They could hold the world hostage in its fight against climate change.

However, there is a huge problem – China completely dominates the rare earths supply chain. **In 2021, the country made up 54% of global REE mine supply and 85% of the global supply of refined REEs.** Apr 27, 2022

<https://www.mining-technology.com> > comment > china-... ⋮

[The problem with China and rare earths supply chains](#)



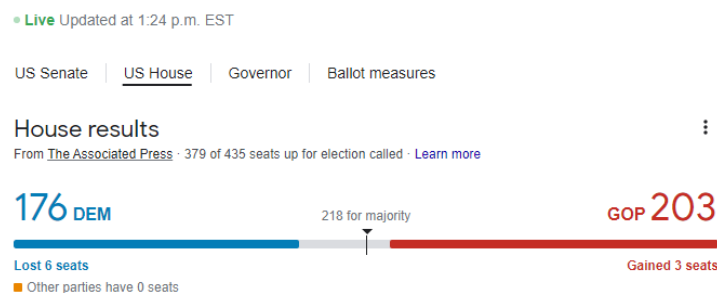
Election Update

The red wave did not occur except in Florida. It seems Republicans are blaming Trump for dragging down performance across the board. It looks like the Republicans will win the House by a slimmer margin than predicted and the Senate will be decided by a race in Georgia that looks to be going to a runoff in December. Georgia law requires a candidate to win with at least 50% of the vote. Neither the Republicans nor Democrats broke 50%.

Funny enough the same thing happened in 2020 in Georgia. Run offs decided the fate of the Senate and Democrats won both which gave them a majority and control of the Senate for the last 2 years. Will the same thing happen again? We will have to see.

We found it interesting that candidates who ran their race like Governor DeSantis, Abbott, and Kemp won while certain Trump-endorsed candidates struggled or lost when they probably should have won. We think the entire Republican party will pivot off Trump in 2024. It looks to be DeSantis' party moving forward after winning Florida by 20% this week. He won in 2018 by less than 1%, quite a jump, especially during polarizing times.

As of writing this on Wednesday afternoon, official House results were not finalized but Republicans were leading by almost 30 seats.



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