

## 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.*



Fisgard Lighthouse, Victoria, BC



Point Riche Lighthouse, Port-au-Choix National, Newfoundland and Labrador

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



## FTX Implodes

Monday morning redemption requests and market sells by investors in the crypto and blockchain space can all be linked to FTX filing for bankruptcy and withholding user funds. As we followed the story last week and even over last weekend, we had no idea what to think or even what was the reason. We are trying to work through all the headlines and look past the emotional headlines. We think this is the only way to look at a situation like this. We think what Samuel Bankman-Fried and his company did was extremely bad, and we feel for investors and users who trusted him.

The Grayscale Bitcoin ETF is now trading at a record discount (-42%) to NAV.



This means the Trust is trading at almost half of its value. The Trust holds Bitcoin. It allows investors to hold Bitcoin in a normal trading account (GBTC is available on most traditional trading platforms). The current price would reflect investors buying into Bitcoin at \$8,500-9000. It seems retail investors have checked out of crypto, and everybody is running for the hills (we do not blame them).

This situation shows that anyone can create an asset exchange no matter the industry and that the crypto space needs more regulation to protect both users and investors.

We will not downplay what he did. This is the largest scandal in modern finance. "SBF" is a crook but a crook who seems extremely connected across the globe. We are not sure what will happen to him and his executives, but it does not look good. He somehow got some of the largest venture investors to trust him with BILLIONS.

Perhaps the strangest part of this story is it unfolded live on Twitter over the last 10-14 days. People were on the edge of their seats reading threads, scrolling his account, and speculating on what they thought.

The Financial Times reported a Balance Sheet from FTX that was reportedly leaked in recent weeks. The Balance Sheet is a mess and it's no surprise they went belly up. The issues with FTX's assets were endless, they were illiquid, improperly marked, and they represented a sliver of the company's liabilities. Take this photo with a grain of salt as it has not been verified but this was their reported Balance Sheet:



<b>Liquid</b>	(millions)
Robinhood	\$ 472.00
Ledger Prime	\$ 200.00
USD/DAI/DOT/Paxos Gold	\$ 228.00
<b>Liquid Subtotal</b>	<b>\$ 900.00</b>
<b>Semi-Liquid</b>	
Serum	\$ 2,100.00
SOL	\$ 981.00
FTT	\$ 543.00
MAPS	\$ 616.00
Locked USDT	\$ 500.00
OXY	\$ 54.00
STG	\$ 45.00
ETHE	\$ 53.00
Bonfida	\$ 36.00
wSOL	\$ 26.00
ASD	\$ 33.00
Bitwise Bittrust	\$ 26.00
Aptos	\$ 312.00
Other	\$ 20.00
<b>Semi-liquid Subtotal</b>	<b>\$ 5,345.00</b>
<b>Illiquid</b>	
VC Book	\$ 1,475.00
GOA	\$ 1,000.00
Anthuril Pic	\$ 500.00
PITH	\$ 63.00
Twitter	\$ 43.00
Trump to Lose	\$ 7.30
Other	\$ 111.70
<b>Illiquid Subtotal</b>	<b>\$ 3,200.00</b>
<b>Total</b>	<b>\$ 9,445.00</b>

They seriously itemized a \$7.3 million bet on Trump losing in 2024. After all, SFD was the second largest Democrat donor during the 2022 Midterm election cycle to George Soros.

According to the Balance Sheet above and numerous others that were circulating the internet, FTX's largest asset is a token called Serum. On FTX's Balance Sheet the asset is worth \$2.2 Billion. The only issue is Serum is worth between \$100-200 million globally.

As we reported last week that investors and users lost money in FTX. It also appears several blockchain, and crypto-focused hedge funds kept most of their funds on FTX. We bet those hedge funds will be getting A LOT of calls from investors this week.

We also wanted to mention that Jim Cramer (our favourite) compared SBF to JP Morgan. He called FTX the modern-day JP Morgan for bailing failed crypto exchanges and funds out.



Two individuals who did not buy SBF's fraud were Elon Musk and Chamath Palihapitiya. Elon Musk confirmed rumors that SBF tried to get involved with his purchase of Twitter. His banker offered Musk \$5-10 Billion but got a bit cagey over text messages. Musk claimed he thought it was too good to be true. Perhaps the most surprising rejection of SBF and FTX was from the very own SPAC King Chamath. We think Chamath scammed the system and ripped off novice retail investors with empty promises fueled by his SPAC investment style however, even he sniffed out this fraud. SBF reportedly pitched Chamath and his team and Chamath claimed to send back 3 recommendations that FTX did not appreciate (form a board, create two classes of shares for shareholders, and some warranties on affiliated transactions).

The one thing we know is there will be tons of documentaries whether it is Netflix, Paramount, or HBO, and no production company will pass on this truly bizarre story based on fraud.

### **Election Update**

The Democrats keep the Senate. The Democrats won the two outstanding races for Senate (Arizona, and Nevada) and have secured 50 seats in the U.S. Senate. This means 2 more years of Chuck Schumer leading the charge. The other thing to remember, as Georgia heads to a runoff in December for the last Senate seat, Democrats could win their 51st seat which would make Senator Joe Manchin obsolete to his party. Manchin has been the biggest roadblock to the Biden Administration within his party. Without Manchin in the way who knows what economic packages will be passed? Manchin also has served as a roadblock for Biden on energy policy. If the Democratic party wins the 51st seat, oil and fossil fuel supplies could get tighter and domestic investment in the sector would more than likely disappear.

As of Tuesday morning, it is almost certain that the Republicans will win the House. This will gridlock Washington for the next 2 years which historically equity markets prefer. This win will give some predictability when forecasting Washington, one less major variable to deal with.

## House results

From [The Associated Press](#) · 422 of 435 seats up for election called · [Learn more](#)

205 DEM

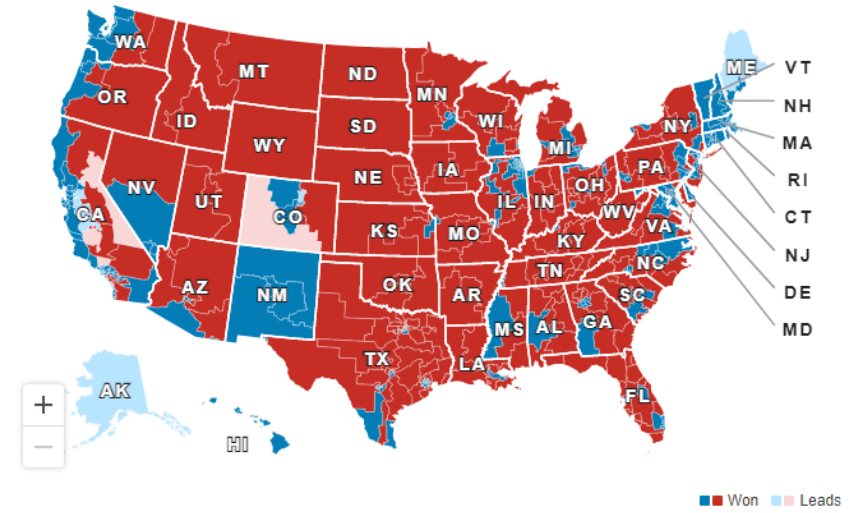
218 for majority

GOP 217

Lost 8 seats

Gained 8 seats

Other parties have 0 seats



### **October CPI Provides Market a Springboard**

Last Thursday markets bounced, and we mean bounced. North American markets had their best day in over 2 years. This happened due to the CPI release for October's end. Inflation came in cooler than expected. Prices rose in October by 0.4% compared to economist estimates which had prices increasing by 0.6%.

The news that prices had come off a bit sent markets up 5-8% over a week, a bit overdone if you would ask us but it appears this was the small piece of news investors needed to pile back in on the long side.

On a year-over-year period, prices still rose 7.7% and U.S. Inflation is not over by any means. Economists' expected a 7.9% annual increase, according to Dow Jones. A basket of goods and services that cost \$100 a year ago costs \$107.70 today.

Here are some of the largest price increases that Americans have seen over the last year.



Food at work + school	95.2%
Eggs	43%
Airline fares	42.9%
Butter + margarine	33.6%
Public transportation	28.1%
Health insurance	20.6%
Utility (piped) gas service	20%
<b>Energy</b>	<b>17.6%</b>

All necessity goods. All products that help us survive.

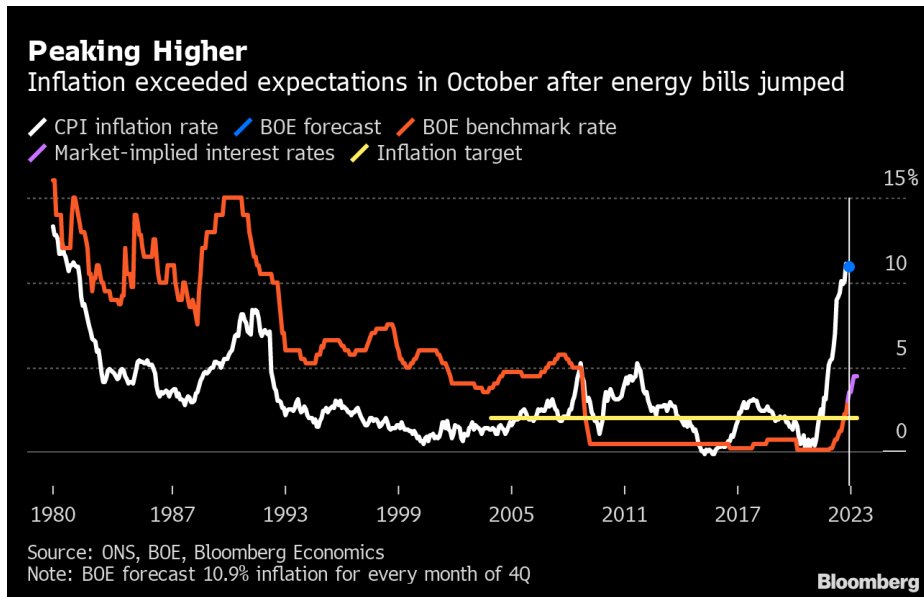
Here are the only major products that have decreased in price over the last year according to the FED:

Women's outerwear	-1.4%
Wireless telephone services	-1.4%
Computers, peripherals + smart home assistants	-3.1%
Beef and veal	-3.6%
Televisions	-16.5%
Admission to sporting events	-17.7%
Smartphones	-22.9%

Mostly luxury goods that people tend to cut back on during hard economic times or what economists call a recession. Looking through these numbers, it's tough to believe people who claim the economy is strong. As a Toronto-based firm, we are not sure what sports tickets have dropped 18% in price year over year, but it is certainly not Leafs or Raptor's tickets.

Even though inflation looks like it could have peaked in the summer. We think it will remain elevated for a few years. Consumers will not see prices retreat. The FED, investors, and consumers have a way to go in their fight against inflation.

Part of the reason we think inflation will remain prevalent across the world was confirmed on Wednesday morning. Even though the U.S. had inflation tick in lower than expected, across the pond that was not the case. In the U.K. inflation beat analyst expectations for October and prices were up 11.1% year over year. It seems the energy crisis is becoming real and will get worse in the winter months.



We have warned investors for months that power outages in the winter will be real and will be due to a lack of energy supply. No immediate solution exists to the global supply issue and governments seem unlikely to increase oil and gas exploration to solve the problem in the mid to long term.

### Target Earnings Flop

Another week and another Fortune 500 company miss earnings. This is getting old for us to repeat, we have written about Alphabet, Meta, Netflix, FedEx, Costco, and many other companies missing earnings or growth projections throughout this year. This week, Target missed earnings, revenues, and several other metrics.

The market did not take the announcement lightly.





This was not the first massive drop Target has taken this year. The company missed in Q1, and the stock price tanked in May as a result. The same is true today.



Earnings per share missed, margins continued to take a hit, and management lowered guidance for the fourth quarter. Even though Target does grocery and sells many necessity goods, they still sell discretionary goods that consumers are leaving on the shelves as prices continue to rise. Any luxury good will take a hit in terms of sales on a unit basis. Target's operating income dropped by 50% from last year during Q3. **EPS came in at \$1.54 versus analyst estimates which were on average \$1.54.** Earnings were missed primarily due to rising costs for the retail giant. Management's comments also did not give investors much to look forward to. The combination of bargain-hunting consumers and the need for Target to offer discounts to clear excess inventory could mean continued pressure on its profit margins in the near term.

The Target miss shook up the entire sector on Wednesday as investors dumped their retail stocks. Amazon, Best Buy, Wayfair, and Nordstrom were a few that saw large drops due to Target's poor earnings.

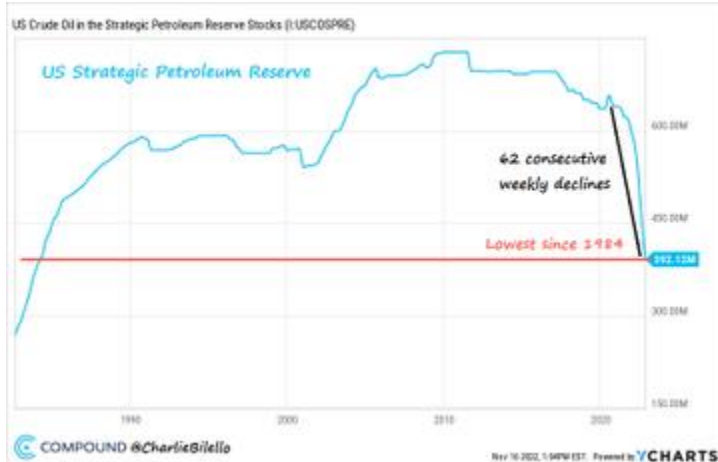
Interestingly enough Walmart beat analyst expectations just a few days ago which sent Target's stock price soaring pre-earnings. Anyone who piled in for a short-term gain is probably quite mad at their failed "swing trade".

Retail sales missing led to a decline amongst most North American markets on Wednesday.

### **Draining the Wrong Swamp**

Former President Donald Trump always claimed he would drain the metaphorical swamp in Washington, DC. He did no such thing. Joe Biden has instead drained something else, the Strategic Petroleum Reserves.





It is the 62nd week in a row the reserves have decreased. The SPR is at its lowest point since 1984 and we have had no emergency. Oil has been drained to elevate prices for consumers and increase the current administration's popularity. We have consistently explained that this policy is flawed and is no answer to our issues, we have been proven right. We expect SPR drains to slow down now that the midterm elections are over and would expect oil prices to move up.

Oil prices have retreated from their highs but remain high even with the SPR releases and China's zero Covid-19 policy. This seems bullish for traditional energy moving forward. Market fundamentals have not gotten better and are arguably only getting worse.

**MacNicol & Associates Asset Management**  
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