

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.*



Marshall Point Lighthouse, located Port Clyde, Rockland Maine at Christmas



Christmas in July Cape Neddick, Maine

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



Bank of Japan Christmas Surprise

The BOJ made a surprise policy decision on Tuesday that surprised market participants and economists.

The central bank will allow yields to stray a half point in either direction from its target. Previously it only permitted a quarter point. The target rate by the BOJ remains 0%. This move aims to ease some of the costs of prolonged monetary stimulus.

You might say “so why does this matter, yields stray but historically it’s not by much, this will change nothing”.

Japanese 10-year government bonds fell on Tuesday’s announcement, pushing yields up from 0.25% to 0.41%, their highest level since 2015. The yen at one point strengthened more than 3% versus the dollar.

The BOJ announced that they are not turning hawkish announcing an increase in bond purchases that are designed to bring yields lower. The BOJ also said it would increase monthly purchases of Japanese government bonds (JGBs) to 9 trillion yen (\$67.5 billion) per month from the previous 7.3 trillion yen.

Perhaps, the reason that this surprised market participants the most was that the Governor of the BOJ is set to retire in April, and many thought he would not make any major policy decisions on his way out.

Japan was the only developed country across the world that avoided rate cuts to combat inflation (perhaps out of bare necessity). Japanese inflation was 3.6% in October well below European and North American numbers. Even with low inflation numbers, the Japanese population has struggled with price increases due to decades of stagnation where Japan failed to reach the BOJ 2% target inflation rate. For those of us that need a refresher on macroeconomics, stagnation means prices did not grow or increase. While that may seem like a good thing, it presents numerous economic problems. Stagnation results in flat job growth, no wage increases, and an absence of stock market booms or highs. Stagnation causes more issues than surface-level economists care to admit.

For those who invest (all our readers), we are sure you know the harsh realities of investing in Japan over the last 30-40 years. What was once called the Lost Decade in Japan after asset prices collapsed in 1991 has turned into a Lost Thirty Years for Japanese asset prices.

Nikkei 225

INDEXNIKKEI: NI225

Overview

News

Compare

Market Summary > Nikkei 225

26,568.03

+2,498.85 (10.38%) ↑ all time

Dec 20, 3:15 p.m. GMT+9 • Disclaimer

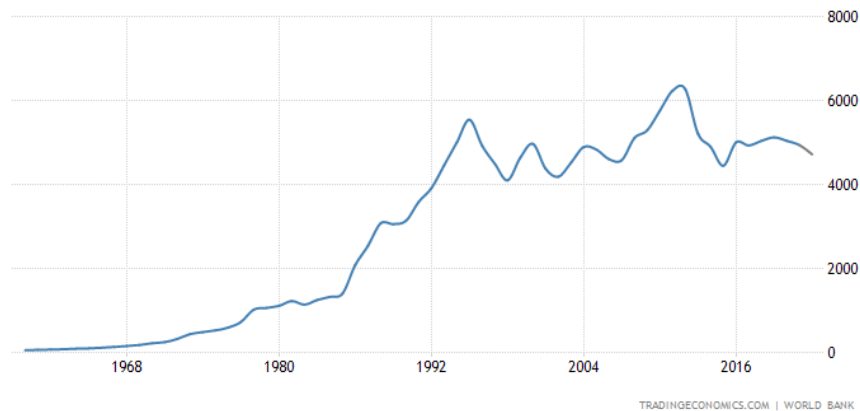
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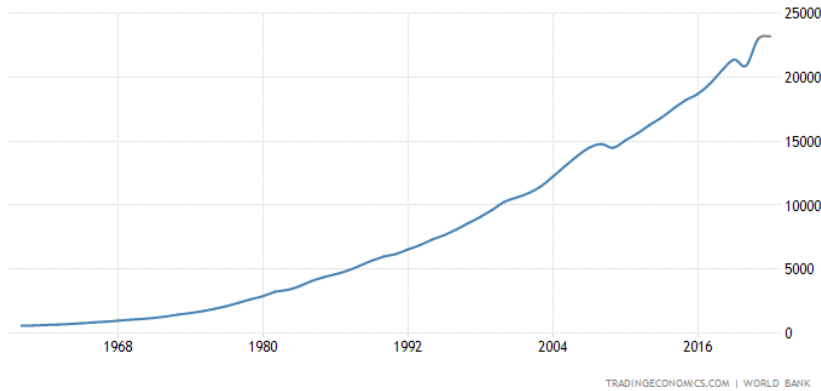
Since 1991, the Nikkei 225 is up 10%, and no that is not a typo. If you have been exposed to Japanese equities for this long, we hope you have learned your lesson by now..... So why is this happening to a global leader and one of the most forward-looking economies in the world?

The Japanese GDP was \$4.9 trillion (USD) in 2021, a number almost identical to Japan's 1996 GDP. The economy is not growing and arguably has not grown with any consistency in over 30 years. From 1991 to 2003, the Japanese economy, as measured by GDP, grew only 1.14% annually, while the average real growth rate between 2000 to 2010 was about 1%, both well below other industrialized nations.

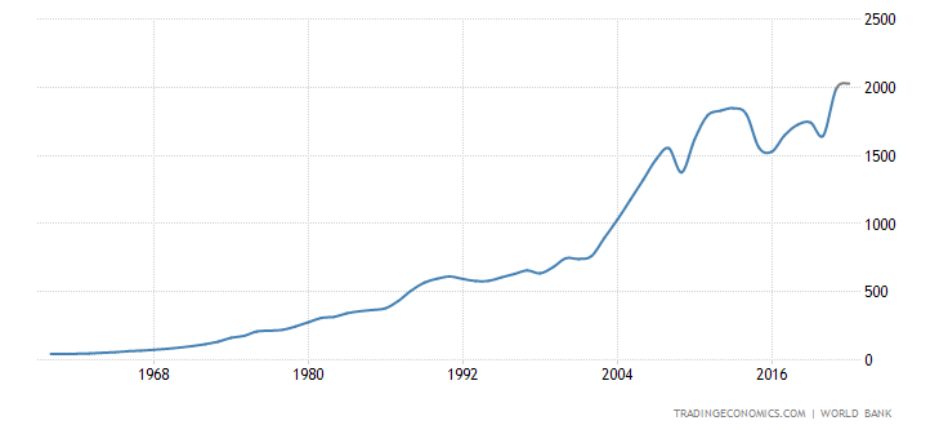


If you think the Japanese GDP chart looks healthy compare that with the Canadian or U.S. GDP.

The U.S. economy has grown at an accelerated rate over the last 50+ years as the world's leading power. Even in recessionary periods, the negative impact on GDP is quite small.

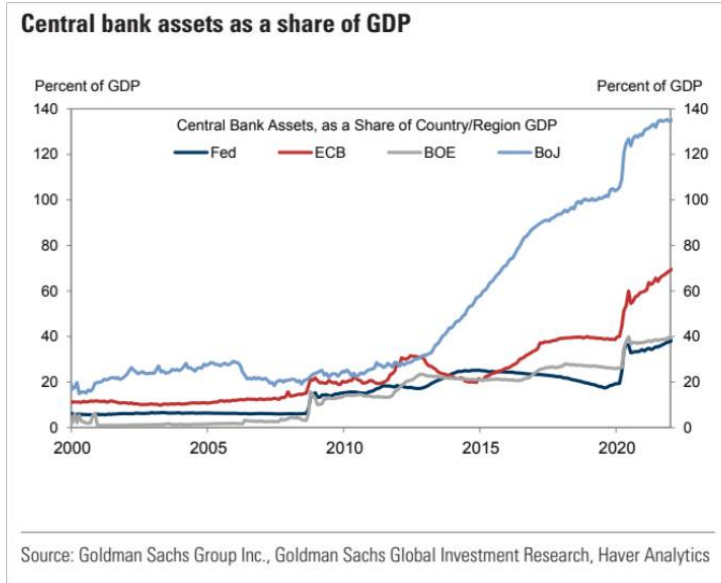


Canada's economy has moved in the right direction over the last 40-50 years even though it is heavily correlated to energy prices, the overall direction paints a positive picture for the Canadian economy.



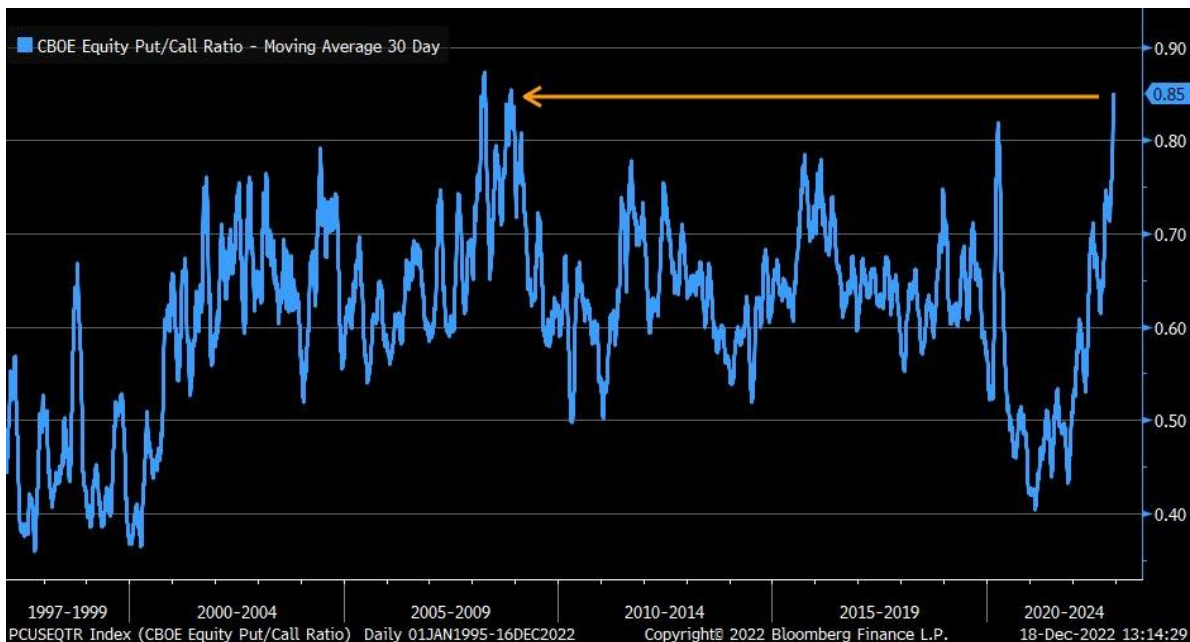
Before we forget to say it or you speculate, Japan used the fiscal stimulus to combat economic problems. Just like every other western nation, they have utilized stimulus and debt to combat every economic issue the country has faced over the last 20-30 years.

In fact, on a per capita basis, the BOJ is in the worst shape globally for an advanced nation. Debt added on for fiscal stimulus has led the Japanese economy into an extremely dangerous position.



2008 Déjà Vu

This past week markets hit another historic milestone for 2022. The CBOE Equity Put / Call Ratio 30 Day moving average hit its highest point since 2008 this past week. Just because we said “milestone” does not mean it’s a good milestone.



The ratio uses volume on calls (bullish calls) and puts (bearish calls) to quantify this relationship. When the chart moves upward, the number of puts relative to calls being purchased is increasing. Over the last 5 weeks the put-call ratio has been above 1.00 on 5 different days.

We think this could be a potentially bullish signal for markets in the short term. Will there still be bad days? Yes, markets are as volatile as ever, we are not day traders and do not predict daily or weekly moves for broad indexes.

Even with all that has gone bad for markets in 2022, investors are getting the most bearish now. Market participants are making more bets against the market than at any other point in the last 15 years which included a flash crash in 2020 when nobody knew what was going on in the world.

After all, a wise man in finance once said to be “fearful when others are greedy, and greedy when others are fearful.” – Warren Buffett



Banks make their calls

The biggest financial institutions have made their 2023 predictions for the S&P 500 and the only thing that describes these numbers are inconsistencies.



Forecasts range from 3,400 to 4,500, quite the spread. The S&P 500 is trading at 3,870 as of December 21st, 2022. We will see how these forecasts turn out at the end of this year. The only thing evident is the banks are as in the dark as ever and have no idea how to play these markets. It's probably why many clients at banks are considering new wealth management options going forward. That 60/40 portfolio had the rug pulled out from under investors and they are not happy with the flawed strategy.

2023 forecasts look quite different than 2022-year-end forecasts.....



Forecasting indices is a hard business and one that we usually steer clear of as we are not general index investors. However, the banks have all the resources, data, and analysts in the world and seem to slap some price to earnings and economic growth numbers on a spreadsheet to see what sticks. Certain

things in 2022 were hard to predict but basically, every bank was moderately bullish on markets and their clients paid the price especially if those clients were not diversified across various asset classes.



Market Summary > S&P 500

3,880.24

-916.32 (-19.10%) ↓ year to date

Dec 21, 10:44 a.m. EST • Disclaimer

+ Follow

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



Tesla investors melting down

Tesla investors are not pleased, and they are blaming Elon Musk and his purchase of Twitter as the reasons that Tesla shares have cratered this year.

Market Summary > Tesla Inc

138.67 USD

-261.26 (-65.33%) ↓ year to date

Dec 21, 10:53 a.m. EST • Disclaimer

+ Follow

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



Down 65% with perhaps more downside in the future (we do not own Tesla and do not plan to take any long or short exposure in the short term).



Yes, Elon is as busy as ever but running more than 1 company has always been something he does. His running of Twitter and championing free speech is getting the most attention now but we do not think that has led to him dropping the ball on Tesla or even SpaceX or his other companies. Twitter is just now the “loudest” company he owns and is dominating the news cycle due to the politicization of Twitter and other social media platforms. No matter what Elon does on Twitter he cannot seem to win, he has left and right-wing people screaming at him online and calling him all sorts of names. The loudest on social media are usually the fringe 1-5% of each party. This is not a new theme he is just the new target as he owns the popular website that they frequent. He has also become extremely polarizing amongst politicians as he has released the "Twitter files".

The Twitter files are internal communications and documents surrounding the banning of various accounts over the last few years. A major release in the Twitter Files was the Hunter Biden / New York Post saga. We will not get into the details but point you to read about these releases if you get a chance. The one thing that we know happened was the old Twitter regime was effectively shadow-banning accounts they did not like. Shadow banning prevented tweets and interactions by users from being seen by other users and the public. For years, Twitter executives including the Founder Jack Dorsey said that Twitter did not utilize shadow banning.

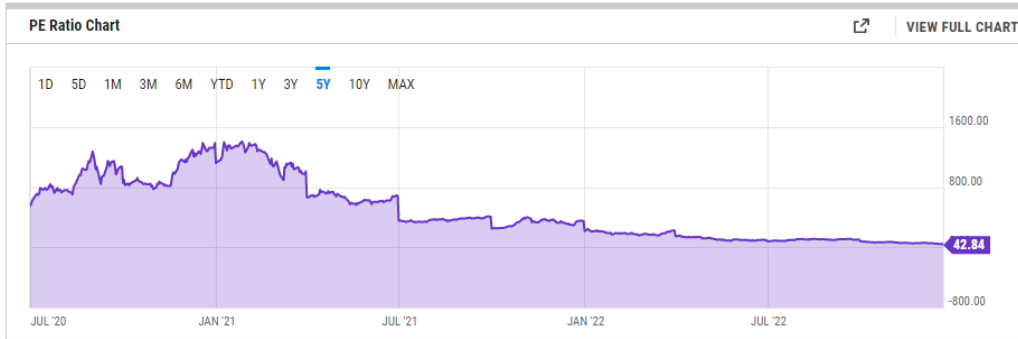
Getting back on track.

As markets tanked this year, Tesla tanked more. Many ask why is the Nasdaq down 30% yet Tesla is down 65%, must be Musk buying Twitter and dropping the ball. Wrong. Although that may have had a small impact on Tesla’s share price, we do not think it is a major driver for share prices dropping. No major pension funds or sovereign wealth funds have pulled their money from Tesla. Elon has sold almost \$23 billion in Tesla stock this year (\$40 billion since late 2021) which has had an impact on the price of shares (5.2% and 10% of Tesla’s market cap). Elon needed capital to buy Twitter, including cash and cash for margin. Perhaps, he also realized how overvalued shares were. We will never know.

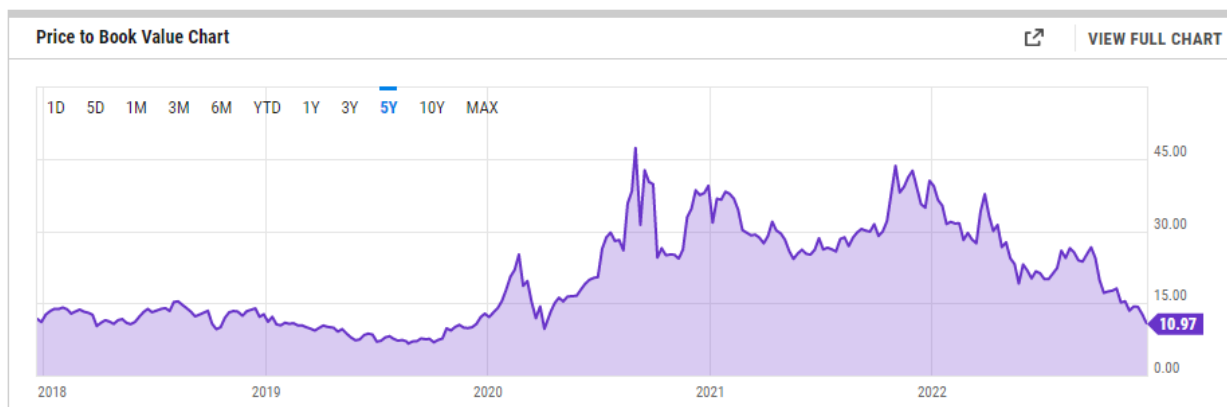
We think the main reason Tesla shares have dropped is valuation. It's no secret that we thought Tesla was overvalued but did you know how overvalued it was or how overvalued it remains relative to other automakers?

Before we jump into the numbers, we will look at a few things. First traditional automakers who sell the most cars and dominate the global market, second, we will look at recently launched electric vehicle producers that compete with Tesla in the electric vehicle market.

First Tesla currently trades at a PE of 43. You can make your inferences on what we thought of Tesla when its PE was greater than 200.



Tesla also trades at an extreme value relative to book value. Its PB ratio is currently 11 but at the start of the year, it was above 40.

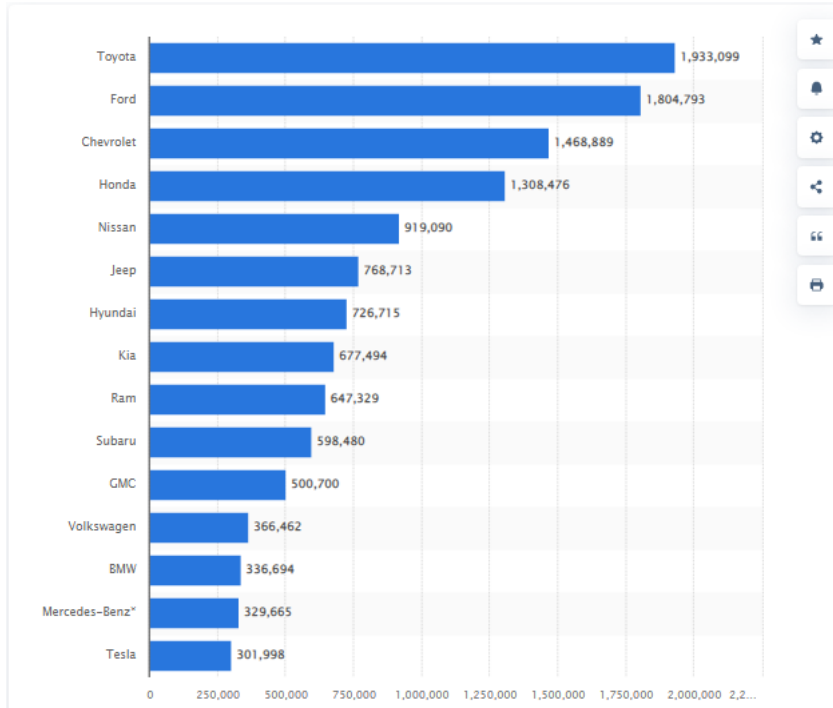


Why does this matter? GM trades at a PE of 6 and a PB of 0.783. Ford trades at a 5.2 PE and a PB of 1.2. Toyota trades at a PE of 6.9 and a PB of 0.98. We could continue going on but we are sure you get the point.

Yes, we understand it's tough to value Tesla, and many values are based on its technology. Perhaps, it should trade at a premium to traditional automakers but that large of a spread worries us.

We are also in the camp that traditional automakers will eventually compete with Tesla in the EV space due to their current scale, production facilities, and other logistical benefits.

Tesla also has a lot of room to go to catch up to traditional automakers in terms of total sales. Leading car brands in the United States in 2021, based on vehicle sales:



Moving on to new EV producers that were formed to compete with Tesla.....

They all trade at higher premiums than Tesla and if they do not it's because they can barely sell 1,000 cars. Billions poured into Rivian, Lucid Motors, Nikola, and many other new EV companies in 2020 and 2021 and some have barely delivered any vehicles to customers let alone become profitable. If we were forced to choose an EV maker on what we know, we would probably take Tesla over all these overvalued cash-burning unicorns.

Market Summary > Rivian Automotive Inc

21.54 USD

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-81.18 (-79.03%) ↓ year to date

Dec 21, 2:03 p.m. EST • Disclaimer

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





Market Summary > Lucid Group Inc

7.32 USD

-33.62 (-82.13%) ↓ year to date

Dec 21, 2:04 p.m. EST • Disclaimer

+ Follow

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Market Summary > Fisker Inc

7.58 USD

-9.13 (-54.64%) ↓ year to date

Dec 21, 2:04 p.m. EST • Disclaimer

+ Follow

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Market Summary > Nikola Corp

2.40 USD

-7.84 (-76.51%) ↓ year to date

Dec 21, 2:05 p.m. EST • Disclaimer


+ Follow

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



So, before you jump on Twitter and go at Musk look at the industry, market fundamentals, and overall economic conditions.


Long-time Tesla shareholder and financial expert Ross Gerber learned that the hard way after tweeting at Musk on Tuesday.

Ross Gerber  [@GerberKawasaki](#)

Tesla stock price now reflects the value of having no CEO. Great job tesla BOD - Time for a shake up. [\\$tsla](#)

12:28 PM · Dec 20, 2022

1,695 Retweets 253 Quote Tweets 25.4K Likes


Elon Musk  [@elonmusk](#)

Replying to [@GerberKawasaki](#)

Please tell us your great ideas, Ross ...

2:19 PM · Dec 20, 2022

2,706 Retweets 444 Quote Tweets 89K Likes


Ross Gerber  [@GerberKawasaki](#)

Replying to [@elonmusk](#)

As i tweeted earlier... My three points 1. Tesla needs a media and comms team. 2. Tesla needs a succession plan as well as clarify when Elon will be back from twitter. 3. Tesla needs to communicate about Elon's stock sales and a stand still agreement should be made. [\\$tsla](#)

3:31 PM · Dec 20, 2022

233 Retweets 48 Quote Tweets 4,115 Likes


Ross Gerber  [@GerberKawasaki](#)

Replying to [@GerberKawasaki](#) and [@elonmusk](#)

Ive been in contact with [@JohnLegere](#) - he is highly capable and interested in the CEO role at Twitter. Happy to get us all together for tea or something...

3:37 PM · Dec 20, 2022

22 Retweets 10 Quote Tweets 448 Likes

Elon Musk  [@elonmusk](#)


Replying to [@elonmusk](#) and [@GerberKawasaki](#)

In simple terms:

As bank savings account interest rates, which are guaranteed, start to approach stock market returns, which are *not* guaranteed, people will increasingly move their money out of stocks into cash, thus causing stocks to drop.

3:51 PM · Dec 20, 2022

1,321 Retweets 617 Quote Tweets 15.6K Likes

Elon Musk  [@elonmusk](#)

Replying to [@GerberKawasaki](#)

Go back and read your old Securities Analysis 101 textbook

3:41 PM · Dec 20, 2022

832 Retweets 245 Quote Tweets 16K Likes

Elon seemed frustrated with the comments and lashed out at an investor's reasoning for his stock tanking. Many Tesla investors are not the type of investors who buy short-duration t bills as an alternative, they are usually high-risk investors by nature betting on the technology and the future. Gerber even walked back his comments at Musk.

Ross Gerber  [@GerberKawasaki](#)

To be clear. I love tesla and support Elon and have invested in his ventures for almost a decade. The purpose of my reaching out is as a friend and supporter to help. [\\$tsla](#) [@elonmusk](#) [#twitter](#)

5:07 PM · Dec 20, 2022

193 Retweets 63 Quote Tweets 4,183 Likes

Elon Musk also announced he is searching for a CEO at Twitter to replace him, and he will only lead the coding team. It makes sense once he finds someone he trusts and gets back to what he does best.



The Ultimate Compounder

Stocks, bonds, gold, and cash are common investment vehicles that most investors are exposed to. The ultra-wealthy and pensions have broadened that asset base to alternative investments which include private equity, real estate, and hedge funds. These have helped increase returns and decrease volatility for investors in recent years (we are sure you already know about our Award-Winning Alternative Asset Trust). The super-elite have broadened that asset base into luxury goods that hold their value (wines, automobiles, and even paintings), which are extremely illiquid but usually hold up in every kind of market condition. For a select few, the line does not end here. A few investors in North America have broadened their portfolios to include sports teams.

Sports teams seem to always appreciate, and every new sale seems to set a record. When we say sports teams, we are not stating every professional league is a good investment. Buying into a Startup league or a non-traditional sport is extremely risky. We are simply talking about the Big 4 sports leagues in North America (NFL, NBA, MLB, NHL). Essentially every team no matter the market or sport has appreciated tremendously over the last 10+ years. Consistent revenue, die-hard fans, and an extremely unique product have led to buying a team as one of the best investments in the world. We are not saying that year-over-year team values are up 30%+, we are saying consistency with no drawdowns and almost no volatility. We will jump into a few teams that have jumped massively in recent years, performing better than some of the biggest technology companies in the world.

We bring this all up because it looks like the Phoenix Suns have sold this week for a record price in the NBA. We also like to keep certain topics in the publication a little lighter, especially with the holidays approaching.

Mat Ishbia the CEO of United Wholesale Mortgage will purchase the Suns for \$4 Billion. Along with Ishbia comes his brother Justin who will sit on the team's Board of Governors. Justin Ishbia is a Managing Partner at Shore Capital Partners, a lower-middle market private equity firm. According to Forbes Mat is worth \$5.1 billion and Justin just over \$2 billion. Their father founded United Wholesale Mortgage in 1986.

Ishbia is buying the team off disgraced owner Robert Sarver who has been in the news for over a decade for all the wrong reasons. Sarver led a group 18 years ago in buying the Phoenix Suns for \$401 million. His purchase of the Suns was at the time a record purchase price for an NBA team. Ishbia's purchase will surpass Joseph Tsai's purchase of the Brooklyn Nets in 2019 for \$2.35 billion.

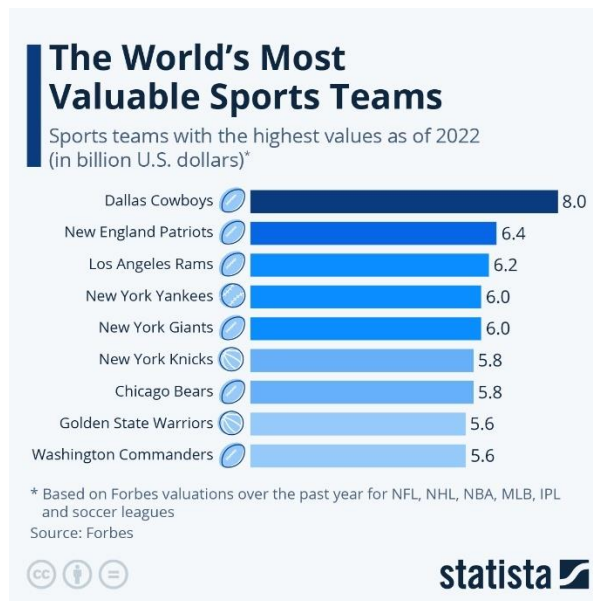
Quite the investment for Sarver, as close as you can get to a guaranteed return.



According to Forbes the Phoenix Suns were the 13th most valuable team as of October 2022. They were valued at \$2.7 billion. The premium that Ishbia paid reflects the extreme demand for a sports team. Billionaires want to one-up each other and owning a sports team is a big measuring stick. Sports team demand (both for owners and consumers) is a great way of explaining and understanding price elasticity.

The Suns' operating income was estimated to be \$87 million last year.

The list of Forbes's most valuable teams is dominated by the NFL. Out of the most valuable sports teams in North America, all 32 NFL teams are in the top 50. Here are the top 10:



Mat Ishbia's net worth has been cut in half over the last 18-24 months due to the stock price of United Wholesale Mortgage.



United Wholesale Mortgage went public via our favorite investment vehicle the SPAC. His company benefited from the 2020-2021 SPAC boom, a bubble many investors could not comprehend at the time. The SPAC boom was fueled by speculation and cheap money. We all know the story of SPACs since so we will not go into any details. If you want to know our thoughts on SPACs, we encourage you to read our commentaries from the start of 2022 and in the last 6 months of 2021.



Market Summary > UWM Holdings Corp

3.63 USD

-5.67 (-60.97%) ↓ all time

Dec 21, 1:15 p.m. EST • Disclaimer

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



UWM Holdings Corporation is a national wholesale mortgage lending company headquartered in Pontiac, Michigan.

Who would have thought a SPAC beneficiary would own a big 4 team? Well, exclude Chamath who is a minority shareholder in the Golden State Warriors.

Happy Holidays

This is the last issue of [The Weekly Beacon](#) before the Holidays so before we sign off, we wanted to wish our loyal readers along with their families and friends a Merry Christmas and Happy Holidays.

MacNicol & Associates Asset Management
December 23, 2022