THE WEEKLY BEACON JUNE 2, 2023

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.

*Contact us today if you would like to meet about your investment future. info@macnicol.com*

## *BEACONS OF THE WEEK*

*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.*

### *Punta Engabao Light,*
*El Pelado, Ecuador*

An active lighthouse standing at 46 feet high. The light station was established in the 1920s. Punta Engabo Light sits on the west coast of Ecuador. The lighthouse is a 32 hour drive from Columbia's capital, Bogota, and a 25 hour drive to Lima, Peru which is straight down the coast of South America.

### *Punta Mogotes Light, Cabo Corrientes, Argentina*

*This lighthouse was originally constructed in 1891 and stands at 180 feet tall. The lighthouse became Argentina's first radio beacon in 1934. The lighthouse is approximately 5 hours (driving) from Buenos Aires, the capital of Argentina.*

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

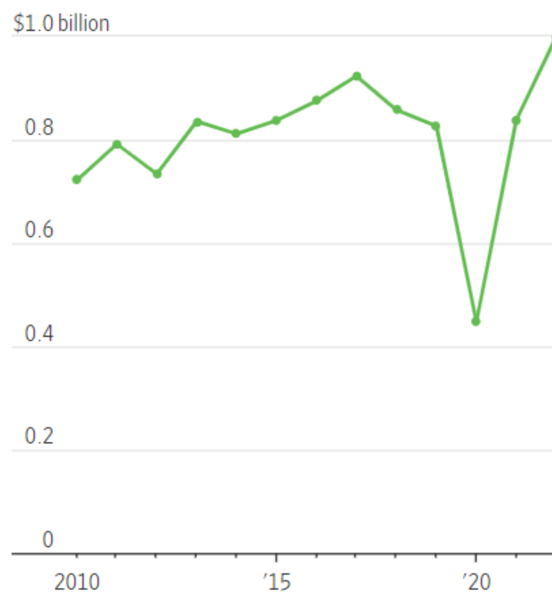
## Casino odds

We have talked about young and inexperienced investors using equity and options markets like a casino throughout this publication's history. One could argue it was already happening before Covid-19, but we think it became mainstream at that time. After all, people had all the time in the world, markets were extremely liquid, and every company was the next "BIG and DISRUPTIVE" thing that would create massive returns. Those investors and gurus did well in the short term but ended up getting blown up. There are hype technology companies, meme stocks, and SPACs all for the most part blew up, just like their accounts.

This week, we are giving those investors a break (for once). We are not going to pile on. We are simply going to direct you to contact an investment advisor that can help you with your financial needs. We would recommend some increased diversification, and some conservatism when it comes to equity selection.

However, this week we are going to talk about different types of gamblers, real gamblers and real casinos, blackjack gamblers to be precise.

Blackjack players are betting the most they ever have along the Las Vegas Strip despite record losses over last year. The $1 billion loss that blackjack players recorded last year was the second highest on record. Bettors only lost more in 2007.



Consumers who are losing at record rates in Las Vegas casinos are also paying more than ever for their trips to Sin City. Prices for hotels, restaurants, nightclubs, and entertainment options have surged over the last year and a half.

So why are bettors losing at record rates? Perhaps it's because they are wagering at record rates as their balance sheets deteriorate and inflation eats away at their savings. Consumers look for other laneways to supplement their income during difficult times.

The increased losses in blackjack also stem from some Vegas casinos changing the odds on a “Blackjack” from 3:2 to 6:5. A $10 bet would now profit $12 compared to the old $15, a significant change when calculating expected values.

Slot machines also had a record year bringing in Vegas casinos $4.6 billion in 2022, 15% more than in 2021 which was the previous record.

Vegas casinos took in approximately $8.3 billion in gambling revenue last year, a record amount exceeding pre-pandemic levels by more than 25% despite customer traffic remaining below pre-pandemic levels.

These numbers have allowed Casino stocks to surge in 2023 after major resets in 2022.

Market Summary > Wynn Resorts, Limited

99.82 USD

+14.21 (16.60%) ↑ year to date

May 30, 3:41 p.m. EDT • Disclaimer

+ Follow

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

Market Summary > MGM Resorts International

39.72 USD

+6.44 (19.35%) ↑ year to date

May 30, 3:42 p.m. EDT • Disclaimer

+ Follow

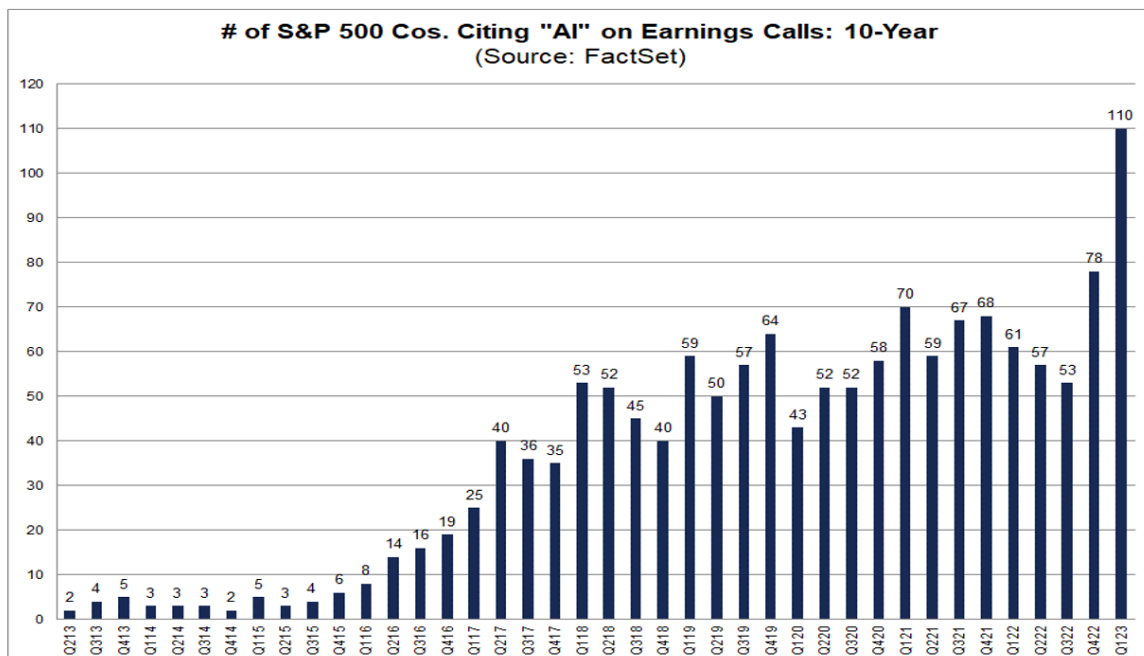
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max

This has also continued to confirm our post-pandemic thoughts on consumer preferences where consumers are all in on experiences and services and seemingly out on goods. The new shoes, jacket, laptop, and headphones can wait but the flight to Vegas, show at Caesars, dinner on The Strip, and suite at the Bellagio cannot. 2+ years of lockdowns have changed consumers and we think that trend will continue this summer. After all, this is the first summer with no restrictions across most of the world since 2019.

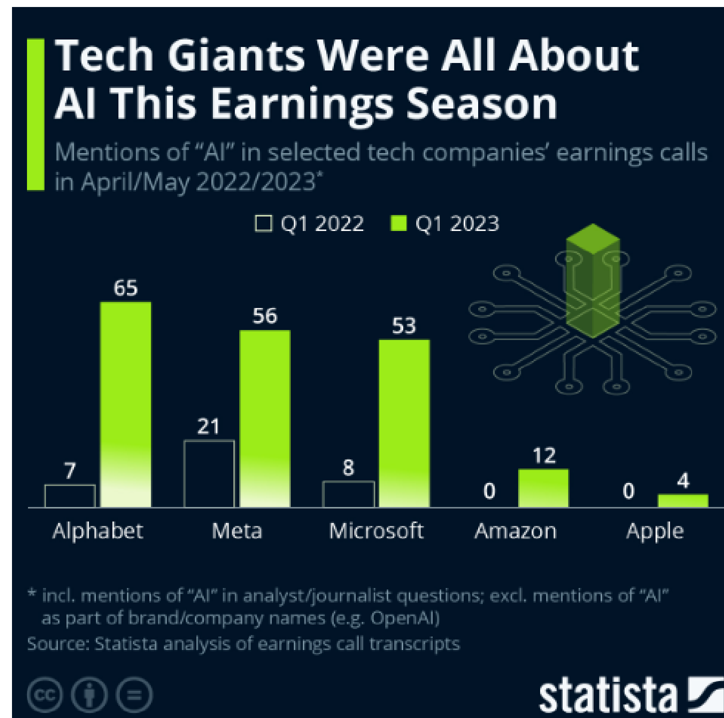
## Hyped-up trend or here to stay?

Is artificial intelligence the future or is it just a new phenomenon that could fade? We think it will be a part of our future but do think some market participants, individuals, and companies may be overhyping the technology slightly. We are not underplaying the value of artificial intelligence and believe it will play a massive part in our lives moving forward but we do think the hype could be a tad overdone.

For example, over the last 6 months the number of companies that have mentioned artificial intelligence on earnings calls has doubled.

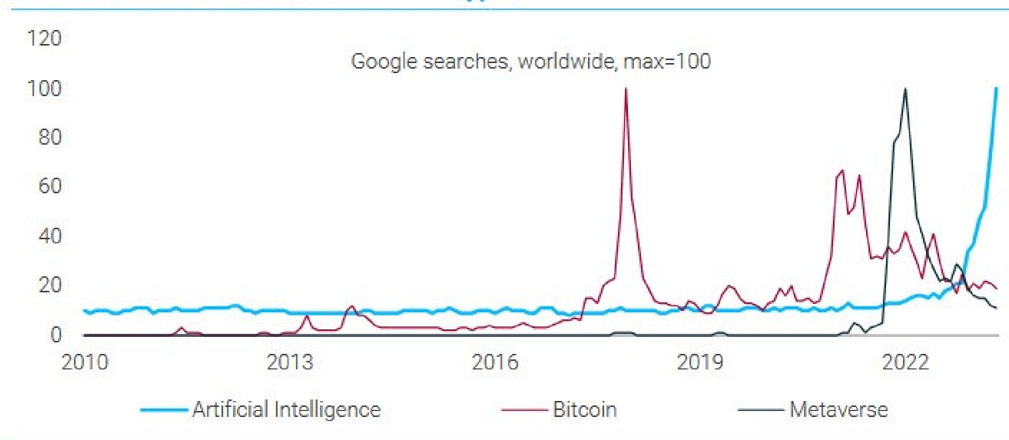



The frequency in which the term "artificial intelligence" has surged in use over the last year:




We are not blaming executive teams or sell-side analysts; we are simply stating facts. Companies say what investors want to hear. Right now, all investors want to hear is automation and optimization using artificial intelligence. They prefer that to positive cash flows and boosted earnings.

The only reason we critique this surge in the use of the term AI is because it follows two other trends that we have seen in the last 10 years.




First, it was Bitcoin, then it was the Metaverse, and now it's Artificial Intelligence. We think AI will revolutionize the world and will act more like the invention of the Internet rather than the failure that the Metaverse has been (so far) but the surge in popularity is something we cannot look past.

AI is one of the world's biggest topics right now, you think we're kidding? Watch the news tonight, on any channel, and we bet it will be a story.

However, do not buy into the hype and buy at a peak, trends are short-lived, and opportunities could arise in the future within this industry. We think buying at the top (right now) would be extremely risky as AI and large-cap technology stocks are trading at extreme valuations.

After all, we went from this:

**Metaverse real estate sales to grow over $5 billion by 2026, new study suggests**

to this:

**The crypto housing crash costing digital landlords a fortune**

Snoop Dogg, Gucci and Adidas all snapped up land in the metaverse – then prices collapsed

*By* James Titcomb
18 February 2023 • 6:00am

in just 8 months.

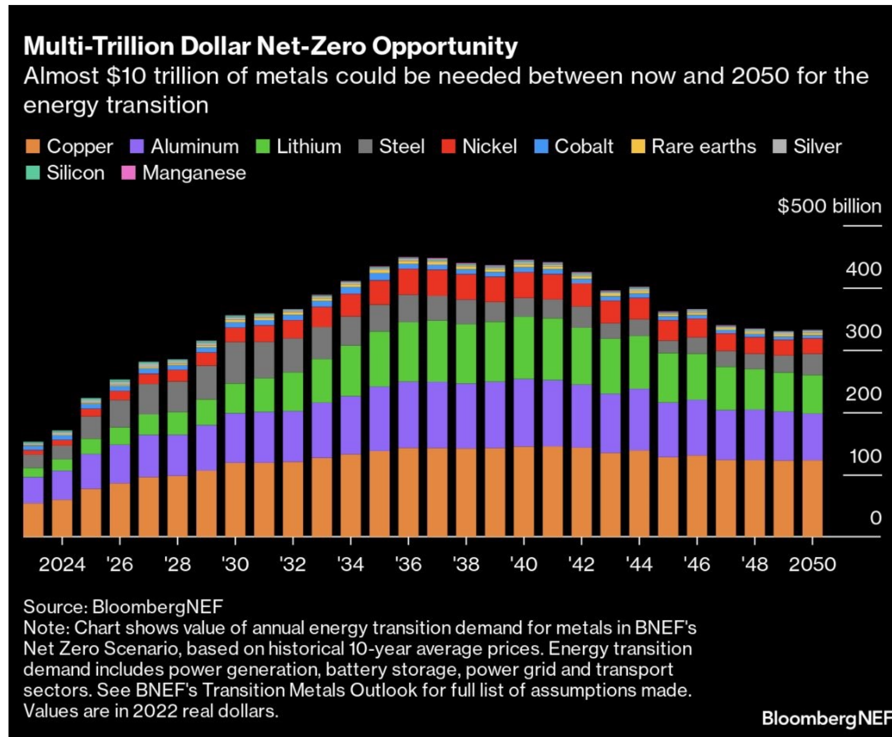
*We are certainly not denying the capabilities of AI and its uses, moving forward. We are simply talking about the recent surge that the topic has seen which has led to massive returns - and wild valuations across the sector. Do not get caught holding the bag.*

If you think us questioning Nvidia's valuation is us questioning the capabilities of AI,
then you are probably reading the wrong publication. Nvidia is up 180% in 5 months and is worth over a $1 trillion. The company's P/E is 208x, well above the averages for S&P 500, the technology industry, and other semiconductor producers. The S&P 500's P/E ratio is 24x, the U.S. technology sector 42x, and the semiconductor industry 51x (CSIMarket). The industry is currently expensive relative to general markets and relative to its historical averages.

**Where is the money in net zero?**

A lot of money will be made in the green energy industry moving forward. The critical metals and inputs used to produce wind turbines, solar panels, electric batteries, and other forms of green energy will be money-makers for many investors.

Bloomberg has forecasted that over $10 trillion worth of metals will be needed by 2050 to meet climate goals. This demand is on top of the other current uses for these metals.




Even today, we are in the early innings of this demand surge. Bloomberg expects the peak demand for these metals in the green industry to be in the mid to late 2030s.

We will continue to beat the drum of buying the metals over the companies operating in the renewable space. Buying the stocks of electric vehicle producers, solar companies, or other green energy companies come with higher risks than the mining companies that produce the metals needed to produce the technology. We are not recommending small-cap preproduction junior miners that come with even more risk. We are discussing some of the largest producers of these metals. We think the miner path will produce outsized results moving forward. Sure, you might miss out on a Tesla or an awesome battery stock but you will also avoid the hundreds of pitfalls that are operating in this space. What has happened in the EV space over the last year should be a warning to investors, not every company will make money, and these companies are a long way away from scaling or creating a profit. Chances are early shareholders will be diluted in most of these companies due to capital requirements and negative cash flows. That is why we own the miners because every company needs the same metals produced mostly by a small amount of companies.

## Exxon diversifies

Oil giant Exxon Mobil made a move that went under the radar for the giant but adds some diversification for the company.

Exxon acquired a large piece of land in the Smackover region of Arkansas which is rich with lithium deposits for $100 million. The deal also gives Exxon the drilling and production rights on the land which was acquired from privately held Galvanic Energy. The oil giant has never expressed interest in the EV battery metal even though many competitors have.

As a part of the deal, Exxon purchased over 120,000 gross acres of land from Galvanic Energy. Galvanic estimated that the land is home to approximately 4 million tons of lithium carbonate equivalent which can help EV producers produce 50 million vehicles. Recent tests by Galvanic claim that the land is home to the highest lithium concentration in North America.

In addition to this development, ExxonMobil is tied to another lithium project through its Albertan subsidiary Imperial Oil Ltd.

4 million tonnes of lithium would be $120 billion in today's market prices. This would be mined over the next decade and would not be an immediate income statement boost. To put this number in perspective, Exxon is expected to have a top-line revenue of $373 billion this year. That reasoning is why the Wall Street Journal warned investors that this move is not a huge value add for shareholders but something that could kick off a major trend from oil majors.

Lithium production, according to car industry estimates, is expected to expand 5-7x from now to 2030. Even projecting higher lithium prices, global LCE sales should amount to roughly $150 billion by the next decade. Global sales of crude oil topped $2 trillion in 2022, according to data from BP (BP).

Exxon shares moved up 1.3% the day after this acquisition was announced.

## Goldman and others expect a new OPEC+ production cut

As oil prices have pulled back in recent months. OPEC has been quite active in cutting production to keep prices elevated. With the recent pullback in oil prices, Goldman Sachs and many other market participants seem to be expecting another production cut from OPEC. OPEC and its members enjoy having a high floor for the price of oil as most of the members are extremely reliant on oil prices remaining high.

This news comes as oil is on pace for its worst month since November 2021.

Goldman and others are discussing a new production cut from OPEC as the organization is scheduled for a conference this weekend where the members will discuss major policy decisions.

All that said, Goldman sees a "sizeable 35% subjective probability" that the major OPEC producers announce deeper cuts on Sunday because oil prices are clearly below our $80-85/bbl estimate of the OPEC put. The decision to meet in person makes many believe further production cuts will be discussed. OPEC+ announced numerous Western media publications were banned from their meetings. Reporters from Reuters, Bloomberg, The Wall Street Journal, and other outlets were denied invitations to the meetings in Vienna. Many believe invitations not being sent to these outlets were fueled by Saudi Arabia. The exact reasoning for denying them invites is uncertain but many energy analysts believe OPEC is mad at what Western outlets have reported on their production in recent months.

This could also be OPEC+ planning a surprise cut and not wanting any leaks as they have had at previous meetings.

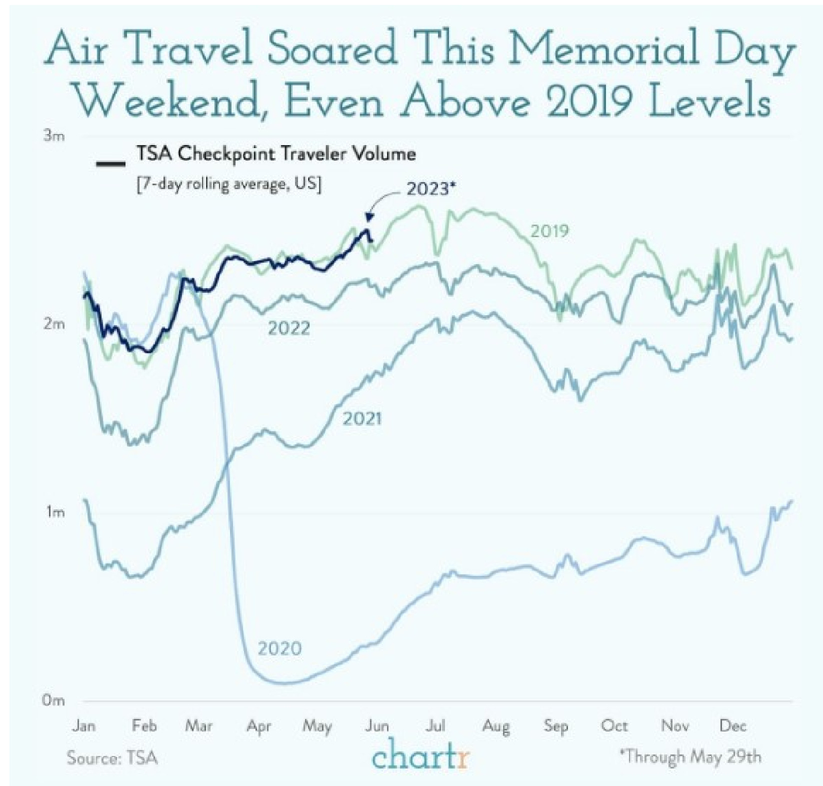
Saudi Arabia is under immense pressure to keep oil prices elevated due to their global standing amongst the East and West, and the country being the largest oil producer. Saudi Arabia's Royal Family needs oil prices to remain elevated to drive economic and social development across the country.

If you do not believe us, look at the following two charts:

Higher oil prices = higher quality of life in Saudi Arabia (for the most part).

## **Got airlines?**

Chatr created a chart this week fueled by TSA data that caught our eyes. TSA has reported that this past Memorial Day travel volume surpassed pre-Covid-19 levels for a 7-day rolling average.




This is the first peak of the 2023 spring-summer travel season, and we expect some record-breaking numbers to be reported this summer. Everyone is traveling, forecasts are up, earnings have been revised higher, and airline stocks look promising.

Yet another service over goods confirmation, a trend we have reiterated to all of you on a rolling basis that we expect to at least continue through the summer. People traveled in 2022 when they could even though energy prices surged, we expect more travel this summer with no restrictions and cheaper energy prices.

## Twitter's value craters

Elon Musk bought Twitter for approximately $44 billion last year. He claimed it was not about price but about free speech. When you're the richest person in the world, price usually does not matter. However, the value of Twitter has reportedly cratered, wiping out tens of billions of dollars of Musk's net worth.

This comes as Fidelity released its latest Blue Chip Growth Fund monthly disclosure. The fund owns Twitter which it refers to as X Holdings Corp. (weird thing to do, even though it's not public anymore, it's still called Twitter). Fidelity valued its holding of Twitter at $6.55 million, the stake was worth $20 million last October and $8.63 million at the end of last November.

This Fidelity valuation implies Twitter is worth close to $15 billion, close to a third of the price that Elon Musk paid for the company.

Musk has claimed that the app could be a super app worth $250 billion. Although that may be stupid, Facebook was once worth over $1 trillion and currently has a market capitalization of $672 billion, so who knows what Twitter could be worth one day? After all, Musk has made some major changes in his short reign which has led to Tucker Carlson hosting his new show on the platform, and Ron DeSantis launching his presidential campaign on the platform.

Musk said that Twitter is close to turning a profit after advertisers had returned to the platforms and his cost-cutting measures. He told the BBC that Twitter was basically at breakeven in a recent interview, and claimed it only had a few months left before he took over.

Musk announced that he will be stepping down as CEO of Twitter in the coming weeks, announcing Linda Yaccarino as the new CEO.

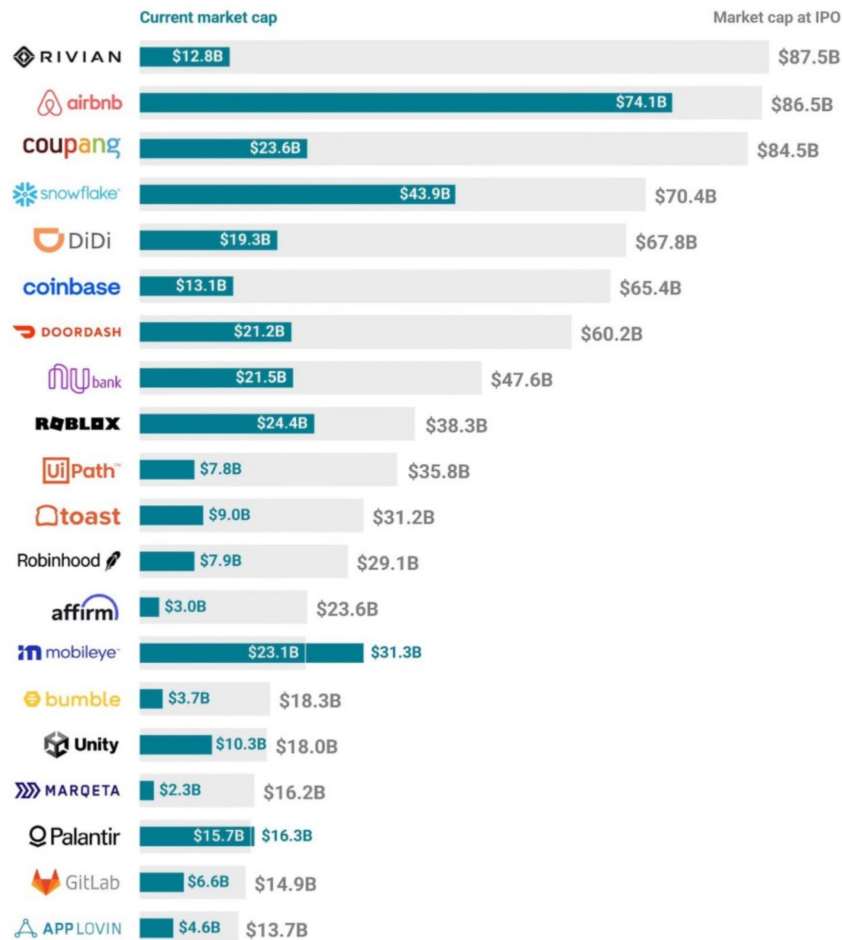
Click here to read more about Twitter's new CEO.

## Hype reset

2022 was a reset for markets. Everything performed poorly. The most hyped-up and least profitable companies performed the worst after performing the best just a year prior. NYU Professor Scott Galloway shared an image that we wanted to share with our readers that encapsulates this reset that we have seen over the last 16-18 months.

His image only encapsulates companies who have IPO'd in the last few years but for the most part these are some of the companies we are referencing when we say overhyped - tech firms that destroy capital.

All of these companies have collapsed in value from their IPO price and some have even undergone new capital raises as they have burned through their previous raise.




Source: CB Insights tech IPO and valuation data. IPO valuations based on EOD market cap on day of IPO; current valuations based on EOD market cap as of 3/13/2023.

We will not go into any more depth on this front. We have named many of these companies in this publication's history when attempting to get a point across. All of these firms have promised us the world and were supposed to be tomorrow's economy. The only way they have seemingly changed the world is by destroying early public market investors. Airbnb seems more expensive than a regular hotel, ordering food on DoorDash is extremely expensive, Robinhood had a major scandal, and Rivian cannot produce vehicles in a significant way. This is tomorrow’s economy, promised to you by hopeful sell-side bankers.

**MacNicol & Associates Asset Management**
**June 2, 2023**