THE WEEKLY BEACON AUGUST 4, 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.

MacNicol & Associates Asset Management

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.

Peggy's Cove Lighthouse,
Nova Scotia, Canada

This famous Canadian lighthouse currently stands at 22 meters tall. The lighthouse was first constructed in 1868 and was operated by the Canadian Coast Guard.

Scarlett Point Lighthouse,
British Columbia, Canada

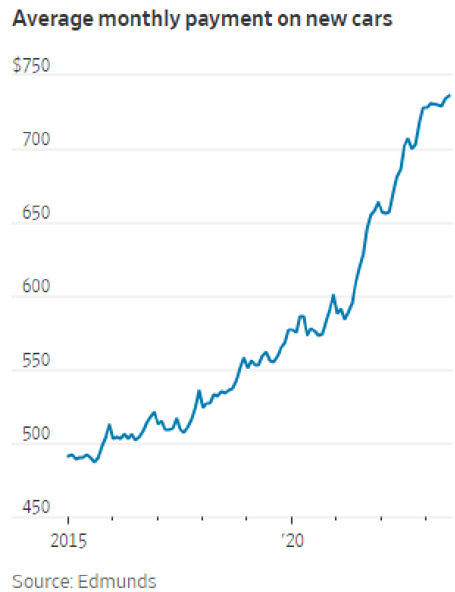
Scarlett Point Lighthouse is a lighthouse on the northeast side of Balaklava Island, known as Scarlett Point, about 15 km northwest of Port Hardy, BC. The lighthouse is currently managed by the Canadian Coast Guard.

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

Pricey payments

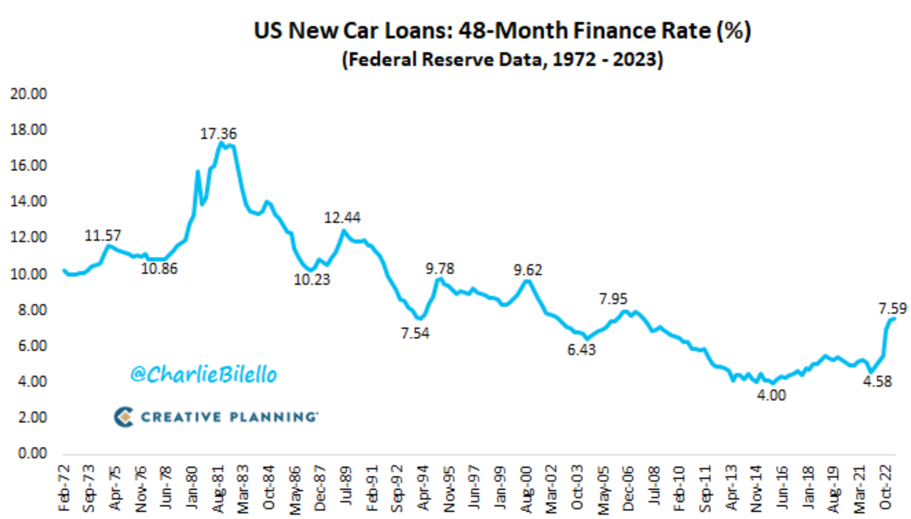
The average U.S. monthly car payment hit a new record last month as consumers continue to pile into products and assets that are stretching their budgets.

The average payment has surged to $736, a 28% increase over the last 3 years.



Consumers have continued to push off payments up front and have dived into long-term payment plans that cost more in the long run.

At the same time, the average interest rate on a 48-month car loan has increased to the highest rate since 2007.



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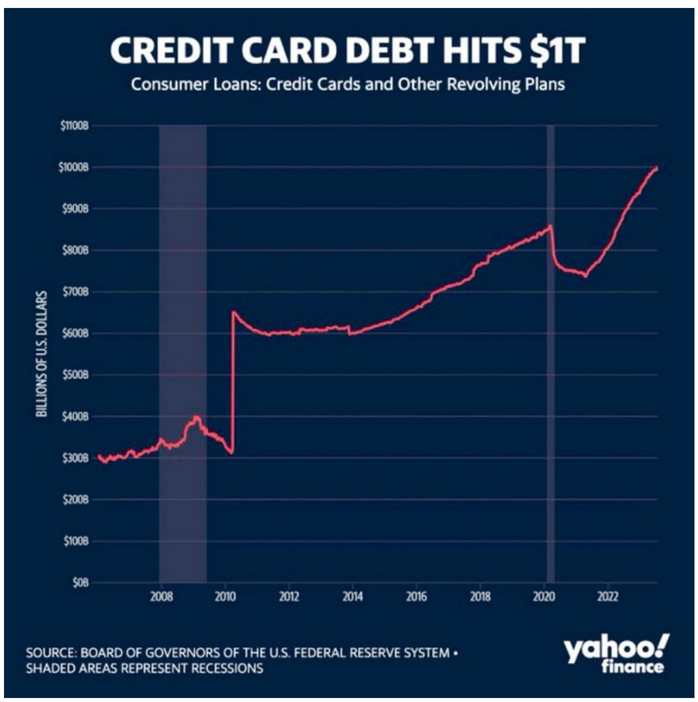
The quoted rate for new car purchasers has almost doubled over the last 2 years as the Federal Reserve has hiked interest rates.

Perhaps, this move by consumers is out of necessity or perhaps it is a part of a larger trend in society – buy now and pay later. If you do not believe us, purchase something from an online retailer and we guarantee you will have an option to purchase now or purchase through a monthly payment plan. We have seen plans like these for items as small as a T-Shirt. This payment trend will inherently cost consumers more in the long run. This trend also replicates what Central Governments have done in recent years to afford their pricey budgets. Governments have added on debt and printed trillions to afford their modern-day budgets.

On top of car payments increasing in dollar value, consumers have also compiled more credit card debt than ever.

According to a recent report by the Federal Reserve Bank of New York on Household Debt and Credit, Americans' total credit-card balance hit a record of $1.03 trillion during the second quarter. This was the first time that credit card debt has surpassed the $1 trillion threshold. Credit card balances grew annually by 16.2% and 4.6% from the first quarter.



On top of record levels of outstanding debt, 24 million new accounts were opened by consumers during the second quarter of this year. There are now 70 million more credit card accounts open than there were before the pandemic. Buy now pay later continues. The government leads the way while consumers follow their lead.

On top of these statistics, credit card delinquencies are at an 11-year high. Approximately 7.2% of credit card accounts were 30 days overdue as of the end of the second quarter.

This increase in credit card debt, account openings, and delinquencies has continued to fuel inflation as consumer demand remains high even if that product demand is fueled by debt rather than productivity.

We think this debt will catch up to consumers who will eventually pull back on purchases and become more responsible with their finances. Federal governments are not good role models when looking at keeping a budget.

China bites back

A recent data release from China was at the forefront of investors' minds on Tuesday. The news sent markets which had been rocky for a few weeks in a downward direction. The data which came in worse than expected show some serious cracks in the Chinese economy. Official data from China showed that imports and exports had each dropped by double digits in July.

The data signaled the lowest exports since the start of the Covid-19 pandemic, shipments were 14.5% lower than last July out of China. Imports were also down in China dropping 12.4% from last July's number. Western demand for Chinese products has decreased as geopolitical tensions between the West and China heat up.

The U.S. has led the way in this exodus from China as American imports of Chinese products dropped by 25% from the year prior in July. The uncoupling of the west and east is a trend that we have been following for quite some time and will continue to monitor moving forward.

The U.S. government has also imposed restrictions on companies purchasing or producing products in China. This decoupling has led companies and consumers to purchase products (or inputs) from other places like Vietnam and South America.

The only positive news in this recent data dump for China came from its relationship with Russia. Chinese exports to Russia grew by 70% over the last year.

The China – Russia alliance is alive and well and is something that will impact the global economy and financial markets as a whole for the foreseeable future.

We are not investors in China and believe their outlook moving forward is not all sunshine and rainbows. The other thing to monitor is their aging population which will eventually shrink and in turn, shrink the Chinese economy. In other words, China might need the world more than it thinks in the future.

Circling the drain

WeWork, the office-sharing giant that was once lauded as the future of the workforce is now warning investors that its future as a company is uncertain. From their Q2 earnings report released earlier this week:

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, except as set forth below.

Our losses and negative cash flows from operating activities raise substantial doubt about our ability to continue as a going concern.

Losses and cash flows substantially doubting the company's ability to continue operations moving forward, we smell bankruptcy risk.

The New York-based company is bleeding cash, and customers of its office rentals are canceling their memberships in droves. WeWork's stock is down 98% since its public market debut in October 2021 and down even more since its all-time valuation in 2019 (when it was a private company). WeWork's bonds are also deeply distressed, the company's 7.875% unsecured notes due in 2025 are trading for 33.5 cents on the dollar.

Just 4 years ago, WeWork was the largest private office occupier in Manhattan and London. WeWork was also drawing money from some of the largest and most known investors across the world. WeWork's original issues stemmed from its plan in 2019 to go public via a blockbuster IPO, investors, and investment bankers pushed back on their valuation and assumptions at the time which stalled the company's IPO hopes. However, two years later the company was given a second chance when they went public via SPAC.

We feel for the retail investors who piled into WeWork in hopes that the company would bounce back to its private market valuation seen in 2019. WeWork went public via SPAC at a valuation of $9.3 billion, its peak valuation was 2 years early at $47 billion.

Fast forward two more years and the company once labeled a unicorn is now trading like an over-the-counter penny stock.

After Tuesday's announcement of bankruptcy warnings, WeWork shares dropped another 30%. WeWork cited Covid-19, and the economy's slump as reasons for the company's cash burn and heavy debt burden.

"If we are not successful in improving our liquidity position and the profitability of our operations, we may need to consider all strategic alternatives, including restructuring or refinancing our debt, seeking additional debt or equity capital, reducing or delaying our business activities and strategic initiatives, or selling assets, other strategic transactions and/or other measures, including obtaining relief under the U.S. Bankruptcy Code", the company said in a statement released Tuesday. Quite the statement from a company that was once described as the future and revolutionary.

As of June 30, 2023, the company has $205 million in cash and total liquidity of $680 million. However, the company is riddled with debt. Through the first half of 2023, the company had a net loss of $700 million. The company currently has $2.91 B in long-term debt.

WeWork's issues go beyond the numbers. Three of its board members stepped down last week due to a "material disagreement regarding board governance and the company's strategic direction".

As of right now, it looks like the writing is on the wall for this faltering giant. We would recommend getting out of the way and not jumping into this falling knife.

Our final note on WeWork is regarding the company's market cap and its founder's net worth. The company now has a market capitalization of $300 million while its founder has a net worth of $2.2 Billion. The ultimate rug pull, something our grandkids will be studying in their business classes.

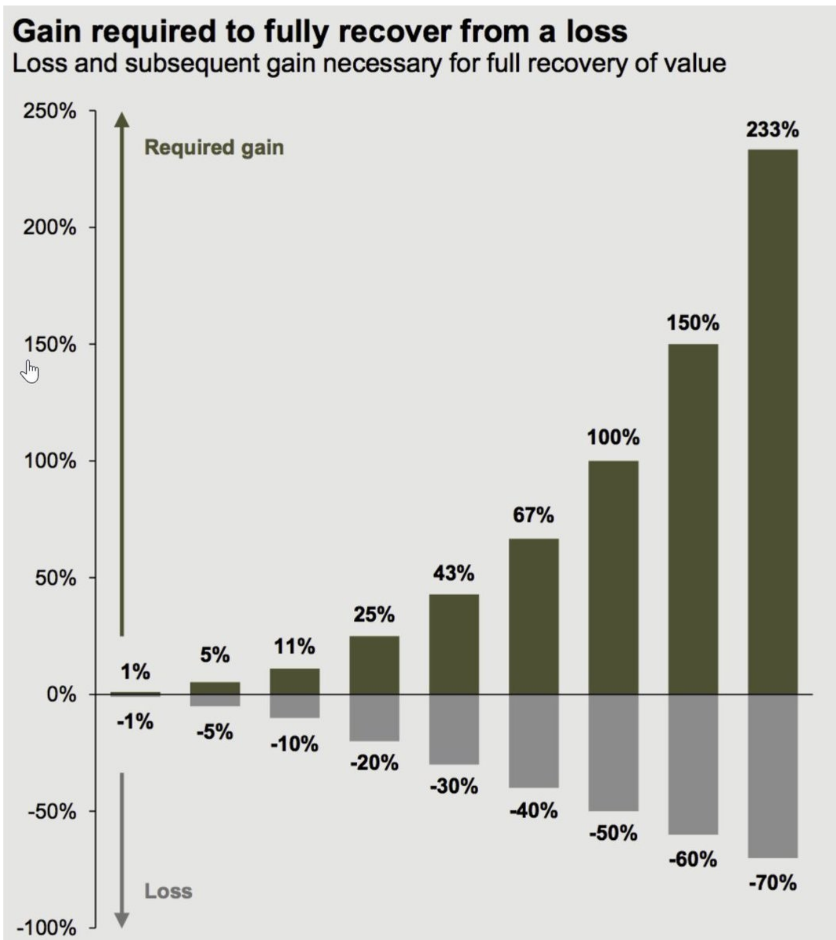
Perhaps the funniest thing regarding WeWork's founder is that he recently raised $350 million for a new venture called Flow which will operate in a similar way to WeWork. How we continue to give money to founders who burn capital and destroy shareholder value is beyond us.

A good graphic for investors

As investors, it is essential to remain disciplined when buying and selling securities. A disciplined and evolving approach is the best way to attack financial markets which are always evolving.

This week, we ran a great graphic that looks at the gain required to recover from various percentage losses.

This is a very important chart for all investors. Selling is as important as buying. You cannot let your pride get in your way as you might get hurt on the way down. If things change (in a negative way) regarding a stock you like, cut your losses quickly.



Basic algebra explains how some investors get burnt on the way down. A 50% loss requires a 100% rebound just to break even, it accelerates further the more a stock is down. Contain your investor bias and human emotions. It will make you a better investor in the long run.

Where is nuclear power growing?

As readers of this publication, you should know how we feel about nuclear power and uranium prices. We think it will serve as a vital source of energy moving forward and supply constraints will lead to a major increase in the spot price of uranium moving forward. As investors in this space, it is important to look at regulation and the industry on a global scale. We think nuclear power is the best of both worlds for energy investors. It has the reliability of fossil fuels, and the green benefits of renewable energy sources.

The major issue that nuclear energy has going for it is public and government support due to major accidents that have happened in the past. Another major hurdle for nuclear energy is how to dispose of nuclear waste. However, even with these issues, we think the narrative surrounding nuclear energy is changing.

Numerous countries are continuing to invest heavily in nuclear reactors to secure a reliable energy grid moving forward. China and India are leading the way in expanding their nuclear energy capabilities. These governments understand more power equates to a stronger economy and diversifying said power grid is more important than ever.

Table 3. Units under construction year-end 2022

	BWR	FBR	PHWR	PWR	Total
Argentina				1	1
Bangladesh				2	2
Belarus				1	1
Brazil				1	1
China		2		20	22
Egypt				2	2
France				1	1
India		1	3	4	8
Iran				1	1
Japan	2				2
Russia		1		2	3
Slovakia				2	2
South Korea				3	3
Turkey				4	4
Ukraine				2	2
United Arab Emirates				1	1
United Kingdom				2	2
United States of America				2	2
Total	2	4	3	51	60

Source: World Nuclear Association, IAEA PRIS

437 nuclear generators generated power last year across the world and 60 new reactors were under construction as of December 31, 2022.

Many of the nuclear power plants across North America need replacement as they have been in use for decades, but government regulation is preventing the growth of the sector.

Nuclear energy expanding across the world would be a major boost for the Canadian economy. As of 2019, Canada was home to the 3rd largest uranium reserves in the world only trailing the reserves in Australia and Kazakhstan.

We will continue to follow the sector like a hawk but wanted to share where the sector is expected to grow as we ran by the chart above this past week.

ESPN gets its sportsbook

ESPN is the sports broadcasting leader in the U.S. They are owned by Disney and were founded way back in 1979. The network operates several channels and has deals with numerous sports leagues including the NFL (Monday Night Football), MLB (Sunday Night Baseball), NBA, and NHL. ESPN has struggled in recent years as the broadcaster has felt the effects of declining cable TV viewership. They have attempted to launch numerous digital avenues to combat this worrying trend. Their most recent launch is a deal that will pair them with a casino company that will launch a betting application and sportsbook called ESPN Bet.

Penn Entertainment is an American entertainment company that operates 43 properties in 20 states. The deal will link Penn to ESPN via a sportsbook. As a part of this deal, Penn will pay ESPN $1.5 billion over the next 10 years. ESPN also will receive $500 million in stock warrants over the next decade, for purchasing 31.8 million shares of Penn National. However, the deal will make ESPN the new face of Penn's old sportsbook, Barstool Sportsbook.

Penn purchased 36% of the sports and entertainment company, Barstool in January 2020 for $163 million and the remaining stake in February 2023 for $388 million. Barstool was Penn's pathway to consumers; they believed an entertainment company could help propel their sportsbook to new heights in a highly competitive industry that was slowly becoming legalized. However, that never came to fruition. Barstool's Sportsbook market share had declined over the last year in several major states. As of April 2023, the sportsbook's market share in Illinois sunk to 3.9% and 7.5% in Michigan.

As a part of Penn's new deal with ESPN, they sold Barstool which they owned 100% of to its founder, Dave Portnoy. The deal has a few stipulations including a non-compete in the sportsbook world and that Penn will receive 50% of the future sale price that Portnoy sells his company for. The upfront fee that Portnoy paid to regain control of Barstool was $0, yes you read that right, the company that was purchased for over $550 million was regained for $0 and a non-compete. There are rumors that Barstool will also not be allowed to use betting companies as sponsors but a master class by Barstool's founder.

Portnoy and his management team made way with hundreds of millions and a few short years later he got his company back, money, power, and outright control of your company seems like something that we would all like to have.

As a casino and sportsbook, Penn was heavily regulated. Having a controversial media company like Barstool as your face certainly caused some issues which is presumably a major driver of Penn choosing to offload Barstool in the way that they did. ESPN also has a much larger traditional sporting audience than that Barstool as they broadcast games directly into homes nationwide.

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