THE WEEKLY BEACON **FEBRUARY 9, 2024**

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.

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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.

The Jeddah Lighthouse, Saudi Arabia

Jeddah Light is an observation tower, port control tower and active lighthouse in Jeddah, Saudi Arabia. The lighthouse holds the claim of Worlds tallest Lighthouse presented by the Guinness World Records. The lighthouse stands at 431 feet tall.

Yokohama marine tower, Yokohama, Japan

Yokohama Marine Tower is a 106 metres high lattice tower with an observation deck at a height of 100 metres in Naka Ward, Yokohama, Japan. The lighthouse was opened in 1961 and was at the time the worlds tallest lighthouse. The lighthouse was decommissioned in 2006 and was reopened by the city of Yokohama in 2009.

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

The “dumbest” man in the room

Adam Neumann is a billionaire whose company went bankrupt; he was forced out of the company by major shareholders and the Board of Directors of WeWork. The Board believed he could not lead the company successfully and his vision would eventually fail the company. His vision was to essentially grow at all costs. Even though Neumann was forced out back in 2019, his fingerprints were all over WeWork’s bankruptcy which was filed late in 2023. Neuman founded WeWork in 2010.

We bring up Neumann and WeWork this week because it was reported by several sources that he is bidding on WeWork and trying to buy them back. Neumann is trying to buy WeWork out of Chapter 11 bankruptcy, with an assist from Dan Loeb’s Third Point. Since December 2023, Neumann and Loeb have expressed a sincere interest to buy WeWork and its leases out of bankruptcy or provide debtor-in-possession (DIP) financing. Neumann has followed WeWork’s struggles even when he was pushed out of the company, he reportedly offered the company $1 billion in late 2022 but was rebuffed by WeWork’s CEO at the time.

Dan Loeb founded Third Point, a value-oriented hedge fund. He is a billionaire whose hedge fund has over $12 billion in assets under management.

It is not clear what Loeb and Neumann will offer for WeWork and its assets as of now. Currently, WeWork’s bankruptcy plan proposes handing ownership to the company’s most senior debt holders, including those holding its credit line, first-lien notes, and second-lien notes, according to court papers. Third-lien noteholders and unsecured creditors are likely to be wiped out.

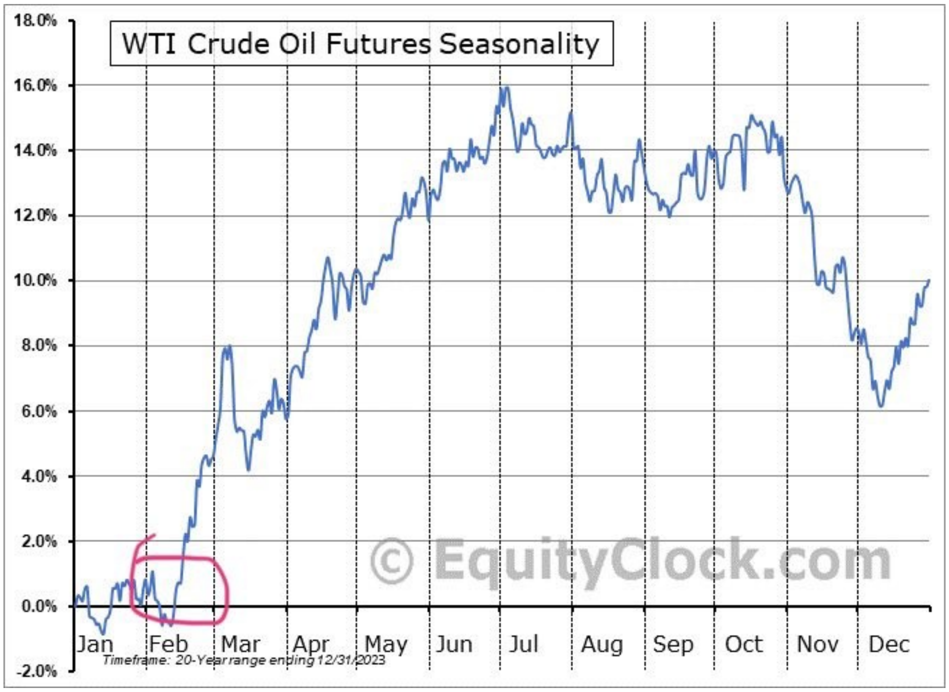
Shortly before WeWork’s bankruptcy filing, Neumann was quoted saying that he believed with the right strategy and team, a reorganization would enable WeWork to emerge successfully. Right up Neumann’s ally - believing he can solve any problem and his baby will once again emerge as a dominant player in real estate.

The WeWork saga continues to unfold. We are glad we never caught this falling knife.

However, if Neumann reclaims control over his unicorn, would he be the smartest person in this story? Neumann was ousted, cashed out his shares became a billionaire, and could arguably regain control of his unicorn for pennies on the dollar. Quite the rollercoaster ride for the brash billionaire.

Speaking of seasonality

A nice chart to remind our investors and readers that join us in the oil trade. Crude oil seasonality is just about to ramp up and hit the strongest period over the calendar year, position your portfolio accordingly.



The February – June period is the strongest period for oil and the fundamentals have not changed. If anything they have improved, as draws on inventory have occurred recently rather than forecasted inventory builds.

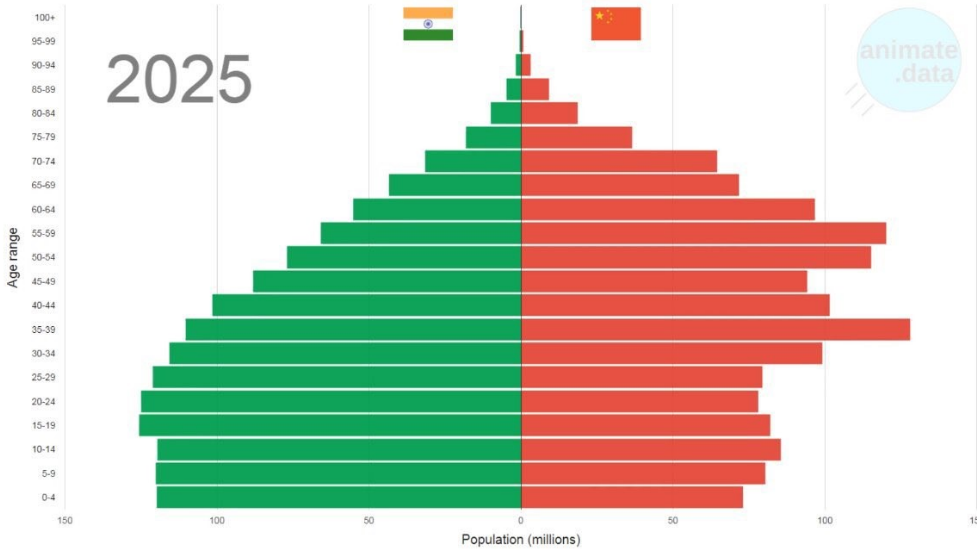
Remain disciplined despite the white noise.

Crisis boiling over

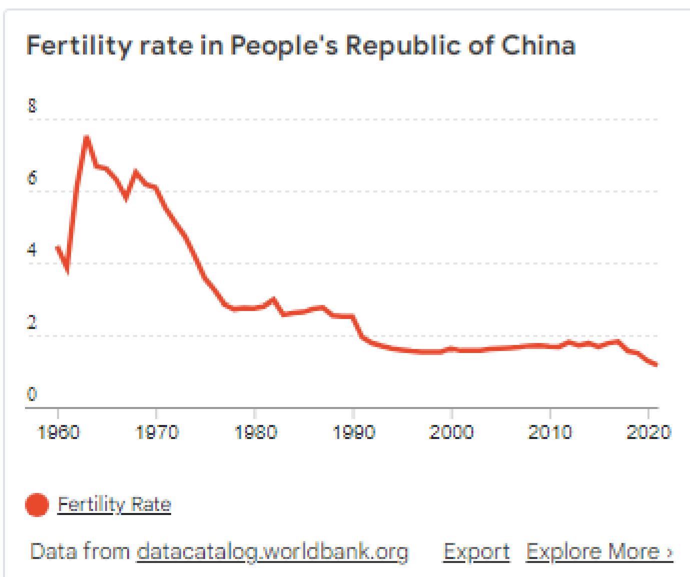
China has several problems, some are stealing headlines like President Xi and the Chinese Communist Party's overreach on private enterprises and a major real estate crisis stemming from a major Chinese developer Evergrande, but some problems are running under the radar. These problems running under the radar are more than likely not well known and are rarely talked about on North American television.

Many of these under-the-radar problems in China have to do with demographics. China has a shrinking population that is aging and one that is becoming less productive per capita. We, along with others, forecast these issues to accelerate moving forward. This shrinking population will cap the growth rate of the fastest-growing economy over the last 30 years moving forward.

An easy way to look at the aging population in China is to compare the age breakdown in China and India as it currently stands.



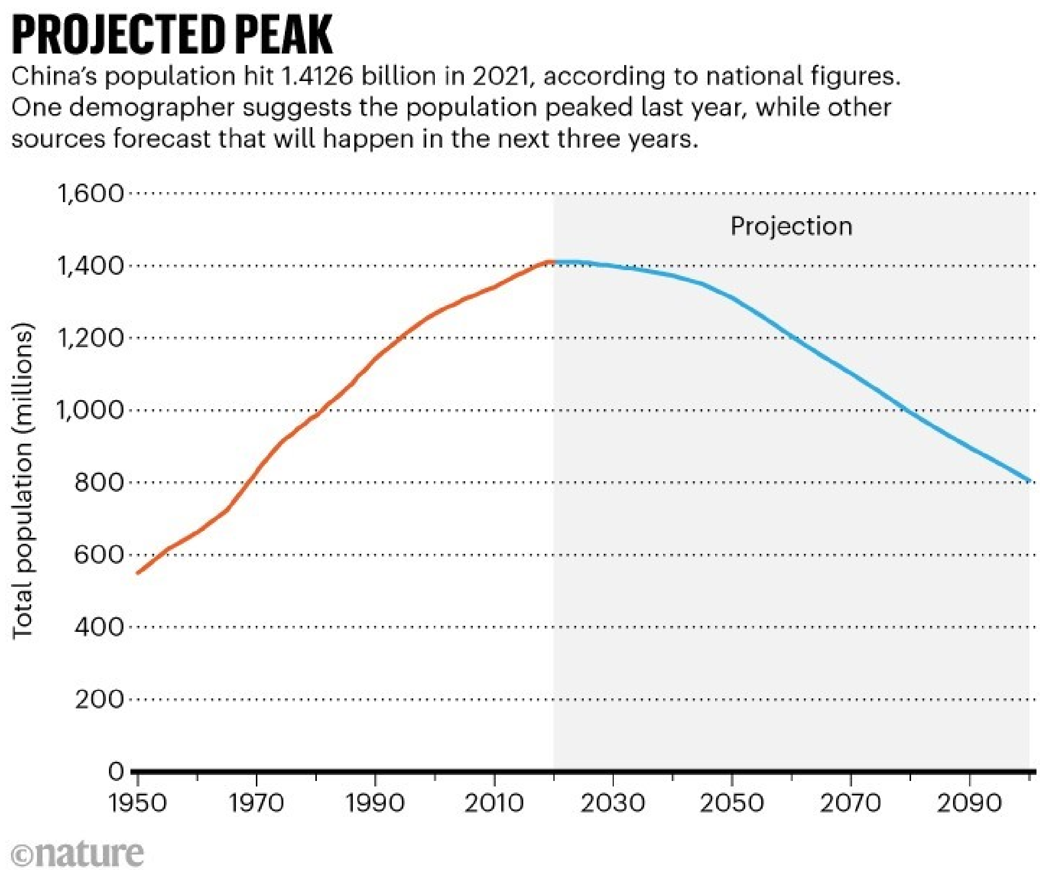
China’s population is skewed older as their birth rate has collapsed in recent decades. The birth rate in China has never recovered since the one-birth rule was instituted. The rule was put into effect in 1980 and was removed in 2016. However, even with the rule removal, birth rates have continued to fall in China over the last 7 years.



This collapse in birth rates has led to a shrinking Chinese population. China’s population has declined two years in a row. The National Bureau of Statistics said the total number of people in China dropped by 2.08 million in 2023, and 850,000 in 2022. 2022’s population decline was China’s first since 1961. Those declines are expected to continue over the following decades.

The fresh data adds to concerns that the world's second-largest economy's growth prospects are diminishing due to fewer workers and consumers, while the rising costs of elderly care and retirement benefits put more strain on indebted local governments.
India also surpassed China as the world's most populous country last year and is attracting new investments as their population continues to increase versus China which is seeing major foreign divestment.

China's population is forecasted to be approximately 800 million at the end of this century, a decrease of over 600 million people from today's population. Quite the shift for China, its people, and its economy. Quite the issue occurring beneath the surface that we think many more should pay attention to.



<u>Happy Birthday Facebook (Meta)</u>

Facebook celebrated its 20th birthday on Sunday and celebrated an even greater milestone to end last week, its earnings.

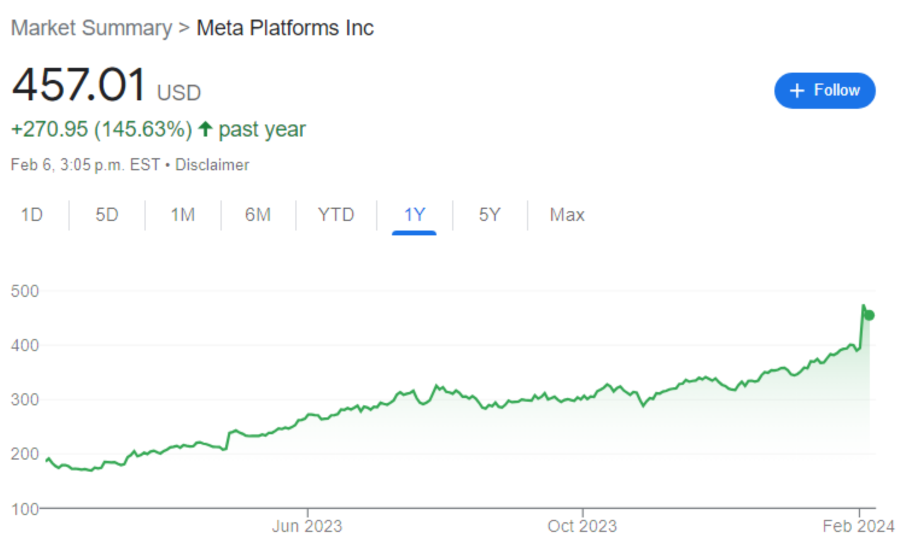
Meta Platforms reported earnings after hours on Thursday, and the results were spectacular. The company beat revenue, website traffic, and earnings estimates, announced its first-ever dividend, and announced more buybacks. The company, which fully embraced the Metaverse a few years ago and seemed to waste billions in cash flows, has seemingly pivoted. The company's financials and spending have improved significantly over the last year and its stock price has surged.

Meta shares gained 20% on Friday and added $197 billion in market capitalization. This single-day move is the largest ever in Wall Street history surpassing previous records set by Apple and Amazon. Apple and Amazon both added $190 billion in market capitalization in a single session in 2022 which was until now the record. (Note: just over 2 years ago, Meta lost $232 billion in a single session, marking the largest single-day market cap loss in Wall Street history).

The market seemingly approved Meta's commitment to change highlighted by faster growth, and increased capital structure efficiency. Meta's commitment to AI was another driver of this strong performance.

Last year, Meta reduced its workforce by 22% and announced a $50 billion share buyback program. The earnings report on Thursday continued to show Meta's commitment to returning value to shareholders rather than chasing a pipedream (the Metaverse).

Meta shares have been roaring over the last year but now trades quite expensively due to large growth prospects from many analysts.



We certainly have followed this story through and have been quite surprised at Meta's commitment to efficiency, discipline, and pivot in strategy over the last 12-16 months after an extremely rough end to 2021 and 2022.

We will not be buyers of Meta at these levels but think it is something to watch moving forward.

It's safe to say the executives and employees at Meta had a special weekend celebrating their organization. Like him or not it's crazy to think Zuckerberg started this all in his dorm room at Harvard.

Return of traditional autos

While Tesla has struggled recently due to softer-than-expected demand for electric vehicles, traditional automakers are quietly making a comeback. Tesla shares are down 26% year to date after missing earnings last month and forecasting lower-than-expected growth. Ford on the other hand beat every estimate on its earnings on Wednesday. Ford beat revenue estimates and beat consensus earning estimates quite substantially for the fourth quarter. Earnings per share came in at $0.29 versus a consensus estimate of $0.12.

Ford shares were up 4% on Tuesday before its after-hour earnings and shares jumped another 7% after its positive earnings report.

Investors were also pleased with the guidance the company gave, forecasting better-than-expected results. The automaker also announced a special dividend of 18 cents per share in addition to a Q1 regular dividend of 15 cents per share. The dividends are payable on March 1st to shareholders of record at the close of business on February 16th. As for its 2024 full-year forecast, Ford projected adjusted earnings before interest and taxes of $10 billion to $12 billion, which came in below Ford's pre-UAW strike 2023 profit outlook of $11 billion to $12 billion but higher than estimates of $9.24 billion.

However, Ford is facing similar issues in the EV world with large spending and softer demand like Tesla’s issues. For now, it seems those issues are being put to the side as investors focus on its traditional auto business.

Last year, Ford divided its business into three business units: Ford Blue, the traditional gas-powered business, Ford Model e for the EV division, and Ford Pro for its commercial and Super Duty truck business. Here is where those units came in:

Ford Blue revenue $26.2 billion versus a $24.52 billion estimate. EBIT: $813 million versus a $866.5 million estimate.

Ford Model e revenue $1.6 billion versus a $1.91 billion estimate. EBIT: $1.57 billion loss versus a $1.34 billion loss estimate.

Ford Pro revenue $15.4 billion versus a $13.86 billion estimate. EBIT: $1.81 billion versus a $1.43 billion estimate.

The numbers are telling and reflect the EV problem many did not forecast. Those EV losses are expected to continue for Ford this year. For 2024, Ford is projecting the Model E unit to record an EBIT loss of $5 billion to $5.5 billion - a larger loss for the business unit compared to 2023.

Ford's CEO said the results were positive for the year but nowhere from finished. He mentioned large growth prospects for the company in terms of revenue and earnings.

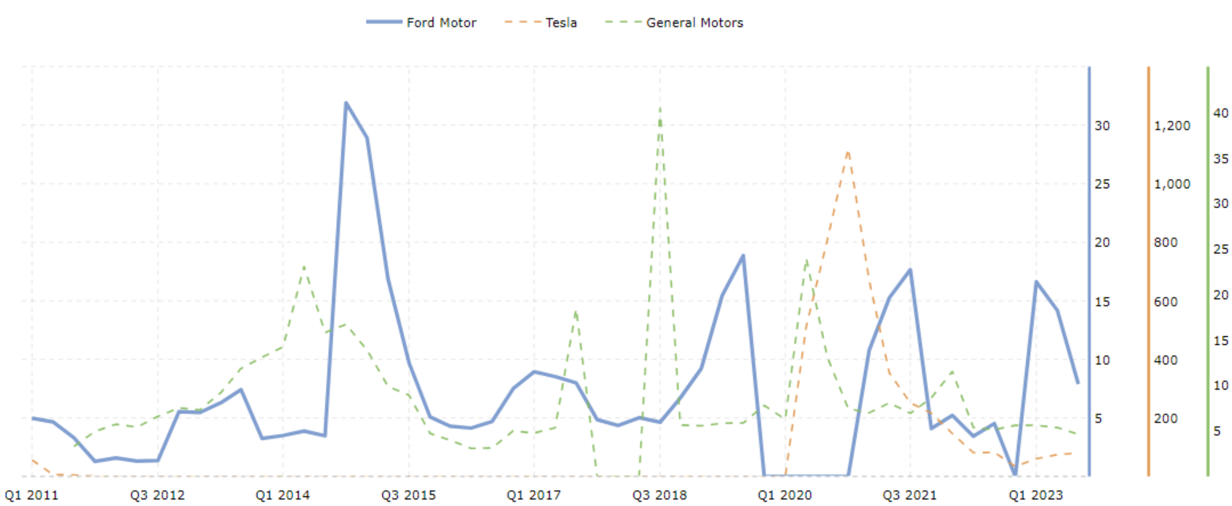
The company's strategy in EVs has also pivoted as the company will focus on spending less to produce EVs. The company will focus on smaller EVs and focus on a small number of models with cost remaining a major focus. This focus on cost will potentially allow Ford to compete with Tesla and Chinese EV makers moving forward in the space.

Toyota also reported earnings on Tuesday and beat many estimates as well, beating top and bottom-line consensus estimates. Toyota's U.S. listed American depositary receipts surged 8.1% to $219.50 in Tuesday trading.

GM reports earnings later this month and if Ford tells us anything, there could be some nice beats. GM already announced that they expect EBIT to come in at pre-UAW strike levels for 2024 - something Ford has not forecasted.

We have found this flip in recent months quite fascinating as Tesla shares retreat from their expensive valuations and GM, and Ford trade at extreme discounts.

Here are the trends of Ford, GM, and Tesla's PE ratios (note the different scales on the right):



Ford currently trades at a P/E of 7.8, GM 5.3 and Tesla 54.3 (PE TTM).

<u>Changing tide</u>

An Asset Manager that was once a favorite of the media and Wall Street has now turned into a punch line. Ark Investments, founded by Cathie Wood was named the number one wealth-destroying ETF issuer by Morningstar earlier this week.

ETFs

Ark Investments tops Morningstar list of 'wealth-destroying ETF issuers -report

By Suzanne McGee

February 6, 2024 5:00 AM CST · Updated 11 hours ago

Aa

Feb 5 (Reuters) - U.S.-listed exchange-traded funds (ETFs) managed by Ark Investment Management have wiped out a total of $14.3 billion in shareholder value over the 10 years ended Dec. 31, 2023, according to a report by Morningstar Inc.

That is more than double the estimated total losses incurred by each of the next four fund families on Morningstar's list. Morningstar calculated total losses by measuring the decline in assets in dollar terms, after excluding inflows or outflows.

The brash fund manager has battled outflows, extremely poor results, and poor investment decisions over the last 18-24 months.

Ark Investments has been mentioned in this publication numerous times in the past so we will not dive deep into it. We will however give our new readers a small glimpse of the firm. Ark is an ETF issuer that aims to deliver long-term capital appreciation by investing in the leaders, enablers, and beneficiaries of disruptive innovation. Ark has approximately $7.5 billion in AUM, quite the number but well down from the company's AUM in 2021 of $50 billion-plus. Cathie Wood founded and led the firm and is a regular on CNBC programming giving her thoughts and views.

The views of Ark and Wood have been quite outlandish at times, the company also regularly ignores fundamentals and presumes preposterous growth rates. Among Wood's largest bets have been Tesla, Palantir, Coinbase, Roku, Zoom, and Square. All high multiple companies that had crippling 2022's.

Wood's outflows over the last 2 years have surged and so have her results.

Ark's flagship fund, ARKK, is up 8% over the last 5 years and is down over 66% since February 2021. The firm has wiped out investor capital and investors have turned on Wood and Ark. It's no surprise because Morningstar reports that Cathie Wood's Ark Invest has destroyed $14 Billion in wealth over the last 10 years.

We never owned Ark funds or recommended them to clients as the investment style seemed outlandish, extremely speculative, and ignored market fundamentals. Some of her tweets explain her investing thought process well so we recommend you take a look. Her Twitter username is @ CathieDWood.

So how did so many investors get sucked into a relatively small ETF issuer, the media?

Here are some articles from when Ark was on top due to their speculation:

Home » Investing » Cathie Wood: The Next Warren Buffett?

Cathie Wood: The Next Warren Buffett?

The tech world's Warren Buffett could be Cathie Wood. Her bet on Shopify Inc. (TSX:SHOP)(NYSE:SHOP) is worth keeping an eye on.

Vishesh Raisinghani

Published January 24, 2021 7:52 am EST

BIG DEAL

Cathie Wood is the Market's New Oracle

Cramer weighs in on Cathie Wood's $3,000 price target for Tesla

Cathie Wood's Ark Invest just made a long-awaited, striking call on Tesla that projects shares of the Elon Musk-led electric carmaker more than quadrupling by 2025. CNBC's Jim Cramer and David Faber discuss.

MON, MAR 22 2021 • 10:30 AM EDT

Our technology stocks are way undervalued, relative to their potential, says ARK Invest's Cathie Wood

ARK Invest CEO Cathie Wood joins the 'Halftime Report' to discuss her investment strategy, even as her portfolio has taken a big hit in the last few months.

THU, FEB 17 2022 • 12:16 PM EST

Note the dates on the articles above.

The media lauded her investment style and many retail investors have been caught bag-holding by the speculative manager. Will her funds ever return into favor? Yes, markets move in waves and her hyper-growth names will probably have good periods moving forward but we think the risk is way too high to buy Ark products.

Buyer beware.

MacNicol & Associates Asset Management
February 9, 2024