THE WEEKLY BEACON April 26, 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.

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.

Morris Island Lighthouse, Morris Island, South Carolina

The Morris Island Lighthouse stands on the southern side of the entrance to Charleston Harbor. The lighthouse is the tallest in the state standing at 161 feet tall. The lighthouse was originally constructed in 1967 and was automated in 1938.

Charleston Light, Sullivan's Island, South Carolina

Charleston Light, also known as Sullivan's Island Lighthouse is located in the northern entrance of Charleston Harbor. The lighthouse was originally constructed in 1960 and first lit 2 years later. The lighthouse was automated in 1975 and stands at 140 feet tall.

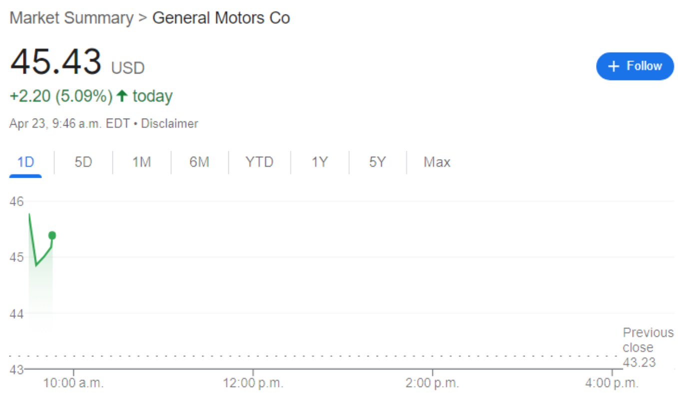
Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

GM strong earnings

General Motors delivered a strong start to 2024 after reporting earnings on the morning of April 23rd. The company beat Q1 sales and earnings estimates as well as last year's Q1 numbers.

Revenue came in at $43 billion versus a $42.1 billion estimate and $40 billion last year.
Earnings came in at $2.62 per share versus an estimate of $2.12 per share and $2.21 per share last year.
Operating margins were also higher than expected.

GM shares bounced by 5% after this release.



GM shares are trading at 52-week highs and have performed extremely well over the last 6 months.

Wall Street expected lower earnings on higher sales this year due to the newly minted labor deal with UAW. However, labor costs were not as big as a headwind as once thought.

GM raised its fiscal year outlook after a strong Q1. They raised their operating profit guidance to between $12.5 billion and $14.5 billion. The midpoint is close to $1 billion higher than the $12.4 generated in operating profit in 2023. GM also expects strong cash flows in 2024. GM raised expectations for adjusted automotive free cash flow to a range of $8.5 billion to $10.5 billion, up from an earlier forecast of $8 billion to $10 billion.

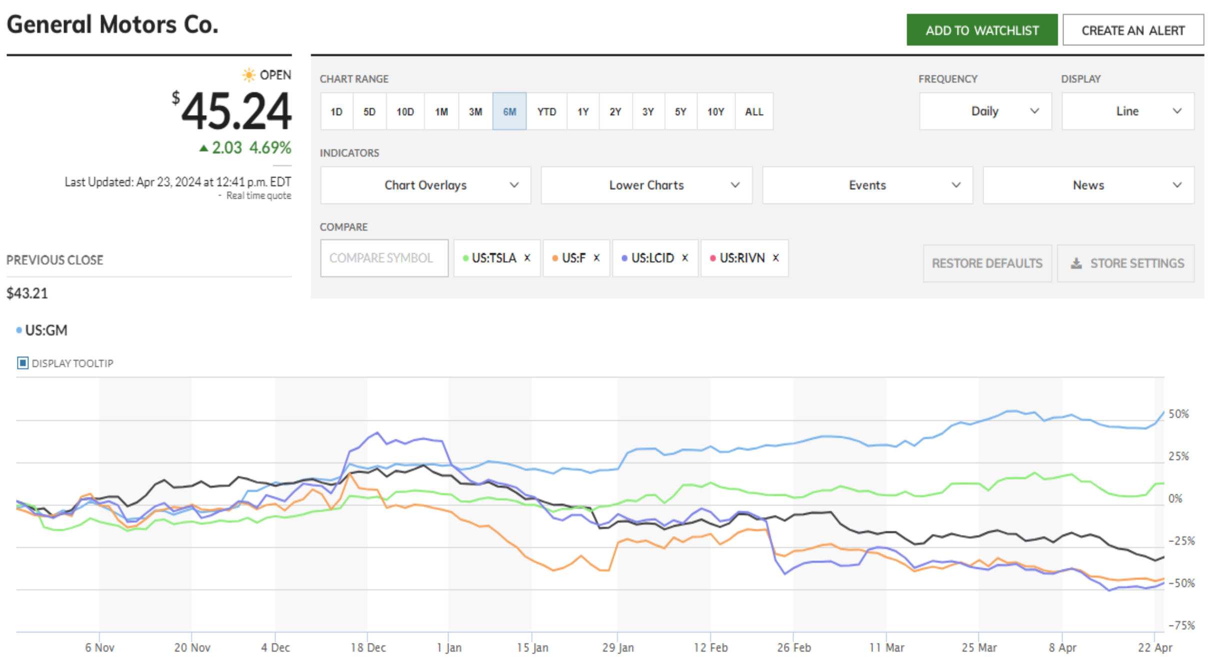
However, GM faced similar issues to that of EV producers in their EV business unit. GM sold 16,425 EVs in the U.S. in Q1. Despite the weaker-than-expected demand, GM expects total year sales to come in between 200,000 and 300,000 units. Mary Barra cited improving battery module availability, and new GM EVs launching as reasons the company is optimistic about their EV business unit in a letter to investors.

GM's strong results were primarily driven by the North American market, specifically truck sales. Truck sales increased adjusted earnings by 8% from a year earlier. Numbers for GM in China decreased year over year but came in marginally higher than what management had internally forecasted for the Chinese market.

This is the 7th straight quarter that GM has beaten Wall Street consensus earnings estimates and the 6th straight quarter they have beat revenue estimates.

For now, it seems the old American combustion engine is performing better than the hot new EVs over the last 6-8 months, and investors are noticing.

Here is the 6-month performance of GM (blue), Ford (green), Tesla (black), Lucid Motors (orange), and Rivian (purple); do you notice anything?



A nice compounder

Speaking of earnings this week, a U.S. insurance provider reported earnings on Monday that we own across several client accounts. Brown & Brown Inc. reported strong numbers for Q1 2024 on Monday. The company has been a sneaky compounder since its inception.

Here is the company's 5-year return as of April 23rd, 2024:

For comparison reasons, here are the 5-year returns of the S&P 500, the iShares US Financials ETF, and the iShares US Insurance ETF:

The company has outperformed the overall index, its sector, and its industry by a wide margin.

So, what exactly does this consistent compounder do? Brown & Brown was founded in 1939 and is headquartered in Daytona Beach Florida. The company operates as an insurance brokerage firm that specializes in risk management. The company is the 6th largest independent insurance brokerage in the U.S. Brown & Brown operates in several countries globally including the U.S., Canada, Europe, Central America, and Asia.

The company offers insurance products to a variety of client types through 3 business units. Brown & Brown has a clearly defined strategy that has successfully helped them enhance and diversify their business and create long-term value to shareholders. The company has maintained a disciplined approach to making acquisitions and will continue to do so. In 2023 the company made 33 strategic acquisitions, acquiring $162 million in annual revenue. The company used 79% of its cash to make acquisitions last year.

Brown & Brown has increased revenue every year except one (2009) since 1993. Revenue grew over the last 5 years at a CAGR of 12.25% while margins increased over the same period.

Now that you know what Brown & Brown does, let's get into their earnings release from Monday. Brown & Brown beat earnings per share estimates by 6.5% and revenue estimates by 3.2%. This is the 6th straight quarter that Brown & Brown beat street estimates for revenue and earnings. Since Q1 2019, Brown & Brown has only missed revenue and earnings estimates once, quite the track record. The company's acquisition strategy provides consistent growth for shareholders. Revenue jumped by 13% since last year's first quarter. Earnings also jumped over the same period. The company also reported a strong organic revenue growth rate of 8.6%.

Revenue grew in each business unit over the quarter as did earnings. The company expects continued growth for the rest of the year. The company also boasts a strong balance sheet and cash position which they claim they will leverage to continue to acquire high-quality businesses as they have throughout their past.

Brown & Brown currently trades a bit expensive in terms of earnings, and book in terms of its historical averages but trades close to the average of industry competitors in terms of earnings and book value.

We think Brown & Brown is a strong security that has more upside potential. There could be bumps along the way, but we believe in the long run that management will continue to deliver value to shareholders and that the company holds a low-risk rating.

Disclaimer: MacNicol & Associates Asset Management holds Brown & Brown in various client accounts.

TikTok ban

Social media platform TikTok faces a key decision over the next 270 days. The social media platform is owned by ByteDance, a Chinese internet technology company headquartered in Beijing. The reason they face a key decision is that Congress passed a Bill that would outright ban the platform if the Chinese company does not sell TikTok to an approved buyer.

Fast forward to Wednesday morning and President Biden signed the Bill giving ByteDance 270 days to comply or face being banned across the United States.

The law has been introduced because of concerns TikTok might share user data with the Chinese government - claims it has always denied.

TikTok says it will challenge this law in court and they believe it is an unconstitutional law. TikTok reportedly believes they will win their challenge.

The law has widespread bipartisan support as 79 Senators voted to ban the platform.

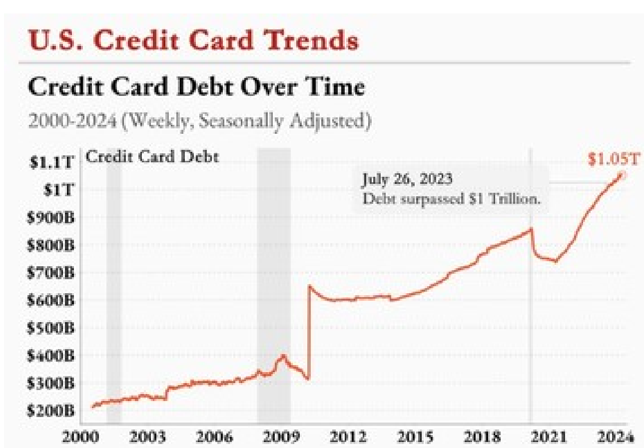
<u>Consumers following their irresponsible governments</u>

As governments across the developed world have continuously run fiscal deficits and financed their agendas through money creation, prices have risen. It is no surprise that inflation is coming in hot and has been elevated for almost 3 years now. For decades governments have adjusted the way they calculated inflation to underreport price increases.

They are running huge deficits year after year and are sitting on huge levels of debt, levels that we have never seen before. Governments are essentially printing votes through the creation of money and promising their citizens things that they cannot afford in a balanced budget. This is the reason why governments have introduced new ways of taxation in recent years as their current revenue stream cannot support their extreme spending. This spending goes for both sides, both major political parties have added to this fiscal issue.

This has led to a phenomenon that we like to call, get now, pay later (or maybe never). Consumers are doing what governments are doing. They are adding on debt, getting products, and services now, and facing the consequences down the road. It is why there are so many people who are for student loan relief, add on debt, and lobby for debt relief down the road, never paying their fair share. This phenomenon can also be seen in some rental markets as landlords are stuck holding the bag when some consumers do not want to pay rent and essential squat on their properties.

We bring this up, this week as we ran by a very interesting chart on social media. The chart depicts total credit card debt in the U.S. over the last 24 years.



Total credit card debt surpassed $1 trillion last July and has surged over the last 3 years. Consumers used their excessive savings at the start of COVID-19 to pay off their credit cards. Since then, personal balance sheets have deteriorated, and consumers are adding debt on at record rates and kicking their payments down the road.

Think about the last time you purchased something online with your credit card, it gives you an option to pay in installments for something as small as a t-shirt. Affirm, Klarna, Afterpay, and Shop Pay Installments are just four of many who operate in this field. These companies allow consumers to buy something now and pay for over weeks or months rather than upfront. This new wave is just a glimpse into the psyche of consumers who are adding on debt at record rates just like their governments.

After all, the chart above looks quite like the one below if you remove the numbers:

The only difference is that the government added more debt on during the pandemic and consumers used the money the government paid to them to clean up their balance sheets momentarily.

For now, it seems many consumers are playing follow the leader with their governments. We would recommend you not to do that, no matter who runs your country.

Finally turning on Cathie

Cathie Wood the Founder of Ark Investments has been written about in this publication numerous times since its inception. You know our thoughts on her investment style. Even if you missed our thoughts, she regularly writes articles for publications and makes TV appearances.

This week FactSet reported that Ark funds have seen their largest withdrawals ever in 2024. The withdrawals this year in just 3.5 months are more than the withdrawals seen in 2022 and 2023.

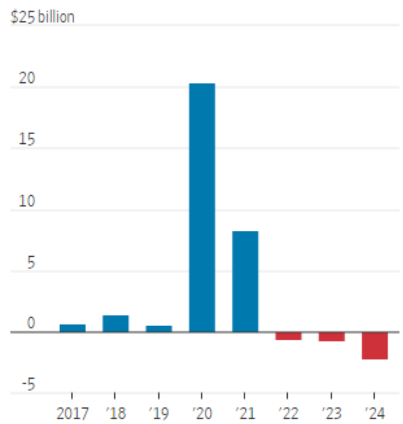
Cathie Wood's Popular ARK Funds Are Sinking Fast

Investors have pulled a net $2.2 billion from ARK's active funds this year, topping outflows from all of 2023

By Jack Pitcher Follow

Updated April 23, 2024 4:54 pm ET

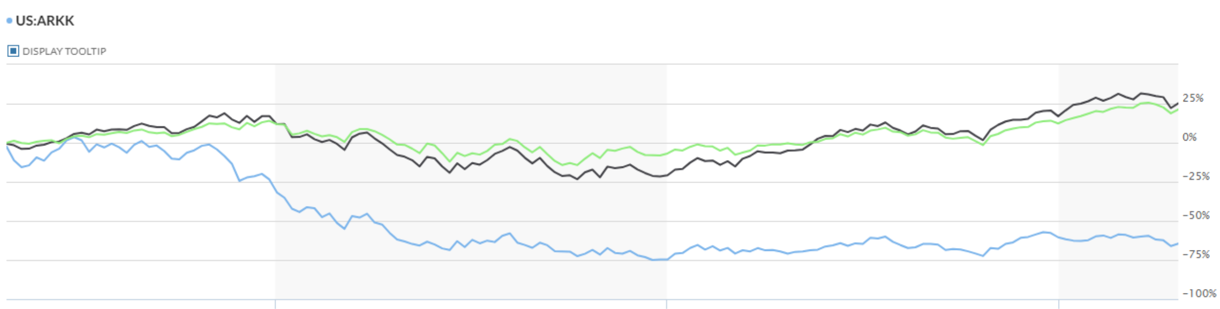
Net flows, actively managed ARK ETFs



Note: 2024 data is through April 19.
Source: FactSet

Now why have her funds seen massive withdrawals?

Perhaps, it has something to do with underperformance. Below is a 3-year performance chart of Ark's flagship fund, ARKK, the S&P 500, and the Nasdaq 100. ARKK has lost two-thirds of its value while the market is up over 20%.



Wood became extremely famous in the early days of COVID-19 when her fund was shooting the lights out and taking in billions in inflows. She was on TV almost daily and was anointed the next Buffett. She also famously said oil would reach $12/barrel and that oil was at a secular peak citing that EVs were ready to take over as well as alternative energy sources. We will not dive into that claim and take shots at her. We will simply say we are happy that we owned oil assets and energy producers over the last 3 years and did not buy her fund. Back to Wood's wild ride, it seems 2024 was the last straw for many of her followers as they rushed to sell her speculative funds.

ARK Actively Managed ETFs	YTD 2024 Fund Flows (as of Apr. 19)	2023 Fund Flows
ARK Innovation ETF	-1.37 B	-578.15 M
ARK Next Generation Internet ETF (NYSE:ARKW)	-211.66 M	-63.93 M
ARK Genomic Revolution ETF (BATS:ARKG)	-363.74 M	40.41 M
ARK Fintech Innovation ETF (NYSE:ARKF)	-144.93 M	-58.26 M
ARK Autonomous Technology & Robotics ETF (BATS:ARKQ)	-126.76 M	-53.14 M
ARK Space Exploration & Innovation ETF (BATS:ARKX)	-21.97 M	-42.23 M
Total	2.24 B	755.3 M

Source: VettaFi

Most of the largest holdings in Wood's actively managed funds are down heavily this year. Wood has large positions in Tesla, Roku, UiPath, Zoom, Roblox, and Unity Software which are all down heavily in 2024. Wood also owns large positions in Coinbase and Robinhood which are strong performers this year.

We are glad investors are waking up and realizing that this style of speculative investing should only represent a small fraction of your portfolio. Wood's style of investing has an extremely high-risk reward relationship – one that we would compare to speculative venture capital which is not a suitable investment for all retail investors.

We will have to see if her outflows continue to accelerate through this year or if they pause. The one thing we are certain of is that we are happy there is no cross-over between MAAM's holdings and those of Ark Investments.

Trudeau not alone

Last week we above the border found out that the government will be raising capital gains taxes across the country. The new rules will go into effect in June of this year. This gives us a few months to collect gains so some of our investors can pay tax rates.

Not even a week later the Biden Administration revealed a part of their financial agenda for their second term which includes raising taxes on investments.

Capital Gains Hikes at Center of Biden's Second-Term Tax Agenda

- Biden plan would increase taxes on investments to 44.6%
- Taxes will be top issue in 2025 when Trump's tax cuts expire

US President Joe Biden *Photographer: Hannah Beier/Bloomberg*

This proposed tax would be the highest in the United States for capital gains in 100 years. Before Biden's proposal which could go into effect in 2025, the highest capital gains tax rate was put into effect by Jimmy Carter. The policy by Carter was extremely unpopular and he ended up getting destroyed in the following general election by President Ronald Reagan. Obviously, other factors at play led to the result.

When you combine that tax with certain state capital gains tax some individuals in select states will be paying over 50% in taxes on their capital gains.

Taxing capital gains is one way to decrease foreign investment, something that we may see north of the border as soon as this summer.

We will report back soon with more information on this topic as we head closer to the election.

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