The Weekly Beacon

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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 any questions regarding any observations.

The two main purposes of a Lighthouse are ***to serve as a navigational aid and to warn boats (Investors) of dangerous areas****. It is like a traffic sign on the sea.*

Kato Paphos, Cyprus

Fisgard, National Historic Site of Canada. Colwood, British Columbia.

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

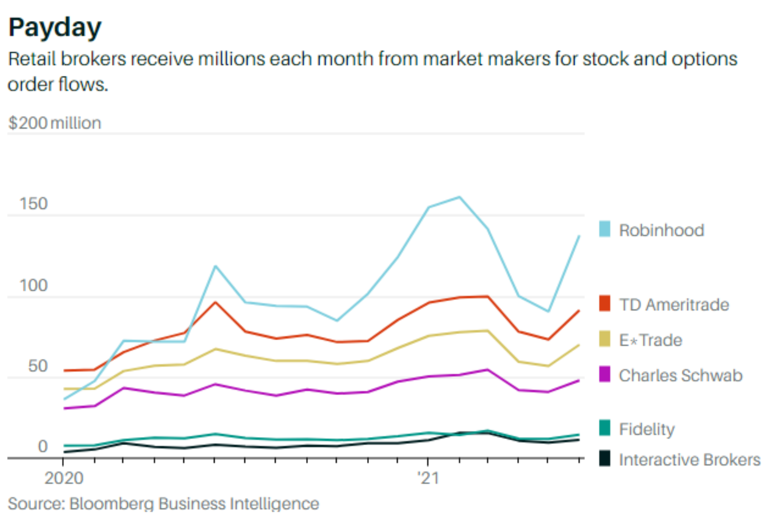
SEC vs. Robinhood

In the August 27th edition of The Weekly Beacon, we mentioned Wall Street's doubt of Robinhood (HOOD). We agreed with this view as even some of the book runners for the IPO are already out on Robinhood's stock. We mentioned numerous risk factors associated with Robinhood's business model. Last week we briefly mentioned the SEC and Congress considering the ban of payment for order flow which accounts for 80% of Robinhood's revenue. In the back-end payment method, brokerages receive a commission for directing trades to market makers. The SEC found that Robinhood usually splits this spread 80-20 with investors whereas most other brokers split this spread 20-80 with investors. That spread adds up and is what regulators are worried about.

This week it looks more and more likely this ban will occur. SEC Chairman Gary Gensler said in an interview on Monday that an outright ban "is on the table". He again reiterated the conflict of interest that payment for order flow brings about.

The banning of this practice by regulators would not be an entirely new thing, Canada, the U.K and Australia all have already banned this practice.

This ban will not affect other brokers like it will Robinhood, major market competitors on average only rely on about 10% of there revenue to come from payment for order flow. Interactive Brokers and Fidelity actually refuse a lot of these payment for order flow trades.



We have also already mentioned the extremely high valuation Robinhood was trading at from the get go. This uncertainty and public statement by the SEC should make investors extremely cautious as revenue could take a massive hit.

Canadian economy hits the brakes

The Canadian economic rebound came to a stall and contracted 1.1% in the second quarter of 2021. The first contraction since the second quarter of 2020. Economists were expecting a 2.5% expansion, so this was a significantly disappointing result for the Canadian government. To make matters worse, economic growth fell 0.4% in July starting off the third quarter with another contraction.

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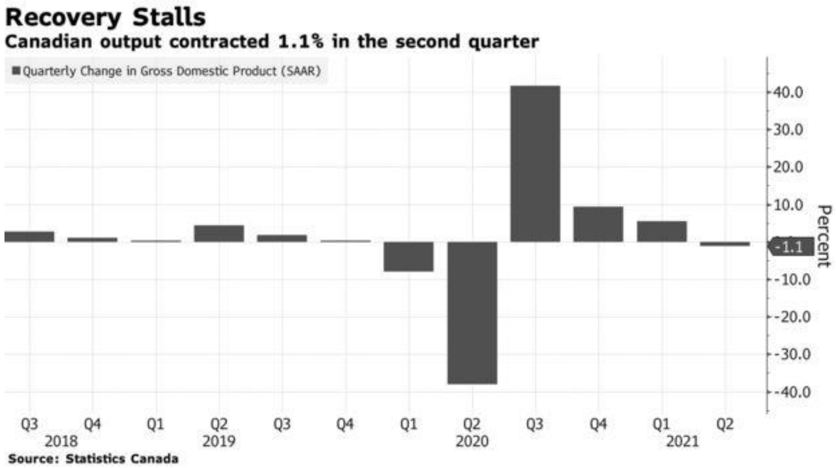

The results have many re-examining how fast the Canadian economy can make a full recover from Covid-19 especially with the looming threat of a 4th wave of lockdowns. As Canadians go to the polls in a few weeks this will be an extremely important issue that each party will need to tackle. Some believe this may result in further fiscal stimulus promises by political leaders to support the economy and for parties to win the election. However, that is a short-term fix. The major issue that could arise, Canada could get left behind, the US does not seem like it is poised for a new lockdown and European nations have removed most restrictions.

The pullback over the second quarter was fueled by a drop in exports caused by global supply chain issues. The Canadian Real Estate market also cooled for the first time during the pandemic. Investment in residential real estate fell by an annualized 12% through the quarter.

Contrary to the US Fed, the Bank of Canada has slowly started downsizing its asset purchase program, decreasing it 3 times. The Bank of Canada was originally expected to announce another pull back of its purchase program next week. Many believe that is now off the table as the Canadian economy is struggling.

Perhaps the biggest surprise was a contraction in July when most of Canada reopened. Ontario moved into its third step of reopening. Alberta removed restrictions and other provinces reopened their economies. Nonetheless, going forward, this will be a delicate matter for the government to handle and the Canadian economy may not be able to handle a 4th shutdown.

Chamath Palihapitiya: King?

In last week's issue, we explained the recent weakness in the overall SPAC market. Numerous SPAC companies without a deal and numerous with a deal are trading below there $10 initiation price. Investors are now understanding valuation matters and not every private company to go public can be like DraftKings. DraftKings was one of the most successful SPAC mergers seen over the last 2 years.

One of the most involved investors in the SPAC market has been, Chamath Palihapitiya, the CEO of Social Capital, a venture capital fund that focuses on technology and sustainability. Chamath has led 6 SPACs through partnerships of his Social Capital fund and Hedosophia, a London venture fund. He has also recently created 4 new SPACs that all went public at the start of the summer targeting biotechnology through a partnership between Social Capital and Suvretta, a New York hedge fund.

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Chamath has also personally invested into 8 PIPE deals. PIPEs generally involve **private equity funds**, hedge funds and other private financial investors acquiring minority stakes in a SPAC, as a public listed company, at a significant discount to the market price of the SPAC's shares, to underpin the financing of its business combination. Some SPAC deals require extra capital that comes from institutions and high net worth individuals known as a PIPE investment.

Retail investors have followed Chamath's words religiously. He has an extremely active Twitter account where he regularly communicates with his followers. A true millennial billionaire. Its quite understandable why he's so followed. He is super successful and quite transparent online. Articles like this are written quite regularly about him:

'SPAC King' Chamath Palihapitiya

He claims to be an early investor in everything he gets into and finds trends before they start. He regularly celebrates his success and will not forget to tell you about his success.

Chamath Palihapitiya @chamath · Apr 11
Early in $FB (2007)
Early in @warriors (2011)
Early in #Bitcoin (2012)
Early in $AMZN (2014)
Early in $TSLA (2015)
Early in #SPACs (2017)

What's the pattern?

Prioritize non obvious, well reasoned decisions that, if right, will refute conventional wisdom.

1.5K 2.3K 19.3K

Palihapitiya was one of the earliest employees at Facebook. He was responsible for the early monetization of the new platform. He was an early adopter of Bitcoin and claims at one time he and a friend owned 5% of the asset. Social Capital bought Bitcoin in 2013 when Bitcoin was trading between $13 and $1,200. He also was apart of the ownership group that purchased the Golden State Warriors in 2010. Chamath invested $25 million for 10% of the team. Eleven years, three championships and a new billion dollar arena in San Francisco later, the team's value has gone up 2,000% and Chamath's stake has increased to $520 million. Not to bad for something he originally used as a hedge for the rest of his assets.

Sometimes even the best people get ahead of themselves when millions are tapping you on the back and so many investments have turned into 10 baggers.

The Warriors weren't even his first choice: Chamath Palihapitiya explains one of the most successful NBA investments of all time

The Social Capital CEO and SPAC guru explains how needing to diversify his holdings led him to Golden State, just as they were becoming a dynasty franchise.

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His success has allowed him to make some outlandish predictions.

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Billionaire Chamath Palihapitiya Says He Will 'Buy the Hamptons' When Bitcoin Hits $150,000

Daily Hodl Staff • January 1, 2021 // BITCOIN

Social Capital's Palihapitiya: Bitcoin is going to $1 million in the next 20 years

Chamath Palihapitiya, Social Capital founder and Golden State Warriors co-owner, speaks about his investments in bitcoin and what he sees for the future of cryptocurrencies.

TUE, DEC 12 2017 • 7:11 AM EST

Billionaire investor Chamath Palihapitiya predicted Tesla stock will triple and Bitcoin will soar 5-fold in a recent interview. Here are the 15

Theron Mohamed

Jan. 9, 2021, 06:00 AM

He even put out some feelers for a potential run for Governor of California earlier this year.

Politics

Blank-Check Dealmaker Eyes a Political Prize That Eluded Many Rich Peers

By Jeffrey Taylor
January 30, 2021, 6:00 AM EST

The issue with these predictions: young investors believe he cannot go wrong and he will always be right. They pile into assets he publicly backs and limit diversity in their portfolios. King Chamath is like Queen Cathie we mentioned last week, individuals who young retail investors idolize.

Chamath has been hit hard throughout 2021. Some of his SPACs have completely fallen on their faces.

First looking at Chamath's relationship to the overall SPAC market, Chamath was Google trending at record levels the month before the SPAC Index fell from its all time high. Perhaps a pre cursor?

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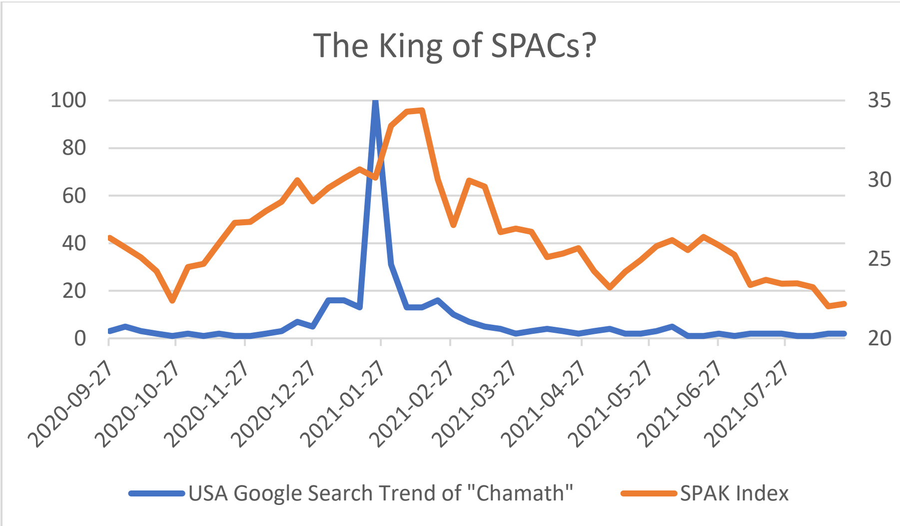


He also anointed himself the next Warren Buffett in mid February when the SPAC market was peaking.

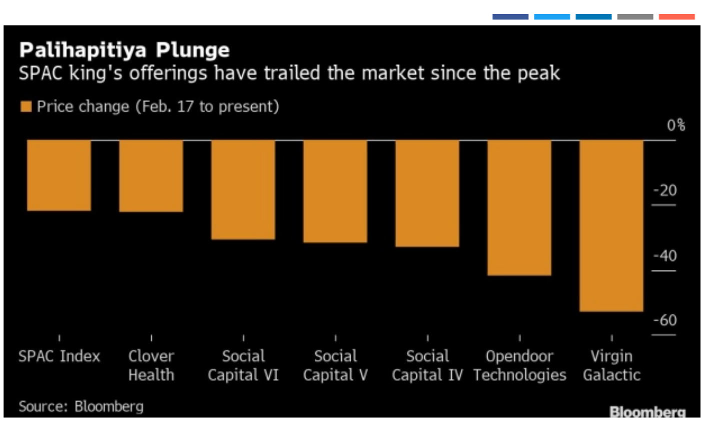
Hyperdrive

The King of SPACs Wants You to Know He's the Next Warren Buffett

By Erik Schatzker
February 12, 2021, 8:00 AM EST

Did Wall Street punish him for his "I cannot do wrong" attitude?

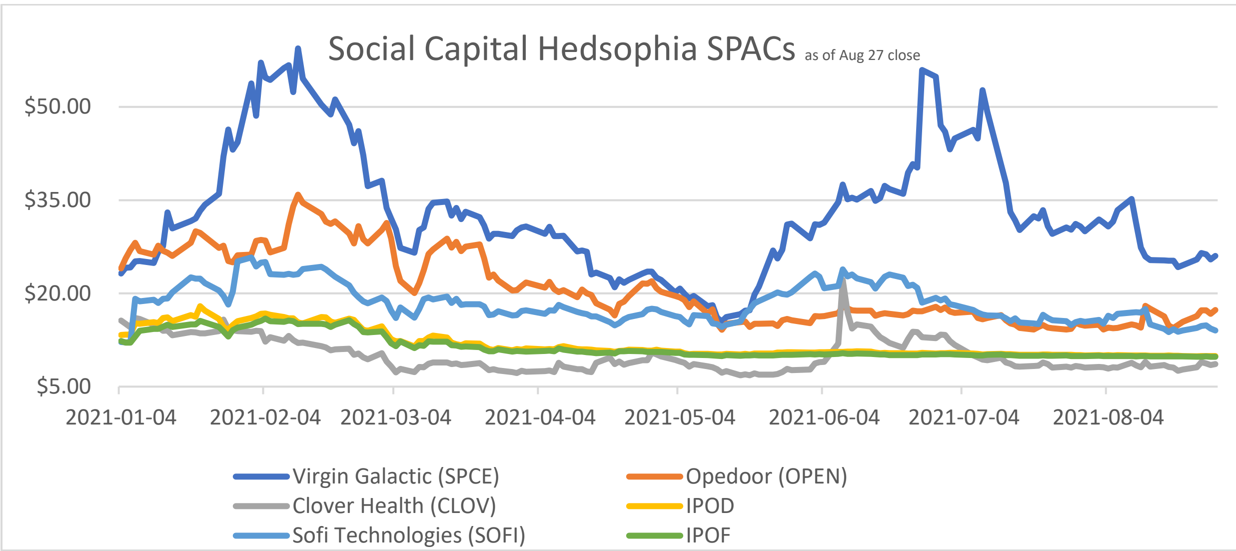
Everyone of his SPACs underperformed the struggling SPAC market from the peak in February to April 17th, 2021. Retail investors heavily weighted in SPACs lost massively all because they thought Chamath could not do wrong. A lot of the companies Chamath brings public through SPACs are not profitable. The similarities between him and Cathie Wood are uncanny. They both take on Wall Street and are the faces retail investors look up to. However, both have for the first time struggled in 2021. The market has punched back.



Chamath Palihapitiya, founder and chief executive officer of Social Capital Hedosophia Holdings Corp., speaks during an interview following Virgin Galactic Holdings Inc.'s initial public offering (IPO) on the floor of the New York Stock Exchange (NYSE) in New York, U.S., on Monday, Oct. 28, 2019. Richard Branson's Virgin Galactic Holdings Inc. became the first space-tourism business to go public as it began trading Monday on the New York Stock Exchange with a market value of about $1 billion. Photographer: Michael Nagle/Bloomberg , Bloomberg

Looking at the original 6 SPAC deals Chamath has done through Social Capital Hedsophia, 4 have merged with private companies finding a deal and 2 remain without a deal. The two remaining SPACs without a deal (IPOD & IPOF) are searching for a deal in the Technology space and both are trading below there trust value (below $10).

The 4 deals that Chamath has completed have done quite well. All 4 went public at $10/share and 3 remain above $10 while Clover Health is trading 15% lower then its initial price.



The main issue for retail investors is buying all 6 SPACs even at each ones all time highs. Clover Health is down 45% ytd, Opendoor Technologies is down 40% over the last 6 months, Sofi is down 26% over the last 6 months and Virgin Galactic a pre revenue company and arguably the most successful SPAC Chamath has sponsored is up 17% ytd but down 50% since its June price high. Even the SPACs that have not announced a deal, ran up in price earlier in the year because Chamath was “cool and always right” have fallen significantly, IPOD is down 25% ytd and IPOF is down 20% ytd. All these deals suffered from retail hype as they were labelled as transformative companies focusing on tomorrow’s economy. The issue is valuation always matters; some of these investors look at valuation as an after thought.

Specifically looking at the timeline of Chamath and Clover Health:

Chamath Palihapitiya to take Clover Health public in another SPAC deal worth $3.7 billion

PUBLISHED TUE, OCT 6 2020•7:46 AM EDT | UPDATED TUE, OCT 6 2020•11:32 AM EDT

Chamath Palihapitiya talked about the deal on CNBC:

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> "What we have is a business that's actually delivering the promise of technology-improving, better outcomes and lower cost health care," Palihapitiya said on CNBC's "Squawk Box" on Tuesday. It's "a market that I think is huge and growing quickly" and a business "that is consistently taking share year over year over year."
>
> "This is one of the most straightforward investments I've ever made," Palihapitiya said. He added by 2023 the company will have overall profitability.

He was very bullish on the deal and obviously had all the information available to him as he was the deal maker. A few months later and the Department of Justice announced Clover was being investigated for his business practice. We are not claiming Chamath knew this, he probably did not. However, investing in so many pre revenue and pre profitable companies comes with high risk especially when valuations are through the roof due to reputation and not fundamentals. Interestingly enough, after some funds initiated short positions into Clover Health, Clover became a short squeeze target by retail investors, not to the extent of GameStop but a serious surge occurred in June.

We mentioned Chamath's PIPE investments earlier. The PIPE provides extra capital to the SPAC company to make a deal with a private company. In Chamath's case he is not the SPAC sponsor, but he is able to see all the financials before betting big on these companies. He has participated in 8 PIPE deals:

COMPANY	INDUSTRY	PRICE SEPTEMBER 1ST	YTD GAIN	52 WEEKS HIGH	EPS SOURCE: MARKETWATCH
MP MATERIALS	Industrial Mining	33.26	3.43%	51.77	0.36
DESKTOP METAL	Computer Hardware	8.32	-51%	34.94	-0.65
METROMILE	Insurance	4.01	-74.21%	20.39	-0.98
PROTERRA	Electric Auto	10.69	-3.56%	31.06	-12.95
LATCH	Software	12.90	27.47%	19.7	-1.22
SUNLIGHT FINANCIAL	Credit Services	5.35	-52%	16.66	-0.54
BERKSHIRE GREY	Specialty Industrial Machinery	8.57	-21.86	13.45	-0.33
RENEW POWER	Indian Renewable Energy	9.81	-10%	14.08	-0.14

All significantly off all time highs, most down massively YTD and over half of them trading below the initial SPAC price of $10. Seven out of eight of his PIPE deals have negative earnings. It will be a long road ahead for these companies, but it seems many SPAC deals are bringing companies that are not ready to go public to public markets. A lot of these innovative, disruptive, future focused companies reflect volatility seen in private markets.

Chamath has also launched 4 new SPAC companies all focused on acquiring biotechnology companies. All 4 have trusts of $250 million and are actively trading between 9.70-9.75. Even though his SPAC deals and PIPE investments have struggled this year, he is jumping right into one of the riskiest sectors of equity markets. His partner Survetta focuses on early-stage biotechnology companies.

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He posted his thesis for targeting this sector on his Twitter page:

Chamath Palihapitiya @chamath

Providing high quality and affordable healthcare is one of today's most critical challenges. This week we launched four SPACs to support the ambitious work being done by biotech companies in neurology, immunology, oncology and organs. We call this Bio 2.0.

Full memo attached.

Full memo

We are not claiming Chamath has misled investors, or he is a bad investor, we are simply placing warnings to investors, do not follow one investor treating them like a King and make sure to diversify your portfolio, not every idea from Queen Cathie and King Chamath is going to work or even make a profit.

Investors have lost big but so has Chamath.

Chamath Palihapitiya @chamath · Feb 23
Was losing $1B at one point today...BUT I got 💎 🙌...and shooters shoot so....

Leading two PIPEs in deals being announced tomorrow.

Stay tuned...

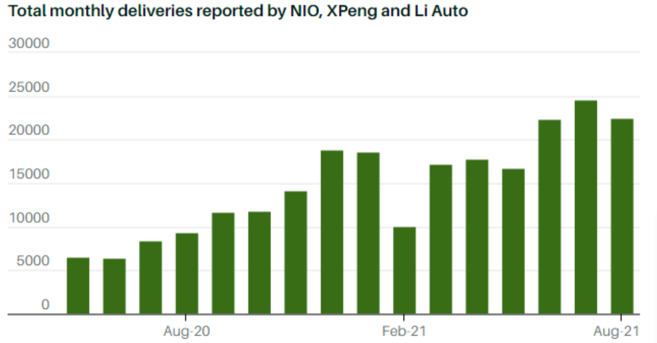
1.6K 2.6K 29.3K

Buyer beware, we are in an era of euphoric returns, Chamath has not faced a major collapse while in the limelight. Adversity builds industry titans.

Chip shortage not over

August deliveries of Chinese vehicles came up short due to Covid-19 and the ongoing semiconductor shortage. All in, the three U.S. listed Chinese EV makers delivered about 22,500 vehicles in August, down from about 24,500 delivered in July.

Chips and Dip
August deliveries dip from July highs as the semiconductor shortage bites again.
Total monthly deliveries reported by NIO, XPeng and Li Auto



Sources: Company filings, Barron's calculations

All three stocks still have recently struggled even with the increase in deliveries the summer has brought them. All are on average down 40% off there 52-week highs. Its not just in China, a major issue globally is supply chain constraints. The US auto sales report will be released later this month and analysts predict a dip in car sales for August.

Semiconductors could be poised for another run.

MacNicol & Associates Asset Management Inc.
September 3, 2021