

## The Weekly Beacon

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.

*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.*



Lighthouse in Kato, Paphos, Cyprus



Gull Harbour in Hecla/Grindstone Provincial Park, Manitoba

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

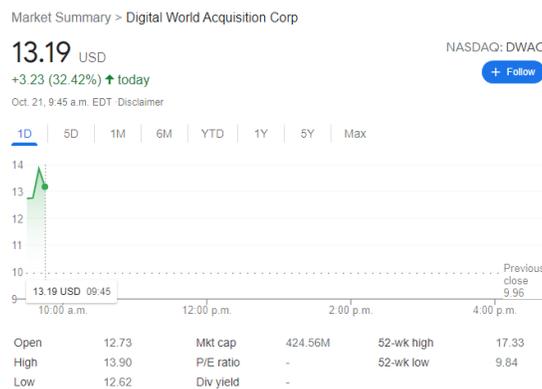


## Trump a tech Lord, now?

We have highlighted numerous instances of the financial world and political world converging. The two overlap everywhere you look; many opportunities arise from legislation but this week even we were left speechless.

Last week a SPAC (Digital World Acquisition Group: DWAC), announced a merger with The Trump Technology and Media Group. Yes, before you ask, Trump as in Donald. The first project by TMTG will be a social media network called Truth Social. The project will stand up to “Big Tech” and provide transparency to users. Former President Trump has remained banned from using all major social networks (Facebook, Twitter, Instagram, YouTube) since January 2021.

Interestingly enough, the Trump backed SPAC popped massively on the deal announcement. Before the deal was announced after hours on Wednesday the 20<sup>th</sup> shares of DWAC traded below redemption levels at \$9.95. In Thursday morning pre trading, the stock reached above \$17/share and was up over 30% during the morning of October 21<sup>st</sup>.



By Thursday afternoon shares reached \$52. They closed up over 350% to finish. Its safe to say, Trump’s base is excited about this idea. People have turned on Jack Dorsey and Mark Zuckerberg. Perhaps the time for an alternative is now, and the tech oligarchy will lose its power. There was opportunity in the social media space, and Trump’s name seems to have helped him take advantage.



Trump’s trading euphoria continued last Friday when shares opened above \$130. 13x in 24 hours! Trump has an even bigger reach than we thought. Shares got all the way up to \$175 last Friday but have

since retreated to near \$60/share as of October 27<sup>th</sup>. Shares have already come off but could roar again on a strong business plan and sound code. We will see how far this goes. It's a spectacle to watch! The market for social media is massive with limited competition. Maybe Trump can chip away at Twitter and Facebook's market share. However, the company goes beyond Truth Social.....



TMTG plans to compete with every Big Tech company through different business units. The Trump Group will go after social media, video streaming and even attempt to eventually compete with Amazon Web Services and Google Cloud.

We wonder what shows will be on a new TMTG video streaming platform. We also wonder if he will buy the rights for existing shows. The project is massive and is also in its infancy, but this new competition in the technology space is a good sign, even if Trump's venture fails. Competition leads to better and safer products for us.

At this value and no financials or general plans, the stock obviously poses high risk. We would not recommend buying or shorting it. Stocks like these do not follow logic. Do not get burned in either direction. The valuation right now is way too high but that's not stopping it from surging randomly.

Perhaps we have returned to the period when SPAC companies trade at ridiculous valuations with no financials or little to no sales or maybe this is just the Trump effect.

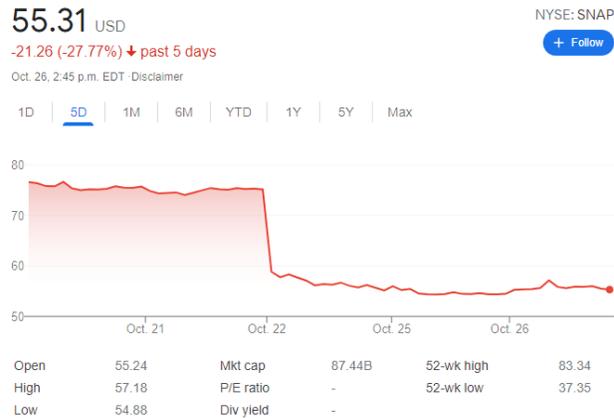
### **Speaking of Social Media**

Most of the largest companies across North America are releasing their 3<sup>rd</sup> quarter earnings. This includes all the social media giants.

Snap (parent company of Snapchat) released earnings last Thursday evening. Revenue growth fell below estimated levels, management blamed this on Apple's new policy which limits companies in app advertising on iOS devices. Snap did beat EPS estimates.

Shares immediately dipped and are down 27% over the last 5 days as of October 26<sup>th</sup>. The overall numbers Snap reported were not horrible. Users increased and so did daily active users. Revenue only missed by 2% for the 3<sup>rd</sup> quarter. So why did shares crater so much? Perhaps it was due to the lack of

clarity during the management's announcement of earnings. The company mentioned Apple (App Store) policy as a major deterrent going forward. This may handicap the app developer from growing going forward.



Snap management mentioned the Apple policy as something that upended industry norms not just Snap revenue. Snapchat is heavily reliant on the advertising Apple has limited with no clear path forward. Snap is in a hard place.

Snap was the first social media giant to release its 3<sup>rd</sup> quarter earnings.

Facebook released its earnings on Monday night. They missed revenue estimates but beat earnings. The same story as Snap. Facebook missed revenue by \$440 million in the 3<sup>rd</sup> quarter.

Shares traded down 5% the day after earnings were released and are down almost 19% from its all-time high back in early September. Facebook continues to battle controversy after controversy.

Shares have traded down ever since *The Wall Street Journal* published their ongoing series "[The Facebook Files](#)" where they publish insider documents that exposes Facebook. Among these articles is an internal study that Facebook had conducted, on the toxicity Instagram causes to teenage girls. They admit it is toxic and causes harm but have yet to make a massive policy change.



These new revelations have brought forward the most bipartisan support on record to break up these technology companies and increase regulation for them.

People across the world are becoming fed up with CEO Mark Zuckerberg who remains in control of Facebook and has been since founding it. Even though Zuckerberg has sold some of his shares he still controls 58% of voting class shares.

Zuckerberg has been criticized over the years for his control of Facebook.

In 2018:

TECH

**Mark Zuckerberg's control of Facebook is like a dictatorship: CalSTRS**

PUBLISHED THU, MAY 10 2018 7:55 PM EDT | UPDATED THU, MAY 10 2018 7:55 PM EDT



He is often referred to as the most powerful unelected man in the world.

BUSINESS INSIDER Business Insider

**'The most powerful person who's ever walked the face of the earth': How Mark Zuckerberg's stranglehold on Facebook could put the company at risk**

Katie Canales  
October 13, 2021 · 4 min read

Even though he is not the richest, his power runs through the algorithms Facebook is based on. He can control what people see and who they interact with. It's quite crazy to think about.

These major issues will need to be addressed going forward by Facebook for both investors and consumers to trust the company again.

Twitter was the third social media platform to release its earnings for the 3<sup>rd</sup> which were released Tuesday evening.

We can sum up Twitter's 3<sup>rd</sup> quarter with a picture of the Founder Jack Dorsey.



Twitter's revenue rose over the period. They only missed analyst targets for revenue by 0.07%. However, earnings were the issue. EPS were estimated to be \$0.17 they came in at \$-0.54. The net loss was due to Twitter paying out a lawsuit of \$809.5 million. The lawsuit was from investors who said Dorsey and management misled them. The suit was originally from back in 2016.

Shares traded 9% lower on Wednesday and are down almost 15% over the last month. Shares had somewhat already priced in the suit; the issue is going forward. Twitter is facing similar question marks that Snap faces. Apple's policy changes could impact Twitter and cause major growth issues. We highlight that Twitter will not be affected to the same extent as Snap by the policy change, but it will have a negative impact.

Even though Twitter said policy by Apple will not impact them, the market seems to not believe them.

The interesting part about Twitter's story, even though it was a very successful social media Startup, is that the company has failed to create any substantial value for investors over the last 7-8 years.



It is up 33% since public debut, which is not bad, but it's not great. It's been over 7 years and 33% is not an annual rate. The stock is also presently trading below its January 10<sup>th</sup>, 2014 price. Yikes!

This is a little different when you compare it to social media giant Facebook.



Facebook has been trading for a little longer than Twitter in public markets, but the difference is staggering.

Hopefully you bought Facebook over Twitter 7 years ago.

We highlight these social media companies because they will all be facing more regulation and policy changes that will affect their bottom line. It may not be all sunshine and rainbows for these companies and their respective CEOs.

### **Quick check in on Tesla:**

[Last week we talked about the extreme multiples Tesla trades at.](#) We mentioned how Tesla does not follow normal market norms. We also mentioned Tesla was approaching \$1 Trillion in market capitalization.

Well, Elon Musk and the market must have [read last week's The Weekly Beacon](#).....and took it as a challenge.

As of Tuesday morning, Tesla was up almost 25% over the last 5 days.



Tesla also cracked the \$1 Trillion market cap on Monday. Tesla joined elite tech companies (Apple, Amazon, Microsoft, Alphabet) as the only companies actively trading over a \$1 Trillion valuation in North America. Facebook also briefly was trading above \$1 Trillion but are dealing with their own issues and have dropped since those highs.

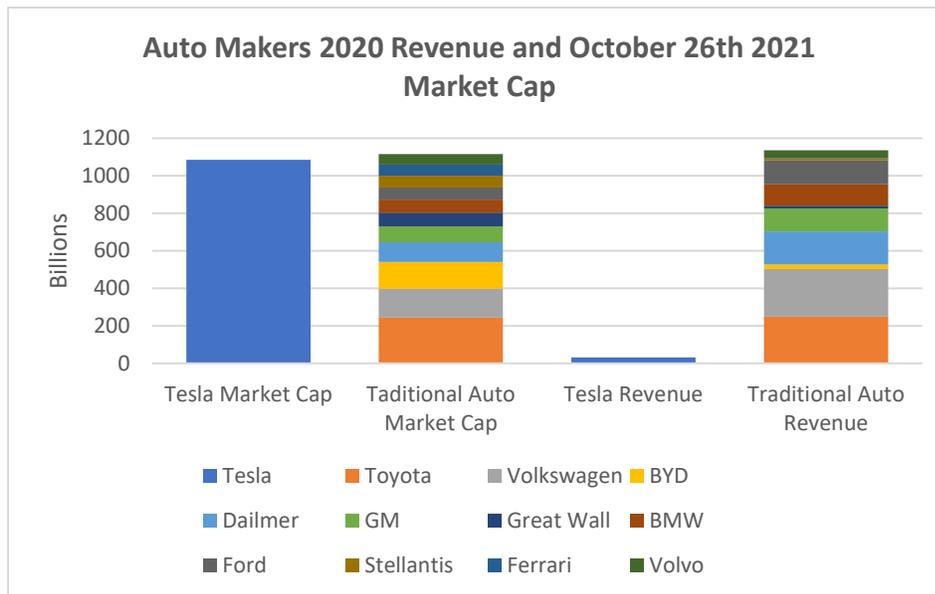
With the Tesla price soaring, Elon Musk has an estimated net worth of \$288.6 Billion according to the Bloomberg Billionaires Index. His net worth increased by \$36 Billion on Monday alone. This is the largest one-day wealth increase on record. Most of Musk's net worth is tied up in Tesla stock. Musk has also widened the gap between him and the second richest person in the world, Jeff Bezos, whose net worth is estimated to be under \$200 Billion.

Musk went to Twitter to celebrate his company's success.



Tesla's stock was soaring this past week as Hertz Global Holdings made a new order of 100,000 Tesla vehicles. The rental giant looks to be making a massive rotation into EVs. To put 100,000 new rental cars into perspective, Tesla sold under 500,000 vehicles in all of 2020. Hertz will pay Tesla \$4.2 Billion over the next 14 months and Musk confirmed Hertz did not receive any discount.

Updating our automobile industry market cap chart:



Tesla now has a larger market cap than the combined value of the next 10 largest auto manufacturers. The Price to Sales ratio continues to stretch out and defy odds!

Tesla's sales of under 500,000 vehicles is quite low when Volkswagen sold 9.3 million cars in 2020 and Toyota sold 7.2 million cars.

Tesla is truly a beast of its own and is valued like a technology company, not an auto manufacturer. The most interesting part of their technology is Tesla quietly withdrew its latest Auto Pilot update on Monday after numerous drivers have filed complaints against the software.

The value of Tesla is dependant on Elon Musk. If Musk were to leave or start a new venture (hint, hint Mars), how much would Tesla fall in terms of value? Musk is one of the "smartest" people on Earth, but he has also mastered the art of promotion and transparency.

Most billionaires are closed off and never show society their true self. Musk goes on regular Twitter rants, promotes cryptocurrencies, and smoked weed on the Joe Rogan podcast. He is every millennial's hero. It's no surprise that he is a beloved billionaire in a world where people hate billionaires.

Musk is also a likeable billionaire to those who want the green transition to accelerate as they require his company to reach their goals.

Musk may be very wealthy, but he does not flaunt his wealth like some. He recently sold all his physical assets and reportedly moved into a studio apartment.

DAILY COVER | Jul 3, 2021, 06:30am EDT | 335,028 views

**Where Elon Musk Lives Since He Pledged To Ditch 'Almost All Physical Possessions'**

Musk seems like a very relatable billionaire to a lot of people, and we understand his hype.

We wouldn't want to be caught long Tesla if he decided to one day leave his company.

## Are You Serious?

Over the years, the wealth tax has become a popular term that has been thrown around.

Senators Bernie Sanders and Elizabeth Warren both had a wealth tax in their presidential platforms when running for President last year.



### World - CBC Explains

#### **Bernie Sanders's wealth tax proposal, explained**

Sanders's proposal is estimated to raise \$1.6 trillion more in revenue than Warren's plan over 10 years.  
By Tara Goshen | Sep 24, 2019, 7:50am EDT

#### **How Elizabeth Warren's wealth tax would work**



Many have labelled the idea as crazy and unrealistic, but the progressive idea has heated up in terms of popularity. Even Joe Biden rejected the wealth tax back in December 2019 when running for President.

### Business

#### **Starwood CEO Barry Sternlicht calls wealth tax, favored by Warren and Sanders, a 'crazy idea'**

PUBLISHED FRI, OCT 18 2019-12:34 PM EDT | UPDATED FRI, OCT 18 2019-12:54 PM EDT

#### **Biden releases \$3.2 trillion tax plan, highlighting divisions with Sanders and Warren**

Former vice president rejects calls for new 'wealth' tax on millionaires and billionaires

His mind seems to have changed as a wealth tax, estate tax increase and even an unrealized capital gains tax is being floated.

WEALTH

## **Wealthy may face up to 61% tax rate on inherited wealth under Biden plan**

PUBLISHED MON, MAY 3 2021-5:07 PM EDT | UPDATED TUE, MAY 4 2021-12:23 PM EDT

The proposed wealth tax would tax assets of billionaires, not income. The major issue with this is that net worth is some Fuqazzi number. It is real, but it is not liquid.

First issue: what date would wealth be taken? Would it be on Tax Day? Would it be at the company's fiscal year end? Would it be an average over the year?

Second issue: how will billionaires will pay? No billionaire has \$1 billion liquid to spend. The money is tied up in financial and real assets. If they were to pay a tax, they would need to liquidate assets to be able to pay the bill. Most of these billionaires' net worth is tied up in the company they started (Musk owns 23% of Tesla, Bezos owns 10.9% of Amazon, Zuckerberg owns 14% of Facebook). If those founders were to unload shares to pay for this tax at a fast rate, they would cause the market to have excess supply, possibly cratering the stock. The people who would be hurt most by this are individual investors.

The other issue with a wealth tax is that billionaires will move their primary residency or find easier ways to spread and protect their wealth.

The wealth tax is being floated as a way for Biden to be able to afford his \$1.75 Trillion Reconciliation Bill. The Bill has been cut in half from \$3.5 Trillion due to members of Biden's own Party rejecting the mass spending in a period of rapid inflation.



The other proposal that has seen more opposition and scrutiny is a proposal by Treasury Secretary Janet Yellen. It is a proposal that would tax unrealized capital gains. Before we get ahead of ourselves, the tax is for billionaires only. Eventually that could change.

[The link to her announcement can be found here.](#)

Unrealized capital gains or paper gains are not real yet. The main issue with taxing unrealized gains is what if a stock goes from \$10 to \$50 in a year and the person does not sell. A \$40 unrealized gain would be taxed even though its not real yet. What if the stock drops to \$20 the next year? Do investors get a deduction? Will you still be taxed when gains are realized? This will cause sell offs in numerous companies when billionaires get footed with a tax bill causing them to liquidate assets. This will also impact the middle class in a negative way.

The proposed taxation is quite alarming.

Maybe they realize if they want to spend, they need more revenue.

Many expressed their anger online.



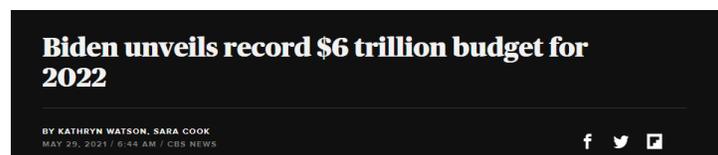
Supporters of the unrealized capital gains tax point out that it will only affect billionaires, but many others point out if they can do it to them, what is stopping them from doing it to more people down the road?

The main issue with this plan is that the gains are fictional and are not real. How do you even tax that? Yellen also said this would only apply to liquid assets. Who decides what is liquid enough for this tax?

The unrealized capital gain policy would also give the U.S. government complete exposure to the trading accounts of individuals, not just sold securities. Maybe some of them want to see what the big boys are holding.

As of October 18<sup>th</sup>, 2021, there are 745 Billionaires in the U.S. Their combined wealth was \$5.1 Trillion as of that date.

That seems like a lot of money. It is a lot of money; however, even if the Federal government seized that entire \$5.1 Trillion, it would not be enough to fund the U.S. government in 2022.



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2022 is President Joe Biden's first complete calendar year in office. If the government seized 100% of all the billionaire wealth and the government got market value for all assets (never going to happen), the U.S. government would be able to operate from January 1<sup>st</sup>, 2022 to November 5<sup>th</sup>, 2022 (approximately). That is without mentioning any extra spending bills Biden could come up with. \$5.1 Trillion is a ridiculous number, but it would only fund the government for 10 months. Perhaps the problem at hand is not just the ultra rich. It's also the speed at which the government (both parties) runs through money.

### **Speaking of the Elite:**

An interesting thread went around on Twitter this past week regarding inflation.

Twitter founder and Bitcoin fanatic Jack Dorsey seems to be on the "inflation is real" team.



Everyone's favourite fund manager Cathie Wood, who we have talked about numerous times in [The Weekly Beacon](#), responded and she disagrees.

[Wood replied in a series of tweets you can find here.](#)

She mentioned she thought inflation would take off in 2008-09, but was wrong and will not be wrong again. She mentioned how the velocity of money fell then and is continuing to fall. Velocity of money is a measure of the rate at which money is exchanged in an economy (GDP to M1/M2).

Wood believes three sources of deflation will solve this short-term issue.

1. Artificial Intelligence (AI)
2. Disruptive Innovation
3. The over ordering of products by companies, excess supply will occur after the holiday season

Wood's whole fund, Ark, invests solely in disruptive tech and innovative companies, promotion.

Wood has 2 funds that heavily invest in AI (Ark Autonomous and Ark Next Generation), promotion.

She also mentions ESG guidelines and the acceleration of Electric Vehicles (EV's) as a driver that will plummet oil prices which will decrease inflation.

We do not agree with her on that at all. Wood has been wrong on oil numerous times throughout the past. Back in the Spring she called a top on oil prices at \$70 and look where we are now.

Wood's whole mantra is to sell her fund and she needs the market to continue to melt up to do that. She also needs a green transition. Promotion is a good thing but when a person's followers, follow them like a cult it will severely hurt the followers.

Elon Musk even replied to Wood's tweets and he agrees with us.



Inflation is here to stay folks.

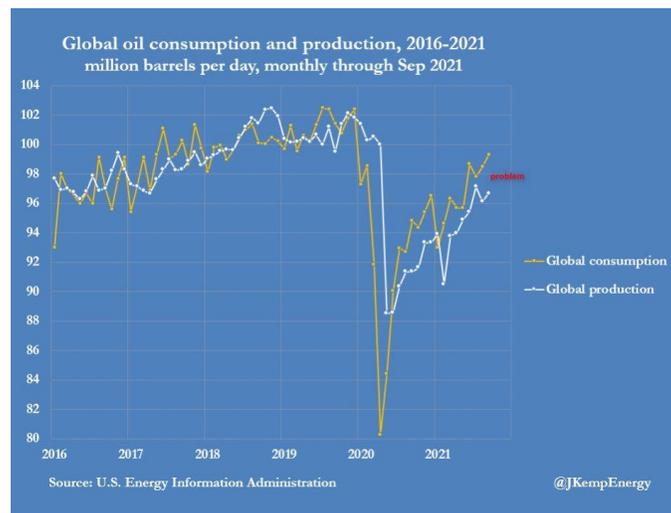
Peter Schiff also chimed in and made his opposition to Bitcoin known.



We will have to see how this unfolds. For now, we remain in the belief that inflation is real, and it is here to stay.

### **Energy Update:**

A user on Twitter, John Kemp an energy analyst shared an interesting graphic that grabbed our attention. With regards to oil consumption versus oil production, a problem arises when consumption is greater than production. We see this today. Look for this to continue.



The problem goes global and there is nothing the green energy folk can do to solve this. They helped create these issues.



The rationing of fuel paints quite a dark picture for energy.

The COP26 Climate Summit is occurring over the next few weeks. Leaders from around the globe will travel to Scotland to discuss climate change.

The meeting will be absent of a few major leaders, President Xi and Vladimir Putin.

COP26: Minister says nations that don't attend climate change summit will be 'outliers' - amid report China's Xi set to snub Glasgow gathering

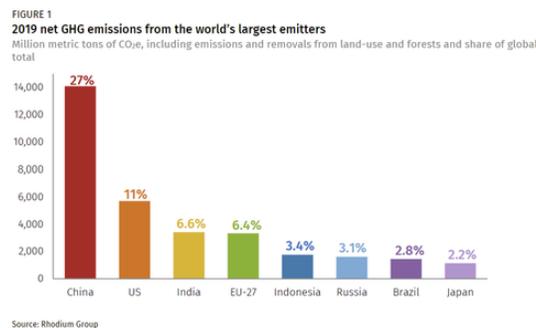
An unidentified British source is quoted in The Times as saying: "It is now pretty clear that Xi is not going to turn up and the PM [Boris Johnson] has been told that."



Many Westerners are growing annoyed with Russia and China regarding climate change. The two countries set goals but never change. Russia's emissions supposedly are fabricated, and China continues to push back goals they have set.

Who would have thought that? Oh wait.

China is a major obstacle for the world when tackling climate change. Our friends at [Capitalist Exploits](#) described this issue best with a simple picture:



China and Russia want to continue to grow and will continue to use reliable energy (fossil fuels). They will even expand their capacity.

Western countries are acting extremely gullible when they believe China and Russia will follow through on emission reductions.



### **Change Coming?**

We mentioned earlier in this week's issue how intertwined the financial world is to Washington and vice versa. We feel it is key to update our clients and readers on political trends unfolding so that we remain ahead of the curve.

It seems one is brewing down in Virginia.

Virginia is one of two states that have a 2021 Gubernational election next week.

The once solid Democrat state seems to have soured on the party.

In the 2020 Presidential election, Joe Biden won the state by 10% and in the 2017 Gubernational election, Governor Ralph Norman (D) won by 9%.

In just under a year, the tide has changed.

## **McAuliffe and Youngkin are in a dead heat with one week to Virginia governor election, poll shows**

**Phillip M. Bailey and David Jackson** USA TODAY  
Published 3:00 a.m. ET Oct. 26, 2021 | Updated 4:08 p.m. ET Oct. 26, 2021

Glenn Youngkin, the Republican nominee for Governor is a first-time politician. Youngkin is the former CEO of The Carlyle Group, a publicly listed private equity and alternative asset manager. Youngkin came out of nowhere, leaving the Carlyle Group last autumn, announcing his bid for Governor. Youngkin has financed a large portion of his campaign through his personal, which is valued between \$200-300 million. The political rookie seems to have a chance.

The Democrat nominee, Terry McAuliffe, previously served as the Virginia Governor from 2014 to 2018. Virginia is a state where a Governor cannot serve back-to-back terms.

The reason we bring this up is the political swing we are seeing; the candidates are polling dead even in a "Blue State". At the start of the summer McAuliffe led the polls by 7-8%.

After numerous crises in the first 10 months of office, President Joe Biden is swaying voters in the opposite direction of him. He is impacting his party's candidate in a negative way.

Inflation issues, economic growth issues, a supply chain crisis, and immigration issues are just a few of the crises currently plaguing America.

Voters are not stupid. These issues have not been addressed and they are mad. These hot budding issues have been put on the back burner while climate change is addressed. The climate does need to be addressed but soaring prices and empty shelves should be the priority.

The voters of Virginia will decide their leader next Tuesday and the Democrat party seems nervous. They have even sent in there "big guns" to campaign with McAuliffe.

## Virginia Democrats Turn to Barack Obama to Cure Their High Anxiety

Biden stumps for McAuliffe in Virginia ahead of gubernatorial election

**Stacey Abrams, Jaime Harrison and Dave Matthews join Terry McAuliffe at Charlottesville rally**

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We will see how this plays out next week. We think next week's election could be a major pre cursor for next year's Congressional midterms. The tightening of this race could shift power in Congress next year. A flipped Congress could spell disaster for Biden's domestic agenda.

**MacNicol & Associates Asset Management Inc.  
October 29, 2021**

