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.*

Rua Reidh Lighthouse, Scotland

Terrace Bay Lighthouse, Ontario.

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

Cathie Wood has a new enemy

We are sure you have heard about famous fund manager Cathie Wood, CEO of Ark Investments. She is one of the most established fund managers in the world and has a proven track record of results.

We have also mentioned Cathie Wood in numerous issues of *The Weekly Beacon*, even though she has been a running theme of this publication and is very successful, we disagree with her on several fronts. Her market targets are outlandish and her take on inflation was false.

It appears the disruptive and innovative investment titan has a new enemy.

The Short Innovation ETF (SARK) launched by Tuttle Capital Management debuted on the Nasdaq on November 9th. SARK is an ETF that seeks to track the inverse results of ARKK, Ark Investments flagship fund.

SARK remains a very small fund but will look to continue to grow. SARK is up 10% in its first two weeks of trading.

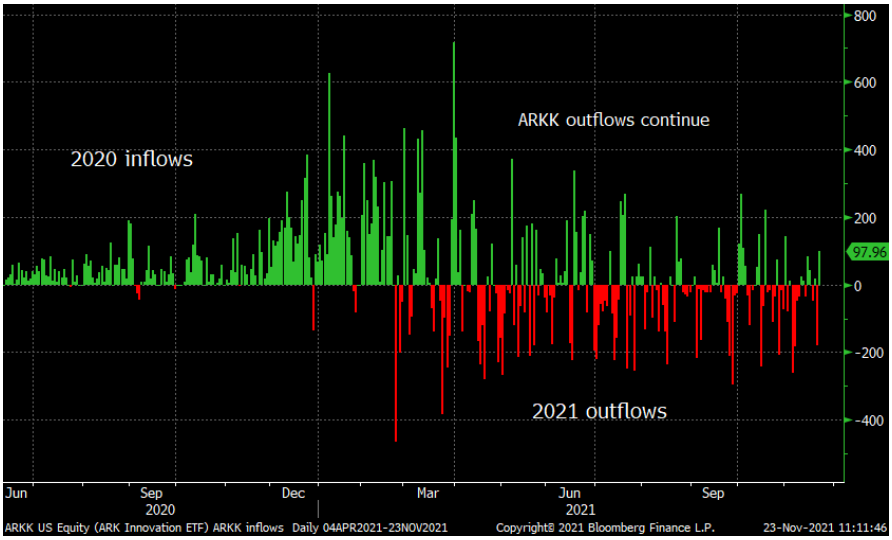
The fund was launched as short interest on the ARKK ETF has reached record highs. Short interest is approaching close to 20% of publicly traded ARKK shares, representing over $3 Billion.

SARK uses swap contracts to track these inverse results rather than shorting ARKK's holdings. Tuttle has claimed their ETF will offer a solution to investors as many agree market valuations are stretched and the valuations of ARKK's core holdings (Tesla, Coinbase, Zoom, Roku) are trading at extreme multiples. Many investors also find it too difficult to short positions (time and capital-consuming). This fund will offer easy-to-follow short exposure to these "hypergrowth" companies.

2021 has not been a kind year to Cathie Wood, her flagship fund is down 15% YTD while the S&P 500 is up 25% YTD.

In 2020, ARKK was up 152%, Wood could do no wrong as disruption, pre-revenue companies, and SPACs exploded (all ARKK favorites). This year not so much.

2021 has also led to massive outflows in the ARKK fund compared to 2020 when investors were throwing it all at Wood.



Lesson: do not fall for the hype.

Wood also sat down for an interview on Wednesday and had a surprising announcement.

MARKETS

Cathie Wood says her firm is testing a more aggressive strategy that would be 'Ark on steroids'

PUBLISHED WED, NOV 24 2021•7:22 AM EST | UPDATED 3 HOURS AGO

Ark on steroids? So would that mean -45% YTD instead of -15%?

We are just joking……

However, the returns she realized in 2020 will never happen again. Investors are also realizing a lot of Ark's holdings operate in a loss and never will realize profits even though the technology is "disruptive" like Wood says.

Down goes the Turkish Lira

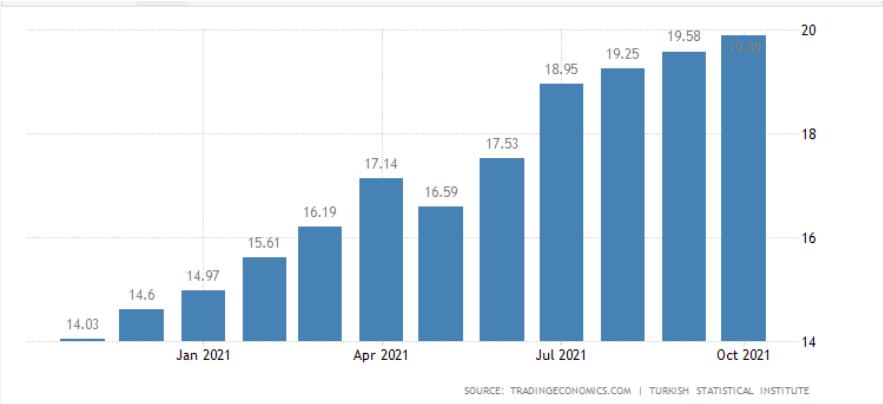
We have talked about inflation running hot across the Western world in *The Weekly Beacon*. One of the reasons inflation continues to increase is due to a lack of government reaction to combat rising prices. No government wants to hike interest rates, it's an unpopular policy but, effective when combating inflation.

This week, perhaps one of the worst modern day monetary policy decisions was made by the Turkish government.

Turkey is an emerging economy that is home to the 20th largest economy in the world. Turkey is the bridge from Europe to the Middle East and plays a critical role in global conflicts.

This past week Turkey released its latest inflation numbers, and they were not good……

Turkey's latest CPI was just under 20% for the year ended October 31st.



The Turkish Central Bank decided to cut interest rates as a response to this inflation. President Erdogan defended his Central Bank's decision and seemed to agree with the choice that was made.

A mind-boggling policy decision. Normally, countries cut interest rates to increase growth and sometimes increase inflation. Turkey is cutting interest rates to combat sky high inflation. Very puzzling from an economic point of view.

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Erdogan defended this choice by stating this move was part of an "economic war on independence" rejecting investor and analyst sentiment.

After this decision, the Turkish Lira crashed to a historic low on Tuesday.

The chart below tracks the USD to Turkish Lira and states how many Lira are needed to buy $1 USD. The peak we have reached is an all-time low as the Lira continues to lose value relative to other currencies. The Lira has also lost almost 75% of its value since November 2016 relative to the USD.

Turkey has always attempted to fill the gap between itself and Europe and become a developed European power, with a currency in free fall that will never happen. Turkey also regularly "negotiates" with the EU to join the organization. Even though Turkey seems to want to join the EU, it never will. Turkey would need to abide by EU law which completely differs from Turkish policy, they would also need to limit economic ties to non-EU nations.

Turkey also regularly toes the line during conflicts even though they are in NATO. If a large-scale global conflict would arise, Turkey would be the wild card, they play both sides (the West and China, Russia, and the Middle East).

TURKEY'S CRISIS WITH THE WEST: HOW A NEW LOW IN RELATIONS RISKS PARALYZING NATO

ANTOINE GOT NOVEMBER 19, 2020

The Turkish gist: when investors look at the risks of investing in non-Western nations, political risk plays a huge factor. The political risk (monetary policy and foreign relations) within Turkey is only outmatched by China in terms unpredictability across large global economies. Turkish investors should look at Turkey like world leaders look at President Erdogan, a wild card, and proceed with caution. Somehow, Russia looks quite favorable when comparing the two markets.

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The Media's Response to Inflation

Mainstream media outlets continue to struggle in viewership and it's no surprise why.

CNN ratings crash in October without any regular program averaging 1 million viewers

TV Ratings: Oscars Slump to All-Time Low

ABC's broadcast joins a host of other awards shows in falling by a large amount from past years.

Traditional television has lost viewers in recent years due to the rise in popularity of streaming. People are impatient and dislike commercials. It makes sense why companies like Netflix thrive.

We are going to talk about the other reason television viewership has dropped - public mistrust in news outlets. Independents, Democrats, and Republicans do not trust the media. Viewership is down because people do not believe what these partisan networks are telling them.

POLITICS OCTOBER 7, 2021

Americans' Trust in Media Dips to Second Lowest on Record

The disconnect between media outlets and the general population can best be described by the coverage of inflation by news outlets. For months, the media would have told you inflation is transitory, good for the economy, not a problem, and easing up.

MARKET INSIDER

Inflation is hotter than expected, but it looks temporary and likely won't affect Fed policy yet

PUBLISHED THU, JUN 10 2021-11:49 AM EDT | UPDATED FRI, JUN 11 2021-6:58 AM EDT

Why inflation might actually be good for the economy

BY MORRIS PEARL
July 15, 2021 6:00 PM EDT

MSNBC columnist says current inflation crisis is actually a 'good thing'

These are just a few of many headlines that have downplayed inflation over the past few months and have misled millions of people. Inflation continues to be a major problem and has been for months.

Perhaps the best tweet from a news outlet that highlights the disconnect between the media and the general population came from The Economist.

Lots of people were sounding the alarm. News outlets just did not listen!

Oil Reserves

The ongoing global energy shortage has caused prices over the past year to skyrocket. Consumers are not happy; filling up at the pump has increased 61% over the last year in the U.S., global electricity prices are spiking, and anything tied to energy has become more expensive.

The reaction by the U.S. government has been anything but effective, canceled pipelines, retracted drilling permits, and studying the possibility of canceling active pipelines.

The Biden Administration has also asked OPEC to increase global oil supply which would decrease prices and has been rejected. Why would oil nations help depress the price of a commodity their economy is heavily reliant on?

This week, the U.S. announced they were releasing 50 million barrels of crude oil from their Strategic Petroleum Reserves to counter rising energy prices. The U.S. was joined by India, Japan, China, South Korea, and the United Kingdom in releasing strategic oil reserves.

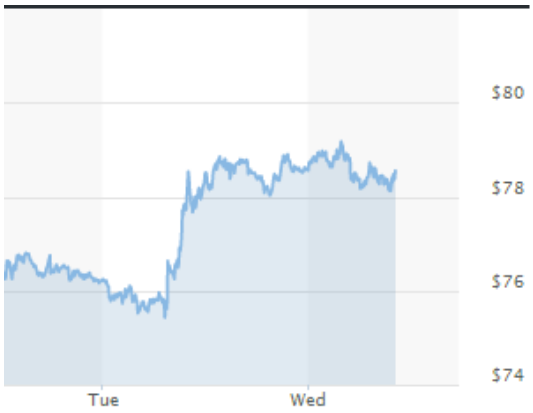
OIL AND GAS

U.S. to release oil from reserves in coordination with other countries to lower gas prices

PUBLISHED TUE, NOV 23 2021•7:10 AM EST | UPDATED TUE, NOV 23 2021•9:19 PM EST

On the surface, this move should decrease prices as global supply has increased, in reality……

Oil prices jumped $2 a barrel immediately after the U.S. announced this policy decision.



So why did this happen?

The market had possibly priced this in as rumors of this policy had been swirling in the weeks ahead. It also did not spook oil investors. The policy decision was also revealed to include swaps which means the 50 million barrels of oil extracted from the reserves must be replaced over the next 1 to 3 years, no matter what the price of oil is.

The fix is also a short-term fix to a long-term problem for the U.S. government - prices will continue to rise in the coming months. In 2020, the U.S. consumed 6.66 billion barrels of oil. 2020 also marked the lowest oil consumption since 1995 for the U.S. The release of these strategic reserves is barely a drop in the bucket in the U.S. market and even smaller in the global market.

The other reason this decision is surprising is the Strategic Petroleum Reserves are supposed to be used for emergencies. The reserves are to be used during times of supply disruption, major natural disasters, and times of conflict. The most recent releases of reserve oil had been for Hurricane Harvey (5 million barrels), Hurricane Katrina (11 million), 2011 Libya supply disruptions (30 million), and the Gulf War (17 million). The recent release was the largest ever by the U.S. but according to the swap contracts, the reserves will need to be filled back up in short order.

This move also shows how desperate the U.S. government is to decrease oil prices.

We have come quite a long way over the last two years.

The U.S. Just Became a Net Oil Exporter for the First Time in 75 Years

Just two years ago, the U.S. officially became a net oil exporter for the first time in 75 years. Now they are dipping into emergency reserves to combat rising prices.

We are also just 20 months removed from President Trump announcing a replenishment of the Strategic Petroleum Reserves when oil was trading near $20/barrel. The purchase was done to stabilize U.S. energy producers which were hemorrhaging due to government shutdowns stemming from Covid-19.

Oil prices will not slow down in the coming years, especially as regulation increases.

ENERGY

Oil prices are headed for $100 despite U.S. efforts to release reserves, analyst says

PUBLISHED WED, NOV 24 2021•2:53 AM EST

Some analysts believe Biden's move could cause OPEC to react by lightening production or remain at the same production to keep prices elevated.

A user on Twitter described the oil market quite well on Tuesday.

Underinvestment in fossil fuels will lead to high prices, who would have thought?

Green energy powering the entire world would be great in the battle against climate change, its unfortunately a pipe dream. Oil and natural gas will continue to be the globe's primary source of energy for years to come. The scalability of renewable energy will need to dramatically increase to be deemed an effective and reliable source of energy.

Activist Secretary of Energy

The U.S. Secretary of Energy seemed out of her element over the past week. At a press conference, Secretary Granholm was asked for the rationale for releasing 50 million barrels of oil. She responded by saying it would have a great impact on depressing prices. In the same press conference, she was stumped when asked how much oil the U.S. uses daily.

NEWS

Granholm stumped on US oil consumption while explaining reserve tap

By Steven Nelson November 23, 2021 | 7:14pm | Updated

It seems like the U.S. Secretary of Energy, should be aware of how much oil the U.S. uses.

The Secretary also held a virtual press conference on Monday and stated that the dramatic rise in the price of fossil fuels should accelerate the energy transition toward green energy.

The green transition has helped cause this issue, especially in Europe due to historically low wind speeds in the North Sea. California has also faced regular energy shortages in recent years causing blackouts fueled by the dependence on green energy.

Maybe a tad less activism from the Secretary while prices spiral out of control.

Powell gets another term

Earlier this week, President Biden announced Jerome Powell would be his nomination for Chair of the Federal Reserve as his current term is about to expire.

It was reported that Biden's choice for FED Chair was narrowed down to two choices last week, the incumbent and Lael Brainard who joined the Fed in 2014. Investors worried Brainard would be appointed as she has been even more dovish than Powell on inflation. Even though for months, Powell said inflation will go away and it's transitory, it seems he is finally realizing inflation may not be completely transitory. Brainard has expressed patience as the way to combat inflation.

The latest minutes from the FED meeting were released and it seems the FED may finally act as inflation continues to rock the American economy.

Investor Sentiment

CNBC recently released a study that states stocks are at a 70 year high as a share of household financial wealth. Investors continue to chase results as stocks are "only going up."

As markets are at all time highs, investors should look to alternatives to diversify their portfolio as North American equities continue to trade higher to extreme multiples.

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