

## 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.*



Barra Lighthouse, Brazil



Bass Harbor Head Light, Bar Harbor, Maine

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

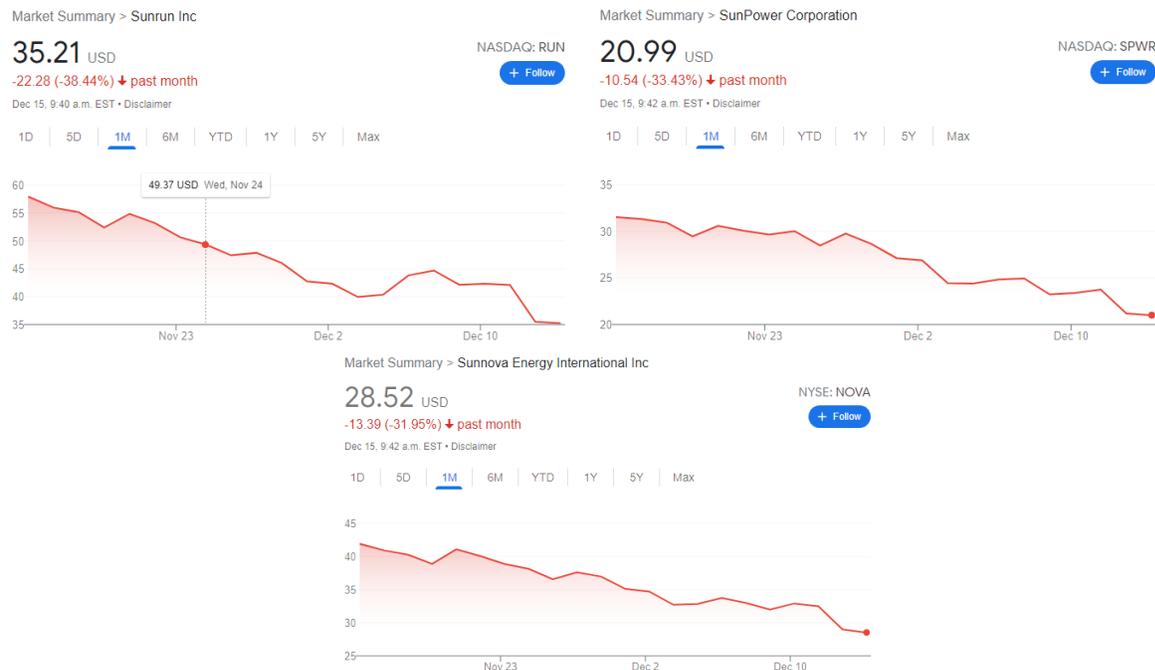


## Down Goes Solar

Over [The Weekly Beacon's](#) history, we have criticized the push to go green, citing shortages as the main reason the transition will not work. We have also highlighted the inconsistencies in solar and wind energy.

It seems the market has finally priced these issues into solar stocks over the last few months. Solar energy stocks soared for years as the west eyed a green transition. The major issue with this type of investing is investors took the word of Politicians and ESG funds and never bothered looking at the downsides of solar and wind energy. Many assumed most oil, natural gas, and coal power would be rapidly replaced by renewables. The assumption of large scale solar and wind usage is still quite common.

Over the last month, Sunrun (residential solar panel provider) is down 38%, Sunpower (solar power generator) is down 33%, and Sunnova (solar energy producer) is down 31%.



Quite the down month for solar energy investors and the future does not paint a massive growth story.

Even though solar energy installations have set a record in 2021, analysts believe installations will generate 33% less power in 2022 than new installations in 2021. The supply chain gridlock and less production in 2021 could also lead to this pullback in the industry. This is without mentioning the unreliability of solar energy (if it is not sunny these companies create no revenue).

Many also are looking for new government guidance on tax credits for solar producers; something the solar industry is heavily reliant on.

## Another Month: More Inflation

Oh, the inflation story continues across North America.....

In Canada, prices were up 4.7% for the year ended November 30<sup>th</sup>, the CPI remained at an 18-year high. Prices for products in Canada were up significantly this past year while wages were only up 2.8%. Anytime someone tells you inflation helps the middle and lower class the most, ask them how much of a raise they got this year?

The Canadian government also released its budget for 2021 and even though the deficit was lower than expected it will be **\$144.5 billion**. Just over two years ago the Canadian deficit was only **\$19 billion**. The 2022 budget was also released and spending will continue to go up; inflation seems to be just starting in Canada.

The U.S. CPI also stayed hot in November; prices were up 6.8% for the year ended November 30<sup>th</sup>.

## US inflation hits highest level for nearly 40 years

By Lucy Hooker  
Business reporter, New York

🕒 4 days ago

This release was only 2 weeks after this article was written by CNN:

### Why inflation can actually be good for everyday Americans and bad for rich people



By Allison Morrow, CNN Business  
Updated 11:24 AM ET, Wed December 1, 2021

Inflation “spin” is now a very popular news story.

Looking deeper into the inflation numbers, producer prices rose 9.6% for the year ended November 30<sup>th</sup>.



Producers have not risen prices for consumers at the same increases they are seeing, producer margins are decreasing due to rising input prices. The U.S. PPI foreshadows a continued inflation problem that is still not being addressed.



Even with sky-high inflation, the U.S. government raised its debt limit for the second time in the last few months.

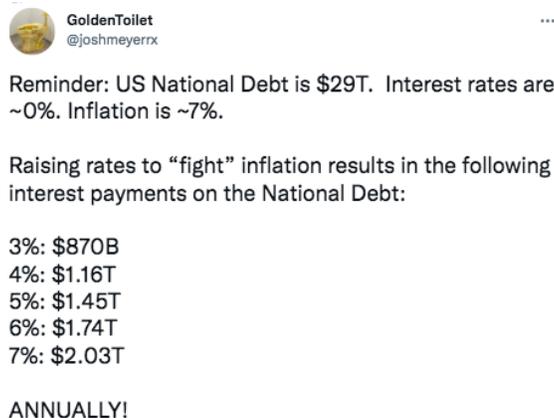
## Congress sends Biden \$2.5 trillion debt limit hike, averting default

Politics Dec 15, 2021 9:09 AM EDT

In October, Congress increased the debt limit to avoid default and raised it by \$480 billion. Secretary Treasurer Janet Yellen estimated the U.S. would run out of ways to pay its debt by December 15<sup>th</sup>. So, the U.S. government spent almost half a trillion in 2 months. A better way to look at this is if the U.S. government liquidated Elon Musk's, Jeff Bezos's, and Jack Ma's net worth at market value it could operate for two months. Perhaps "tax the rich" should be studied in more depth.

Even in 2021 with historically low-interest rates, the U.S. government spent \$562 billion on interest payments.

A user on Twitter pointed out the impact of rising interest rates on U.S. government debt.



Rising rates would destroy the U.S. government's annual budget. This national debt is without adding on future Bills passed by the U.S. government and does not include the massive "Build Back Better" Bill which would add trillions of debts on top of current levels.

Local

## CBO: 'Build Back Better' plan could add \$3 trillion to debt

by The Center Square | December 13, 2021 | 0 comment

Fund manager Peter Schiff pointed out the value of this debt per family on Twitter and wow....

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5  
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044  
 Email: info@macnicolasset.com URL: www.macnicolasset.com



Peter Schiff @PeterSchiff · 1m

The #debtceiling will soon rise to \$31.4 Trillion, almost \$90K per person, or \$360K per family of four. How many American families have their share?



## Bubble Companies Pull Back

When investors cite a bubble, it does not mean the entire market, certain sectors or industries are creating this asset bubble and many revolve around disruptive technology that breaks global norms.

The chart below highlights a few speculative asset classes and how they have all pulled back in recent weeks.

The ARKK ETF by Cathie Wood, the IPOX SPAC Index, Bitcoin, Tesla, and pre-revenue technology names have all had their major periods of hype, driven by possibilities and technology rather than fundamentals and reality. It appears all those names have followed similar paths since 2019 (give or take a few percentage points). All these asset classes or equities have identical price trends.

So, what does this mean?



We have already warned readers of investing in these asset classes as these parts of the market are amongst the most volatile and are usually driven by millennial investors who pile onto the hype train as they all believe these new asset classes will perform like Amazon since 2002. Many of these new disruptive companies will fail. We are not saying Tesla will fail, it will succeed and be a leading player in the automobile industry for decades to come, it's just extremely overvalued. A pullback in the share price of Tesla is simply the market becoming more rational in terms of valuation.

The overall lesson: do not fall for all the hype, some of the names above could continue to fall going forward.

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5  
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044  
 Email: info@macnicolasset.com URL: www.macnicolasset.com

Ark has also sold off a significant portion of its Tesla holdings as investors have sold out of the ETF. Tesla is one of the most liquid stocks Ark owns. The issue Ark faces: what if investors continue to doubt Wood and head for the door? Ark could be forced to mark down some of its investments to come up with enough cash and divest from the companies that may be winners down the road.



Julian Brigden  
@JulianMI2

As **#ARK** is forced to sell winners, we take another step down the path discussed below. Where investors lose money and end up with position in fund that is simply a basket of illiquid stocks.

**Cathie Wood's Ark Sells Another \$29M In Tesla On Friday**  
(Benzinga Newswire)

**Cathie Wood**-led **Ark Invest** on Friday sold more shares in **Tesla Inc** (NASDAQ:TSLA), continuing to book profit in a stock that remains its largest bet.

Ark Invest sold a total of 28,345 shares – estimated to be worth \$28.83 million based on Friday's closing – in the electric vehicle maker.

Tesla shares closed 1.32% higher at \$1,017.03 a share on Friday. The Elon Musk-led company's stock has risen 39.4% so far this year.

Ark Invest sold the shares via the **Ark Innovation ETF** (NYSE:ARKK) and the **Ark Autonomous Technology & Robotics ETF** (BATS:ARKQ) and also holds the stock via the **Ark Next Generation Internet ETF** (BATS:ARKW) on Friday.

Tesla's weight in ARKK and ARKW has slipped below the 10% threshold at 8.29% and 9.26%, respectively, as of Friday's closing. In ARKQ, it still constitutes 10.8% of the portfolio.

## IPO Bear Getting Blown out of the Water

CEO and Founder of New Constructs, David Trainer, has been wrong on numerous IPOs in 2021. His firm is a research provider that discloses long and short reports. He is a Wall Street veteran who has been proven wrong on numerous occasions this year.

He still backs his fundamental research process that he developed years ago and believes many of these companies are contributing to a venture-backed hype cycle.

His software sifts through thousands of documents and allows his firm to cover over 10,000 companies. New Constructs also has almost no competition in covering IPOs. New Constructs strictly covers companies and does not do any client advisory.

CNBC highlighted his worst calls of 2021 IPOs.



### Bearish price targets

New Constructs share price estimates at time of each company's IPO report compared to latest closing prices. Companies shown in order of debut date.



Note: \*ADS price derived from New Constructs estimate on ordinary shares.

Source: New Constructs, FactSet



His Coinbase, GitLab, and Rivian calls do not appear to be faring well.

It's not a pretty picture for the most part. A major example of what he believes is hype can be found in the Rivian IPO. Rivian is worth \$95 Billion while he believes it's worth somewhere around \$15 Billion.

Even though we highlight where he was wrong, he has also been right quite often over the last few years.

Trainer's Robinhood call has been mostly right as the current price is 47% below its IPO price.

He believed Bumble was correctly valued. He believed Trivago was worth almost nothing (it has since fallen 82% from IPO), and he believed the 2019 potential IPO of WeWork was "the most ridiculous IPO in years".

Even though some of his calls have been completely off due to investors piling into the new and hip IPOs, Trainer still believes many of these companies will struggle to realize profit and scale enough to match their market value.

Shorting an IPO in today's market is extremely dangerous and investors should avoid it. Markets continue to run off hype, and even some of the smartest investors are losing due to market irrationality. The IPO market is the King of hype as every IPO is dubbed the next hip thing.

### Blackouts Head to the Big Apple

We have regularly highlighted the ongoing energy crisis across the world and still believe the shortages will head West. This week we got some interesting news out of New York City.

December 15, 2021  
3:05 PM EST  
Last Updated 9 minutes ago

U.S. Markets

### New York City bans natural gas in new buildings

1 minute read

Reuters

The NYC City Council has banned natural gas energy in any new builds. Natural gas is the cleanest fossil fuel and is extremely reliable. This move is just another small event that will cause major problems down the line as more new builds in the city are restricted in energy sources.



### **Oh No Finland!**

A funny story out of the global political world occurred over the past week.

The 36-year-old Finish Prime Minister Sanna Marin had a memorable weekend. She was caught at a nightclub until 4 am. A young person making use of nightlife is not bad but, that is not the issue.



The Prime Minister was highly criticized for this because one of her colleagues tested positive for Covid-19 and she did not choose to isolate before testing negative.

Critics of the leader highlighted this occurrence as a major lack of judgment.

A 36-year-old leader is quite rare, and this move perhaps shows why young leaders are not a regular occurrence.

Covid-19 is an ongoing polarizing issue, and this event does not give the Prime Minister any creditability when it comes to Covid-19 policy.

Elon Musk did not hesitate to point fun at the young leader going to Twitter describing the issue with a meme.



## Speaking of Elon

We have regularly highlighted Elon Musk's financial and Twitter activity in [The Weekly Beacon](#). Musk is a polarizing figure who is truly one of the most interesting people in the world.

Elon was named Time Person of the Year this past week, even the media cannot deny his impact and reach.



Quite a surprising move as Musk regularly speaks his mind and many do not appreciate that attribute of his.

Musk has been highly critical of the "Build Back Better Agenda" put forth by President Biden.

### **Elon Musk calls for Senate to not pass 'Build Back Better' Act**

The \$2 trillion 'Build Back Better' Act will only increase federal deficit, says Musk  
By Gitanjali Poonia | @gitanjalipoonia | Dec 7, 2021, 7:00pm MST

Musk cites large piles of debt, inflation, and his belief in not relying on the government as reasons against this Bill.

Those were not the only controversial comments made by Musk during the last week. He also came out against Covid-19 vaccine mandates and called mandates un-American.



## Elon Musk says he and his family are vaccinated but that mandates for the masses are an 'erosion of freedom'

Tim Levin Dec 13, 2021, 11:26 AM



Vaccine mandates and government overreach were primary drivers in Musk moving Tesla from California to Texas.

Elon also went at, Senator Elizabeth Warren on Twitter. Warren is a major supporter of the “*Build Back Better Agenda*” and is amongst the most progressive politicians in Washington.

Musk replied to Warren’s tweet on U.S. tax policy, where she states that she believes the current system favours the ultra-rich including Musk.

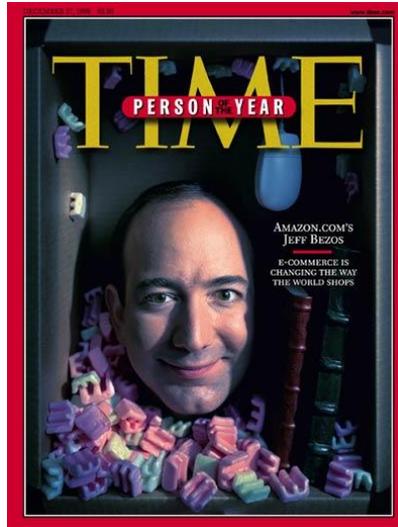


Musk’s replies were quite funny and summarize his personality. He was also quick to reply to Warren in a professional way where he states he will pay the most ever in taxes for a U.S. citizen in 1 year (2021) due to his stock selling. He then told Senator Warren “not to spend it all in one place, oh wait you already have.”

Regardless of how you feel about Tesla, Musk is a must-watch person and is completely irreverent.

With all that being said, gracing the cover of Time Magazine has not always been a good thing for CEOs of public companies.

Back in 1999, Jeff Bezos won Time Person of the Year, the Amazon founder could do no wrong. Amazon's stock debuted in 1997 at under \$2 a share and peaked in 1999 right when this article was published.



It was only 21 months later until Amazon shares crashed at the bottom of the dot com bubble, Amazon shares declined by 94% in under 2 years. Perhaps being named the Time Person of the Year for a CEO is a signal for public markets. We are truly in a hype period that has many parallels to the late 1990s & early 2000s.

Since 1999, Mark Zuckerberg (2010) is the only other CEO to be named Time Person of the Year. The award has historically been given to U.S. Presidents, impactful global leaders, and humanitarian groups.

We do not think Tesla will crash by 90% but, we remain in the "Tesla is overvalued" camp and can see the potential for a pullback.

**MacNicol & Associates Asset Management Inc.**  
**December 17, 2021**