

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.*



Cape Forchu, Nova Scotia, Canada



Fulehuk Lighthouse, Norway

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

Cathie Wood Update



Well, we have finally reached a point where ultra-bull and Ark Investments CEO, Cathie Wood finally believes a portion of the market is overvalued. We do not agree with this exact sentiment but, realizing something is overvalued might be a step in the right direction!

We have been critical of her price predictions of numerous assets including Tesla and Bitcoin in [The Weekly Beacon's](#) history and believe she is selling hype and buzz rather than cash flows and fundamentals.

This week she described the price rally of traditional automakers as ridiculous. Ford announced it would be doubling its rate of production for the electric version of the F-150 at the start of the year. As of Wednesday morning, Ford shares had risen 11.8% in 2022 alone.



Wood believes this move is ridiculous and backward thinking and still believes Covid-19 will accelerate innovation across the globe.

She claims electric vehicles make up roughly 2% of sales from companies like Ford, GM, and Chrysler. She claims the other 98% are on their way out as they prefer electric vehicles. Quite a bold claim. Millions of people still drive gasoline automobiles and will continue to for years to come.

Wood's comments seem out of touch as her ETFs see massive investor outflows.

Ford sold 1,892,722 cars in 2021. Tesla sold 936,000 cars over the same period. Tesla trades at a Price to Book ratio of 37.75x and a Price to Sales ratio of 24.67x while Ford's multiples are 2.34x and 0.64x. Ford only trailed Tesla in terms of U.S. EV sales in 2021.

We understand Tesla has the first-mover advantage in the industry and have Elon Musk. However, the industry has never been and never will be a monopoly, even if consumer preferences change like Wood says. We think it will be a slow shift that traditional automakers will also capitalize on, especially with their production capacity. The move by Ford and some bullish comments by Analysts is Wall Street finally realizing, traditional automakers may have some room to run and these companies have a huge

opportunity. They have the infrastructure to scale vehicle production while companies like Rivian struggle to deliver their order book.



Ford Stock Surges 11% As Company Aims To Challenge Tesla's Electric Vehicle Dominance

Analyst Raises Ford Stock Price Target Again Amid EV Push

By Brett Foote

December 31, 2021 6:08 am



Car Price Increases

The U.S. Government, media pundits, and even big banks like to use the word “transitory” to describe inflation last year.

ECONOMY

Goldman CFO says inflation likely transitory but a sharp rise would have ‘negative consequences’

PUBLISHED THU, JUN 10 2021-9:00 AM EDT

June 5, 2021
2:13 PM EDT
Last Updated 8 months ago

Business

U.S. Treasury's Yellen tells G7 to keep spending, says inflation will pass

4 minute read

By David Lawder and Andy Bruce

BUSINESS

Federal Reserve is keeping key rate near zero, sees inflation as ‘transitory’

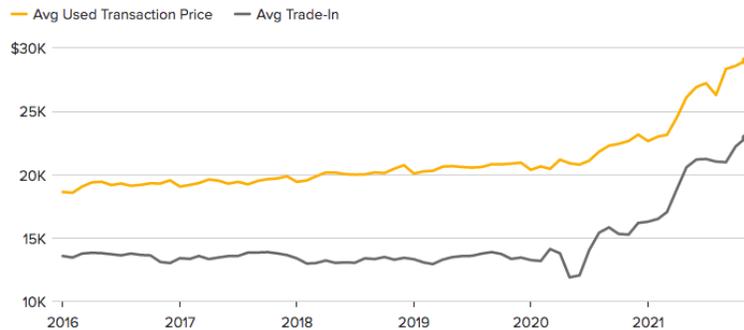
Hopefully, you did not buy into this narrative and stayed vigilant. Prices rose 4-7% for consumers across North America and prices will continue to rise in 2022. Massive government money printing chasing

fewer products will be ongoing issues that lead to prices continuing to rise. Certain products have risen more than others (oil, gas, food, etc.) but, across the board consumers have less spending power.



One area where prices may decrease in 2022 is automobiles. 2021 saw the largest price increase on record for both new and used automobiles; chip shortages, supply chain gridlock, and Covid-19 lockdowns led to a diminished supply. Just drive by your local dealership, the parking lots are empty.

Average price of a used car



Source: Edmunds.com



Price of a new car



Source: Edmunds.com



The automobile industry should have most of their issues in 2022 solved but, prices for new cars may not decrease. Prices for producers have increased more than that of consumers as input prices have soared.

Used cars which rose in price by almost 33% in 2021 may come back to Earth, so hopefully, you were not caught paying a premium in 2021. However, as we believe inflation will be an ongoing problem, the issues may persist going forward.

Speaking of Inflation

Well, a picture says a thousand words.

Economics

U.S. Inflation Hits 39-Year High of 7%, Sets Stage for Fed Hike

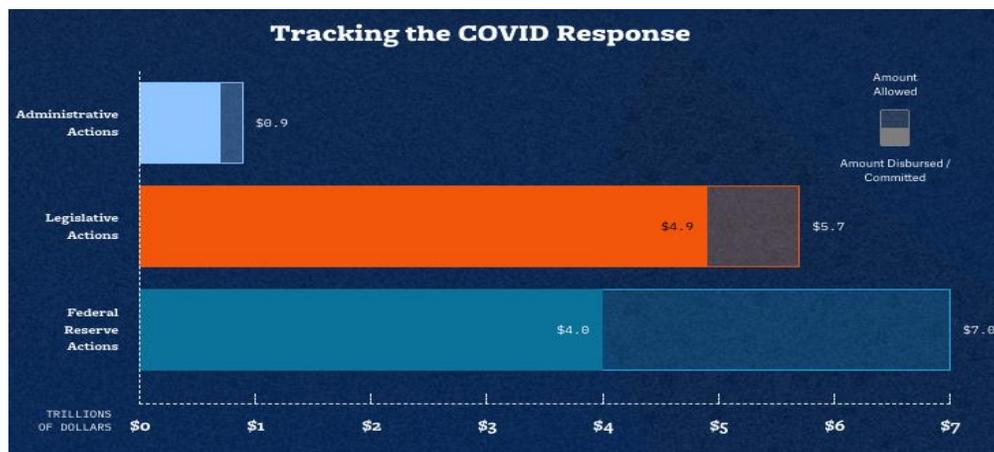
By [Reade Pickert](#) +Follow

January 12, 2022, 8:32 AM EST Updated on January 12, 2022, 9:30 AM EST

The highest 12-month price increases since 1982, even with the changes the U.S. Government made to the inflation calculation back in 1990.

Stocks and commodities took the news well on Wednesday morning as they all traded into the green.

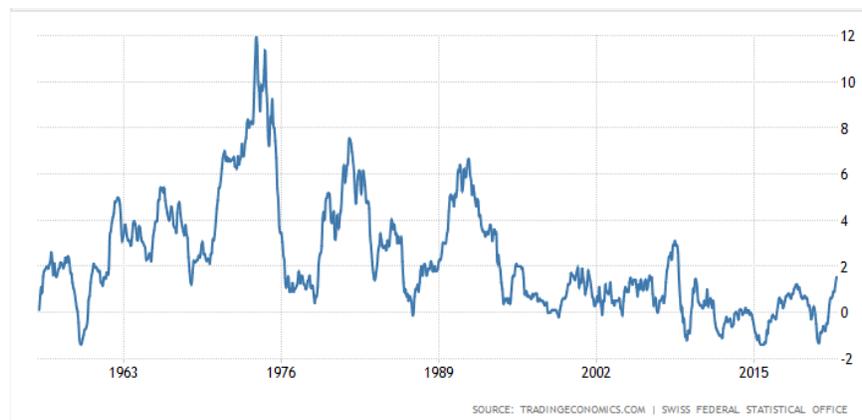
When monetary packages in the Trillions are spent, inflation is what you get.



This is without mentioning the sky-high government budget and massive spending Bills like Infrastructure Bill that passed in the Fall.

Inflation is a self-inflicted wound that will hurt hourly earners the most.

Canada, the U.S., the UK, and many other developed nations are dealing with sky-high inflation. However, there are a few developed nations that have not seen high price increases.





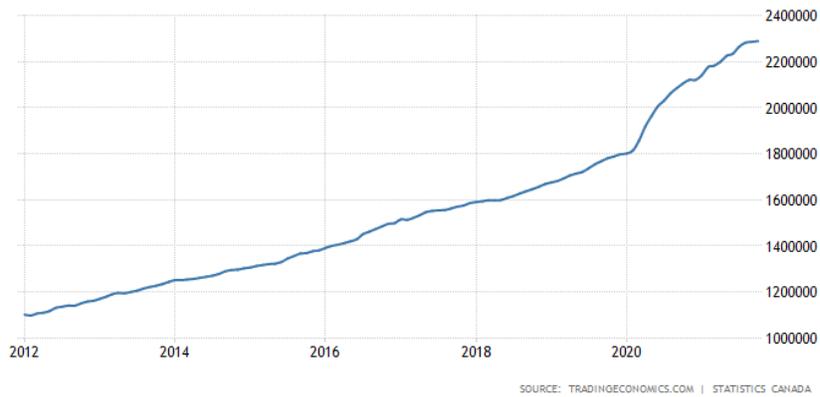
Switzerland’s latest CPI release on January 4th was 1.5% over the last year. What have they done differently?

Switzerland M2:



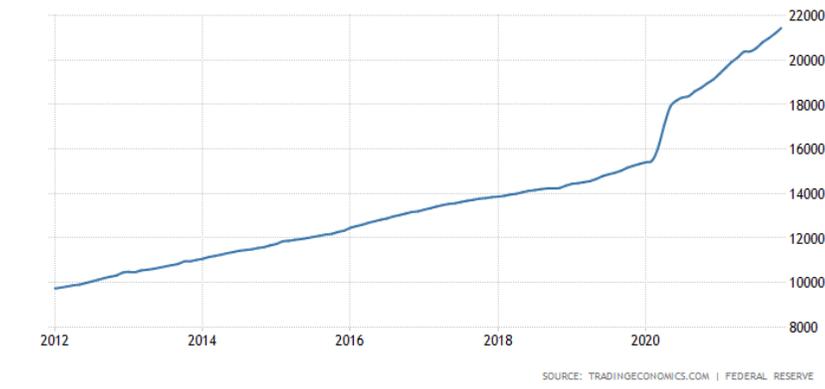
A monetary response of less than 10% of the M2 by the Swiss government.

Canada M2:



The Canadian government response was an increase of 27% in the money supply from 2020-2021.

U.S. M2:



The U.S. government has responded by expanding the M2 by almost 40% over the last 2 years.

The cause of inflation is not some secret formula.

Bitcoin, Store of Value, Currency, or Other?

When people talk about Crypto, Bitcoin is usually the first asset brought up. It's the Cryptocurrency with the highest market cap and was founded first. The ongoing bull case for Bitcoin to continue its parabolic move upward has been Bitcoin acts as a medium of exchange, store of value, and is an inflation hedge. Bitcoin users will point to the medium of exchange aspect and how simple it is to trade as the case over traditional value holder, gold. The exchange aspect for most users is quite counterintuitive at the moment as Bitcoin exchange fees are quite high. Some platforms do offer little or no transaction fees but, the complexity of the area is a major hurdle it will need to conquer to increase its scalability.

Bitcoin users have promised the moon, buy a car, a house, a coffee, and a hamburger via Bitcoin. All these aspects seem a few years away and many consumers and businesses will not adopt Bitcoin as a form of payment due to the tremendous volatility. 8% daily swings are a regular occurrence for Bitcoin and crypto. Why does Starbucks want to account for an 8% price decrease on their 10K's.

Tesla accepted Bitcoin payments for a few short months in 2021 but, ended the practice and cited the environmental impact of Bitcoin mining as a major reason for this move.

The store of value and inflation hedge argument of Bitcoin could be valid in the future but, the volatility of the asset will continue to be its greatest issue.

A user on Twitter pointed out the price decrease in Bitcoin over the last year when prices dipped on Monday. Not much of a store of value if it loses value relative to the inflated USD.



We remain on the sidelines when it comes to certain cryptocurrencies but, have found alternative ways to gain value for our investors in the industry.

We have also begun a deep dive with industry leaders into the space that will not only benefit us but, our investors down the road. The industry has so many layers and there is so much to learn.

Technology Bubble (Subsector specific)

We like to track some of the biggest funds and companies that we do not invest in as they give a macro feel on investor sentiment.

This is one of the major reasons we follow Cathie Wood and Ark Investments in [The Weekly Beacon](#). We feel her fund gives us a connection to these hype investors who think every company is the future.

Even though ARKK has been down almost 40% over the last year, it was not the only stock that got its bubble burst.

Numerous technology companies have been hit hard over the past few months. One of our stocks to avoid over the past year - Zoom is down 51%,



The software industry has also been rocked over the last few months and it's not small companies, it is large-cap companies.



Market Summary > Adobe Inc

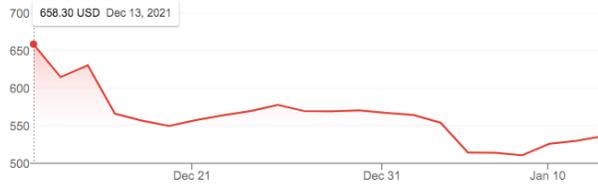
536.20 USD

NASDAQ: ADBE

-121.63 (-18.48%) ↓ past month

Jan 12, 10:28 a.m. EST • Disclaimer

1D | 5D | **1M** | 6M | YTD | 1Y | 5Y | Max



Market Summary > salesforce.com, inc.

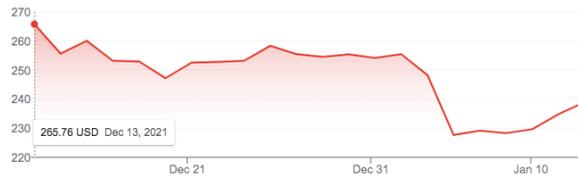
239.15 USD

NYSE: CRM

-26.74 (-10.06%) ↓ past month

Jan 12, 10:30 a.m. EST • Disclaimer

1D | 5D | **1M** | 6M | YTD | 1Y | 5Y | Max



Market Summary > Snowflake Inc

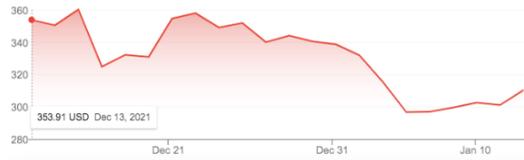
310.47 USD

NYSE: SNOW

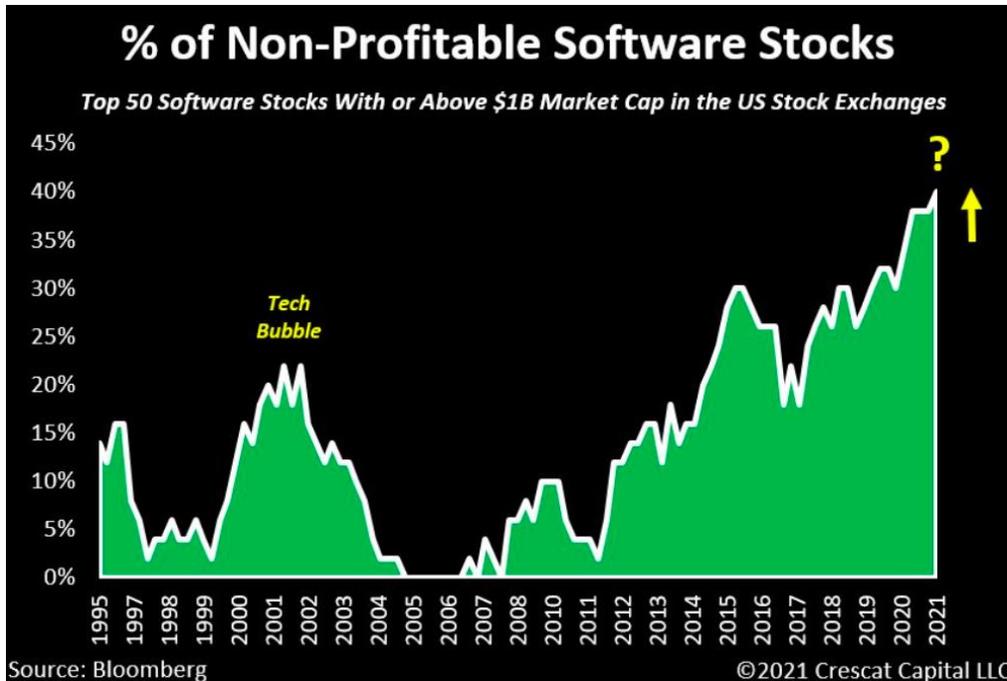
-43.44 (-12.27%) ↓ past month

Jan 12, 10:35 a.m. EST • Disclaimer

1D | 5D | **1M** | 6M | YTD | 1Y | 5Y | Max



It's no surprise why the software subsector has been hit the hardest....



Approximately 42% of the software companies trading above \$1 Billion are not profitable. We have never seen this before in public markets (except maybe 1999 and 2000 ...), certain investors do not care about cash flows, profitability, debt management, and margins. It's a mini bubble in this area similar to the Technology Bubble.

Companies like Adobe and Salesforce are profitable but trade at extremely high multiples. New investors may not even look at multiples to see how "expensive" a stock is trading at, they just buy it.

A subsector that is littered with non-profitable companies that trade at extreme multiples is a perfect match for today's markets.

Wall Street Continues to Trump FinTech Startup's

A user on Twitter highlighted how disruptive FinTech companies have been to traditional Financial companies.



Even though some of these companies have a great platform or product, they are being valued like technology companies which makes them extremely expensive. Robinhood is trading at half the price it debuted at back in August 2021. Coinbase is trading 30% below its IPO price, and Square is down 35% over the last year. Each of these companies was promised as an alternative to the traditional financial giants but are solely valued like tech companies.

Wall Street continues to win.

Europe has a Bizarre Energy Strategy

The ongoing energy crisis is a fascinating topic to follow and something we think will continue in the future.

Europe has partially caused this issue internally through regulation, carbon taxes, and reliance on renewables.

Germany released an action plan in achieving its green goals with an energy crisis or energy shortage. The plan is quite interesting:

Energy Commodities

Germany's new tool for achieving 2030 climate goals - stop using energy

Jan. 11, 2022 11:51 AM ET | XOM, RDS.A, URA... |
By: Nathan Allen, SA News Editor



Pheelings Media/Stock via Getty Images

- On the back of Germany shutting half its nuclear fleet January 1st and planning to shut the remaining half this year, Climate Minister Robert Habeck [unveiled a new report](#) indicating Germans will need to [reduce final energy consumption by 20-25%](#) if the Country is to hit its 2030 climate goals.
- This comes as the debate continues within Europe regarding policy-linked "sustainable energy" definitions, where Germany is pitted against the likes of [France and the Czech Republic](#), countries that believe [nuclear energy should be defined as "sustainable."](#)
- The report out of Berlin indicates Germany was able to reduce absolute emissions by 15mtpa from 2010-2020; however, the Country



Reducing energy consumption by 20-25% seems like a steep move for one of the most technologically advanced countries in the world. If true, this will cause a mass exodus, nobody wants to be limited in water usage, charging a computer, heat, air condition, or charging their electric vehicle.

Just a few days before this article was published:



The blackouts seem to have started, we warned of this a few months back as the energy shortages would increase in the cold winter months across Europe.

In the United Kingdom, the third-biggest energy supplier, SSE suggested customers keep warm by "having a cuddle with your pets" and "eating hearty bowls of porridge" to keep power bills low. Energy bills across the UK are supposed to rise by as much as \$2,000 a year with the current crisis.



5. Eat for heat

Complex carbohydrates like whole grains, potatoes, lentils, and hearty bowls of porridge will help increase your body temperature, as they take longer to digest. This means your body creates more heat as it works harder to process them.

Ginger keeps you warm by encouraging blood flow, but beware of chilli as it makes you sweat, so you'll feel cooler.

Drinking more water is a good idea too. Your temperature drops when you're dehydrated, so staying hydrated helps your body regulate its temperature. Stick to non-alcoholic drinks, though. That warming feeling from wine or whisky is temporary as you'll soon lose heat from your core and end up feeling even colder.

The UK government spoke out on these comments and SSE was forced to apologize for this email. If a private company is telling customers how to keep energy bills low, the issue might be larger than we think. Using less power would also ration the energy supply for SSE.

Keep monitoring the energy sector - opportunities galore as we move forward.

Economic Development will Increase Energy Demand

As the world pushes for less poverty, energy demand is increasing. Believe it or not, the world has made major advancements in the drive to end extreme poverty.

[A clock from World Poverty](#) illustrates the live decrease in the world's population living in extreme poverty. To increase this speed, poorer nations will need access to energy to fuel their economic development. These nations need reliable and cheap energy sources, not solar panels and wind farms.

Global economic development and renewable energy goals are competing goals. For the world to move forward, more people need to realize the realities of these issues.

Crypto Pump and Dump

As we are in the early stages of cryptocurrencies, the industry has minimal regulation.

The industry is adding thousands of different coins every month with no major guidelines to go to market.

There are over 8,000 cryptocurrencies, some have value but, most have little to no value and will probably go to zero. Make sure to do your homework when investing in any project.

Any project promising you to get rich quickly and that is marketed by celebrities is probably too good to be true. We are not talking about Matt Damon and Tom Brady endorsing crypto trading platforms as they offer a service or even celebrities endorsing Bitcoin on Twitter or MSNBC. Bitcoin has a long track record and is not highly centralized by a few holders.

Many of these new coins are highly centralized and the developers own a majority of the supply. Some developers even approach celebrities to market these coins on social media. Developers then dump a large supply onto the market when the coins peak. **A pump and dump scheme that is in the infancy stage of being regulated.**

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This week, two major celebrities were reportedly sued in a class action crypto scam.

TECH

Kim Kardashian and Floyd Mayweather sued by investors over alleged crypto scam

PUBLISHED WED, JAN 12 2022-5:13 AM EST UPDATED 2 HOURS AGO



Ryan Browne
@RYAN_BROWNE_

WATCH LIVE

Both Kardashian and Mayweather marketed EthereumMax, a coin with no affiliation to Ethereum.

The posts and endorsements by the celebrities happened back in May and June 2021 and the price chart does not paint a pretty picture.



EthereumMax has since lost 97% of its value.

Do not fall for any of these scam coins that people promise that you will get rich quickly. Mayweather has already paid \$600,000 as a settlement to the SEC back in 2018 for pumping an initial coin offering.

MacNicol & Associates Asset Management Inc.
January 14, 2022