

## 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 Spear Lighthouse, Newfoundland, Canada



Pointe Riche Lighthouse, Newfoundland, Canada

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



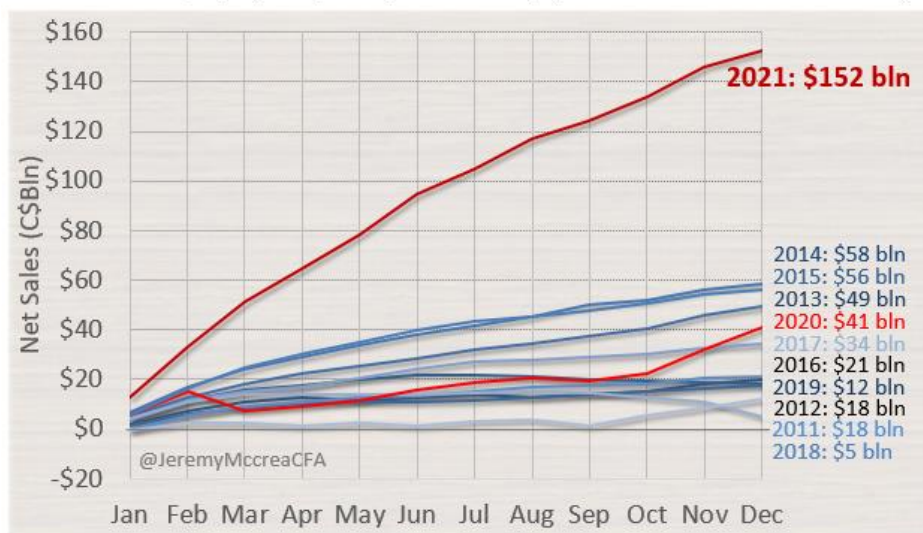
## True Market Euphoria

As markets have continued their exponential move upward since the pandemic, investors have piled into financial assets, specifically into equity funds. We are not counting the recent volatility and 10% drop as a major market correction. Markets remain at record levels and valuations remain stretched. The Nasdaq 100 is still up 115% since March 20<sup>th</sup>, 2020. Chances are no matter what you invested in over this pandemic; you have seen a handsome return (double that with unprofitable technology companies). We also hope you did not buy into the permanent pandemic profile which features Zoom, Netflix, Peloton, and many other technology names. We forecasted the issues with each of these companies, major fundamental issues including the return to normal life.

Last year, Canadian investors set a record for net sales into mutual funds and ETFs. Everybody wants in on the action, even if they are not actively trading.

### CDN Mutual Fund / ETF Net Sales (\$bln)

Includes Balanced, Equity and Specialty Net Sales Only (for CDN Mutual Fund and ETF sales)



Source: IFIC, Raymond James Ltd.; Author: Jeremy McCrea

We highlight this because a major financial correction will affect more people than ever. Cheap money was thrown into equity markets by individuals who received pandemic support from governments around the world (CERB, Stimulus, PPP). Estimates across the U.S. believe a record percentage of the U.S. population own directly or indirectly assets in financial markets. The same would be true north of the border.

Most of these new investors have no hedge or major diversification in case there is a major correction. Even if some investors do have a theoretical hedge, they use a 60/40 portfolio and believe they are protected from a market downturn. The 60/40 portfolio is dead and will not provide any benefit to investors if there is a major market meltdown. ("Balanced portfolio" of 60% Equities and 40% Fixed Income)

[Contact MacNicol today to understand the numerous ways we diversify portfolios and account for potential major market downturns.](#)

## What's with Facebook?

Facebook or 'Meta Platforms' has had an interesting past week.

Facebook missed earnings estimates and lost users during the 4<sup>th</sup> quarter. For the first time ever, Facebook lost users, all that growth might be disappearing. We are not proclaiming Facebook as dead; the company still has 1.929 billion daily users. Facebook investors have just realized something certain investors knew all along, growth can only go so far, and eventually, growth will plateau.

Facebook also provided some poor guidance during their earnings call. Facebook investors took the overall market volatility on the chin. Facebook is down 33% year to date and lost 27% last Thursday alone equating to \$232 Billion in market capitalization lost in one day. Facebook's market cap is just above \$600 Billion but, just a few months ago the market cap was above \$1 Trillion.

Market Summary > Meta Platforms Inc

**226.09** USD

NASDAQ: FB

-112.39 (-33.20%) ↓ year to date

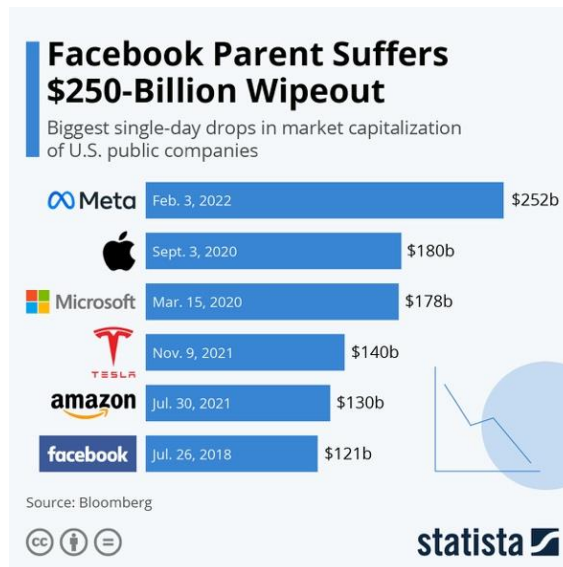
Feb 9, 10:09 a.m. EST • Disclaimer

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



Open	224.20	Mkt cap	615.70B	52-wk high	384.33
High	227.47	P/E ratio	16.42	52-wk low	216.15
Low	222.21	Div yield	-		

The \$232 Billion loss was the largest single-day wipe-out in market history. Unsurprisingly, all of the largest single-day wipeouts were all within recent years and all involved high-growth technology companies.



Earnings did not even miss by much; estimates were \$3.84 per share and \$3.67 was the result. We thought Facebook was overvalued but never expected a massive sell-off like that. This event truly highlights the uncertainty in markets today.

Facebook followed up their results with a threat to one of their largest markets.

Tech > News Tech

## NOT 'APPY Mark Zuckerberg threatens to pull Facebook and Instagram from Europe

**Harry Pettit**, Deputy Technology and Science Editor

10:27, 7 Feb 2022 | Updated: 11:23, 8 Feb 2022

Europe has drafted new legislation that will heavily regulate data harvesting. The EU essentially will ban EU data from being harvested on foreign servers. Facebook completes its data harvesting on U.S. servers. Mark Zuckerberg warned the EU that harvesting data in the U.S. is an essential part of his business. Will he follow through while his stock price is cratering? Who knows? Will the EU follow through? We will see. For years, politicians have warned technology companies of their overreach and have proclaimed their support for regulating them, but nothing usually happens. We will have to wait and see.

Zuckerberg who lost \$29 Billion of his net worth when Facebook shares tanked may have some more pressing issues to deal with before creating a new one.

Zuckerberg also has some negative news as a Facebook Board Member stepped down from his seat.

Peter Thiel, an angel investor and the founder of PayPal was the first external investor in Facebook. He has sat on the Board since his investment in 2005. Thiel turned a \$500,000 investment into over

\$1 Billion. He has realized most of his gains over the years and only owns about 10,000 shares of Facebook currently.

Thiel has been critical of Facebook over the years and has been extremely critical of the monopolistic technology sector. Facebook was quite angry at Thiel during the IPO in 2012 when Thiel dumped half of his shares immediately.

Thiel signaled his exit would help him focus on his assistance in the political world of candidates he backs as well as potentially aligning himself with an alternate communication platform.

Thiel Capital's COO, Blake Masters has already launched his bid for the U.S. Senate in Arizona and Thiel has been a huge supporter.

Zuckerberg's problems continue to grow. Don't expect everything to be smooth sailing from here.

### Cathie Goes Private

ARK Investments CEO Cathie Wood announced recently that Ark is launching a new fund that will focus on illiquid securities and that limits investors' exits. She has highlighted the current market volatility as a major reason for this move.

Perhaps Ark's investor outflows are another reason for this fund launch.

February 4, 2022  
11:55 AM EST  
Last Updated an hour  
ago

Wealth

## Cathie Wood's new fund to invest in disruptive tech in private markets

By Saqib Iqbal Ahmed

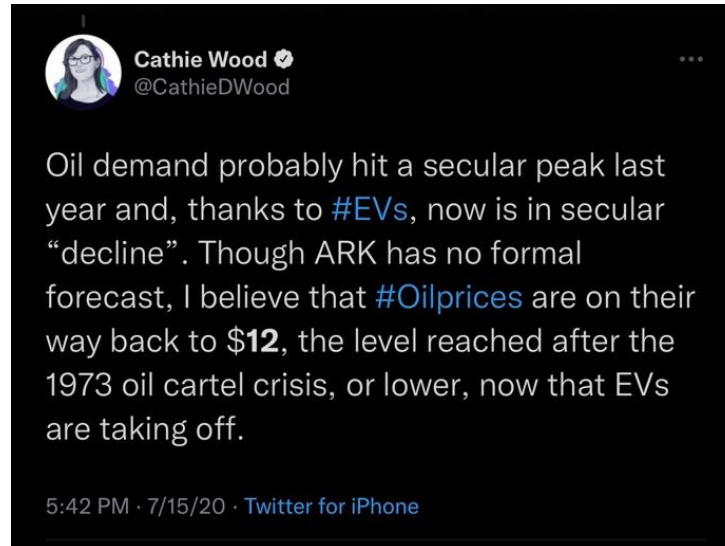
Wood will focus on disruptive private markets companies. She has in the past highlighted the arbitrage opportunities between private and public market investing. She has also proclaimed some of the hardest hit technology stocks as a value play as they are trading at lower multiples than before. While the multiples for these disruptive technology companies have decreased, most still trade at extreme valuations and have fundamental issues in their businesses.

After her market performance over the past year, it might be smart to steer clear of her funds, especially during this market uncertainty.

Her most recent fund launched on April 1<sup>st</sup>, 2021 and is down 19% since inception. This fund specializes in Space Exploration Innovation, great marketing, but bad execution.



Speaking of Cathie Wood, we want to highlight her famous oil price target she announced on July 15<sup>th</sup>, 2020, she proclaimed oil as “dead” and at its peak demand, predicting \$12/bb. 18 months later and oil hit \$90/bb this past week, reaching an 8-year high.



We know she was not short oil over the last 2 years but, what a horrible call. If she did short oil, Ark’s funds would have lost all the value that is still invested. Even with her EV angle, oil has so many other uses that will continue to increase demand.

As we say regularly in [The Weekly Beacon](#), oil is not going anywhere.

### **Housing Problem? Over Exemplified**

Over recent weeks many in the media and financial industry have described the real estate industry, specifically real estate as a massive bubble especially across select markets in both Canada and the U.S.

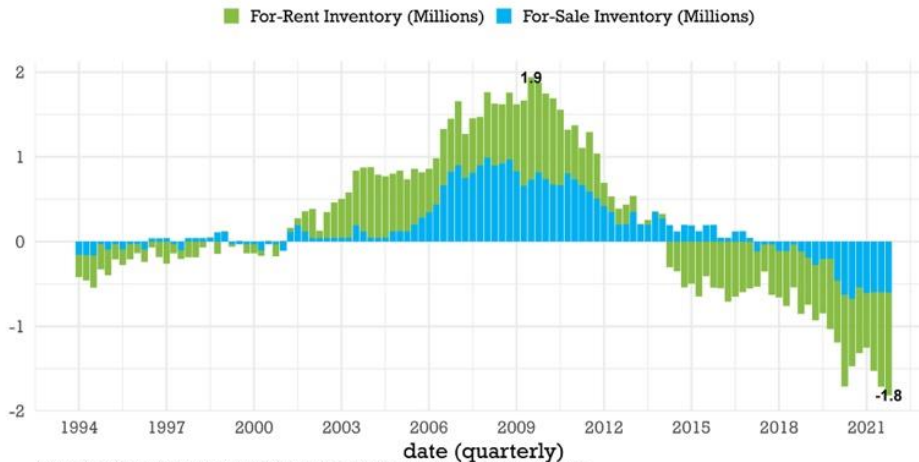
The real estate industry is undergoing another problem causing prices to surge, undersupply. In the U.S. undersupply has reached record levels, during the financial crisis there was an oversupply problem, where developers were building millions of extra homes. Developments were empty across the U.S.

The issue today is underinvestment in home building. If financial markets have a correction, do not expect the housing market to have a move at the same magnitude. Over-regulation, difficulties to get permits, a growing population, and several other reasons have led to this record undersupply of housing for both sale and rent.



## U.S. housing has gone from oversupply to undersupply

U.S. vacant housing over/undersupply



@enkliefer Source: Author's calculation based on US Census Bureau data, negative values reflect undersupply  
The under/oversupply of vacant housing is estimated based on the average vacancy rate from 1994Q1-2009Q4.  
Data through 2021Q4

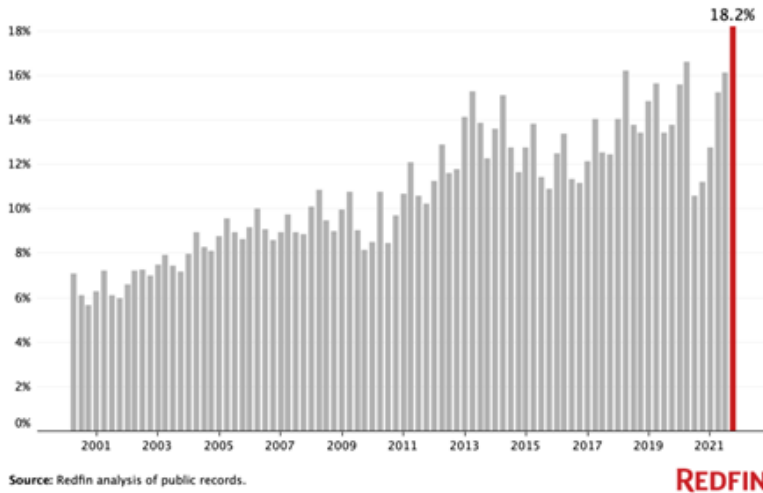
We are also nowhere near that peak we saw in 2008 in terms of the number of houses sold. We are currently at half the number of houses sold every month than we were in 2008. The U.S. population has grown by 28 million from then until now. This is an issue that is flying under the radar.



We have continued to invest in select real estate projects across North America with a major focus on high population growth centers. [Click here to check out the MAC 360 Degree Real estate Fund.](#)

We are also in a period of high demand in real estate from investors. 18.2% of homes bought across the U.S. in 2021 were for investment purposes, a record number. During the Credit Crisis, the number was near 10%.

**Investors Purchased Nearly 1 in 5 of All Homes Sold in the U.S.**  
Share of homes purchased by investors



Demand will come both from individuals and investors. Investors are beginning to increase diversification not only through financial assets but through alternative investments.

### **What performs best during Central Bank Interest Rate Hikes?**

As Central Banks across the world warn of interest rate hikes to battle inflation, certain assets across financial markets will lose out big time. Analysts will have to begin using a higher discount rate when valuing the companies, they cover. Valuations and stock prices will take a hit.

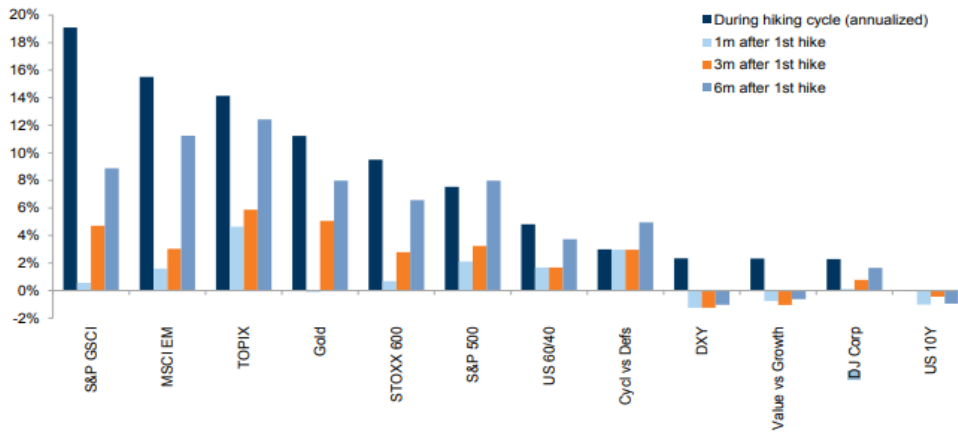
Finding opportunities during a cycle like this is more difficult than in a pure bull market.

Goldman Sachs released a study that looks at how asset classes perform during interest rate hike cycles. Commodities outperform every other major asset class during these times. Since 1972, during rate-hike cycles, the S&P GSCI (Commodity Index) has had an annual return of 19% well above any other asset class. During these periods the S&P 500 has had a return in the mid-single digits.





**Exhibit 6: Commodities outperform during Fed rate hiking cycles**  
 X-asset Performance during hiking cycles since 1972



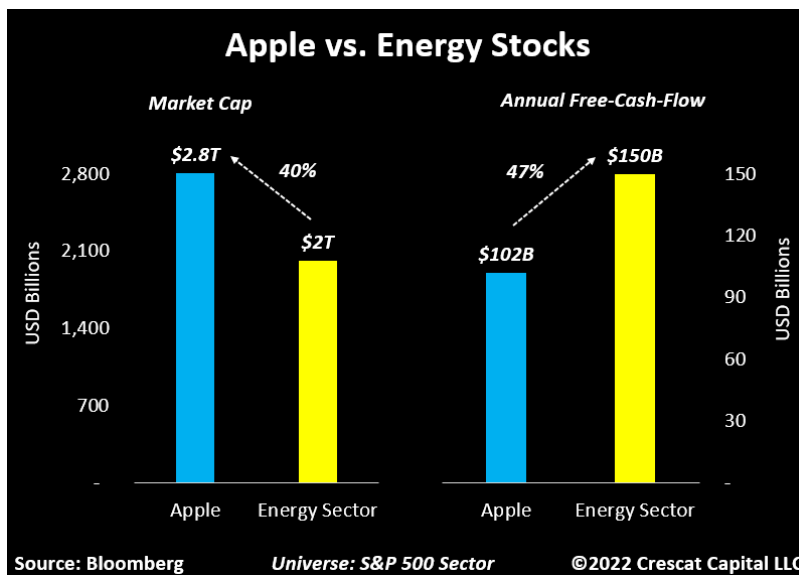
Source: Datastream, Goldman Sachs Global Investment Research

Just something to keep your eyes on as fiscal policy comes to the forefront of financial markets.

**Apple vs. The Entire Energy Sector**

We are truly in a time of euphoric valuations. Technology companies get slapped with massive multiples and are compared to companies, not in the same ballpark.

Apple which creates positive cash flows and generates profit is not in the ballpark of our least favourite stocks. However, this graphic is truly telling. Apple has a larger market cap than the entire U.S. energy sector, a 40% premium. Apple’s annual Free Cash Flows are 47% less than the energy sector. Something does not add up.



ESG investing could be a major reason for this wide gap. The demand for energy investments is at an all-time low.

Energy companies will never be valued at the same multiple as a company like Apple; they shouldn't be. The only energy stocks that trade at extreme valuations are those in the renewable space. In that subsector, ideas and disruption trump cash flows. Enphase Energy, a solar energy company trades at a PE ratio of 117, a Price to Book ratio of 30x, a Price to FCF of 70.2x, and an EV/EBITDA of 96.37. Comparing that to Chevron's multiples (PE 26.75, Price to Book 1.92x, Price to FCF 18.15x, and EV/EBITDA 7.21), there is a major gap that might take years to fill.

### **Unprofitable Names Have Room to Run**

The Goldman Sachs Non-Profitable Technology Index describes investing in the 2020s best. Even with the major downturn in unprofitable names like Peloton over the last year, the index is still up 70% more than the S&P 500 since 2017.

These unprofitable cash-burning machines have more room to run to the downside.....

#### **Technology stock performance**

*Total return, indexed to 100 at January 2017*



Source: Clearnomics, Standard & Poor's, Refinitiv, Principal Global Investors. FAANG consists of Facebook, Apple, Amazon, Netflix, and Alphabet (Google). Data as of January 7, 2022.

How are these names still outperforming the S&P 500 which has had its melt-up by such a wide margin?

Companies like Peloton whose shares are down 70% over the last year are still up 50% since 2019.

The top 25 holdings in this index are below as of last year. SNAP might be taken off of this going forward as the finally produced profit during the 4<sup>th</sup> quarter of 2021.



<b>Non-Profitable Technology Index Constituents (Top 25 by weight)</b>			
<i>Ticker</i>	<i>Name</i>	<i>Ticker</i>	<i>Name</i>
PLUG	Plug Power Inc.	CVNA	Carvana Co.
NIO	NIO Limited	UBER	Uber Technologies, Inc.
BILI	Bilibili Inc.	MDB	MongoDB, Inc.
PINS	Pinterest, Inc.	LYFT	Lyft, Inc.
ROKU	Roku, Inc.	WORK	Slack Technologies, Inc.
TDOC	Teladoc Health, Inc.	W	Wayfair Inc.
PTON	Peloton Interactive, Inc.	OKTA	Okta, Inc.
SNAP	Snap Inc.	FSLY	Fastly, Inc.
NET	Cloudflare, Inc.	SPOT	Spotify Technology S.A.
CRWD	CrowdStrike Holdings, Inc.	FTCH	Farfetch Limited
ZG	Zillow Group, Inc.	OSTK	Overstock.com, Inc.
SE	Sea Limited	ESTC	Elastic N.V.
PDD	Pinduoduo Inc.		

Look for certain non-profitable names to continue to nosedive or be the first ones to crash in a market downturn. This list does not even include some of the new EV companies that are amongst the most overvalued, non-profitable companies across the stock market.

**MacNicol & Associates Asset Management Inc.**  
**February 11, 2022**