

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 ships (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Dryad Point Lighthouse, Dryad Point, Bella Bella, BC



Magdalena Island, Chile Lighthouse

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

Fighting Inflation with Stupidity

A few governments across the west have adopted a horrible policy that has failed across the 3rd world throughout history—combatting inflation with more spending and money creation. It is the opposite of helpful and history tells us, stupid. Both Trudeau Liberals and the NDP have suggested cheques to Canadians who are dealing with rising costs. These cheques will help Canadians compensate for lost wage value in today's economy.

This week, California took the cake for the dumbest government. Almost half their population will receive \$1,050 to combat surging food, fuel, rent, and other necessities prices. It's stimulus cheques without a pandemic, economic relief when unemployment is not an issue, this is a problem that will only make things worse.



Remind us to come back to this is October or November and look at rent prices in California or even local food prices, we bet they will surge at a faster rate than the rest of the U.S.

There is a reason California is home to the highest gas prices in the U.S. and it's not because of the heat.



California Faces Summer Blackouts from Climate Extremes

Energy planners are working to increase the grid's reliability to keep the power on during droughts, wildfires and heat waves

By Anne C. Mulkern, E&E News on May 23, 2022

The new partnership comes on the heels of Governor Newsom's announcement last month that the state is moving to [prevent new oil drilling near communities](#) and expand health protections as California works to phase out fossil fuels. [The Governor has taken bold action to end the issuance of new fracking permits by 2024, move the state toward phasing out oil extraction by 2045 and reduce demand for oil by ending the sale of new gas-powered cars by 2035.](#)

Stupid policy always ends this way. Solar and wind energy will not solve anything, we would argue they cause more issues than have solutions in current forms.

When Retail Traders Run a Country's Federal Reserves

When El Salvador's President officially adopted Bitcoin as an official currency and began buying the asset with the country's funds, many Bitcoin bulls labeled it as a major win. They said, "one country down, the rest to go". Regardless of how you feel about Bitcoin, the ultra bulls live like a cult, they say the same things, they follow the same people, they ignore bad news, and they hate gold. We would label the President of El Salvador as one of those "ultra bulls".

As the government bought Bitcoin and gave each citizen some Bitcoin to spend, people labeled this as the first step to equality, where everyone has equal footing, and where El Salvador's people can start to thrive. A few issues with that, Bitcoin is still denoted in USD and a large portion of the population does not have access to technology that can support paying in Bitcoin. 86% of people in El Salvador had not used Bitcoin in any way as of March 2022, so much for a Bitcoin nation.

The major issue with El Salvador, the country is incredibly corrupt, even though the President goes on Twitter and interacts with the West, his population lives in poverty and suffers from tremendous gang violence. The President of El Salvador has given speeches across the world promoting Bitcoin, he even was at a Bitcoin/crypto conference in Miami within the last 2 months. Good for him for promoting the asset but he also runs a country and he has botched the job he was elected to do.

The country bought large portions of their Bitcoin above \$50,000 and with Bitcoin sitting near \$20,000/coin, their loss is massive. But, do not worry their leadership said the loss is not real because they have yet to sell, nice to hear. A paper loss is not real for a trader unless he uses that loss as collateral for a margin account, the same is true for a country. The only difference is El Salvador's credit rating as a country has dropped. El Salvador's credit rating has dropped numerous times since Bitcoin has fallen in value.

NEWS / BLOCKCHAIN

El Salvador's FM Says \$40M BTC Loss Not Real as They Haven't Sold Any Coins

As Bitcoin's price crashes, El Salvador's Finance Minister believes his country's crypto woes are overstated.



By Kingsley Alo [in](#)
Published on June 15, 2022



The International Monetary Fund warned El Salvador about the risks associated with purchasing Bitcoin in their sovereign fund. We would assume an "I told you so phone call" has occurred between the El Salvador government and the IMF in recent weeks.

For now, we will classify this move as a failure. The unfortunate part of this story, the people did not pick this, the government did.

BITCOIN

El Salvador Weekly: Bitcoin Experiment Is Failing Badly One Year In

By PYMNTS [t](#) [e](#)

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Posted on June 10, 2022

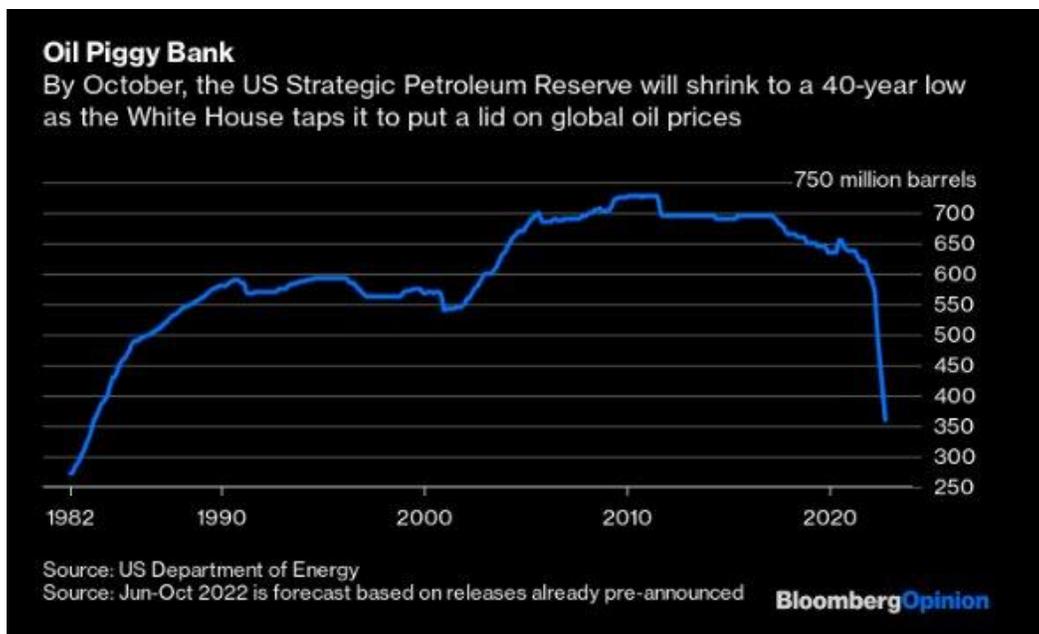
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Updated View of The U.S. Strategic Petroleum Reserves

Last week in [The Weekly Beacon](#), we mentioned that the Biden Administration was releasing more from the Strategic Petroleum Reserves. This week we got an updated view on their current capacity from Bloomberg.

With the mass releases that we have seen in late 2021 and through this year, the reserves are at their lowest point in almost 40 years. From 2010-2020 the reserves saw slight drops due to real uses for the oil in emergencies, hurricanes, natural disasters, and even during the 2011 Arab Spring.

The draws that we have seen this year are historic and will never be seen again. The oil reserves have been cut in half from their peak and there is only so much capacity left. Even with these large releases oil continues to reach higher prices. This is because there are fundamental issues within the energy market where supply and demand will not be equal.



So, if prices continue higher (they probably will), what will Biden do? Empty the reserves? Well, we do not think that is an option but, who knows with his administration.

Bad Times, Good Friends

As the west has completely divested from Russia and has limited trade with Russia since the invasion of Ukraine, Russia has found new friends that it can rely on. The sanctions were meant to put Russia in peril, but it just made the west ignore them.

China and India have been snatching up Russian oil for steep discounts since the invasion. China has even been filling up its strategic energy reserves while the U.S. drain its own. Perhaps, China sees the fundamental issues in the energy market continuing for the foreseeable future.



INVESTING | Commodities | News Wire

Mar 31, 2022

Russia Offers Oil to India at Steep Discount to Pre-War Price

Debjit Chakraborty and Unni Krishnan, Bloomberg News



Some of the world also believe that due to some of Europe's reliance on Russia, Russia has not skipped a beat in production since the invasion of Ukraine. Production has barely been impacted and is slightly down from the pre-invasion levels.

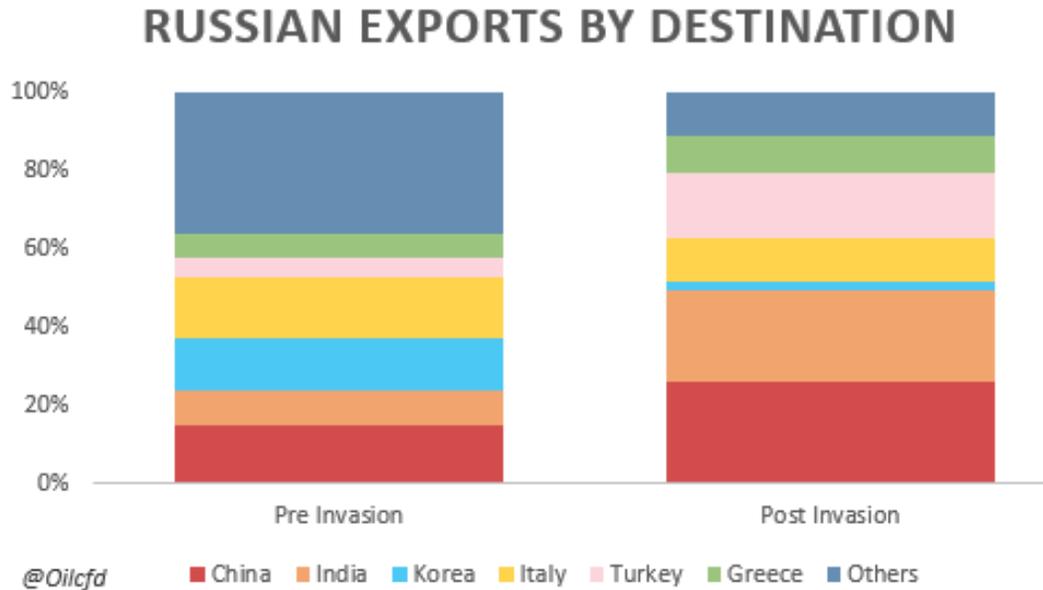
June 9, 2022
3:21 PM EDT
Last Updated 12 days ago

Energy

Russia's energy revenue higher now than just before Ukraine war, U.S. official says

By Timothy Gardner

So why has this happened? How is the Russian Ruble at multi-year highs? Russia is now trading more with its real friends after being shunned by the West.



What do we notice? China, India, Turkey, and Greece have increased trade with Russia by a significant margin. South Korea, Italy, and others have significantly decreased their trade with Russia. The others category looks to have decreased from 35% to almost 10%, we would assume that would be mainly made up of western nations like Germany, Japan, Australia, the U.S., Canada, and the U.K.

Russian exports products that are constantly in short supply and that are vital to every nation. Russian energy can help lift hundreds of millions out of poverty. We are not talking about MacBooks or sneakers, Russia's economy exports real assets that are necessities, it's no surprise countries have snatched up the opportunity to buy them even after the invasion of Ukraine.

Russia's top 10 exported items in 2021:

1. Mineral fuels including oil: US\$211.5 billion (43% of total export)
2. Gems, precious metals: \$31.6 billion (6.4%)
3. Iron, steel: \$28.9 billion (5.9%)
4. Fertilizers: \$12.5 billion (2.5%)
5. Wood: \$11.7 billion (2.4%)
6. Machinery including computers: \$10.7 billion (2.2%)
7. Cereals: \$9.1 billion (1.9%)
8. Aluminum: \$8.8 billion (1.8%)
9. Ores, slag, ash: \$7.4 billion (1.5%)
10. Plastics, plastic articles: \$6.2 billion (1.3%)

Almost all commodities, whether energy, metals, or agriculture.

U.S.'s top 10 exported items in 2021:



1. Mineral fuels including oil: US\$239.8 billion (13.7% of total exports)
2. Machinery including computers: \$209.3 billion (11.9%)
3. Electrical machinery, equipment: \$185.4 billion (10.6%)
4. Vehicles: \$122.2 billion (7%)
5. Optical, technical, medical apparatus: \$91.7 billion (5.2%)
6. Aircraft, spacecraft: \$89.1 billion (5.1%)
7. Gems, precious metals: \$82.3 billion (4.7%)
8. Pharmaceuticals: \$78 billion (4.4%)
9. Plastics, plastic articles: \$74.3 billion (4.2%)
10. Organic chemicals: \$42.9 billion (2.4%)

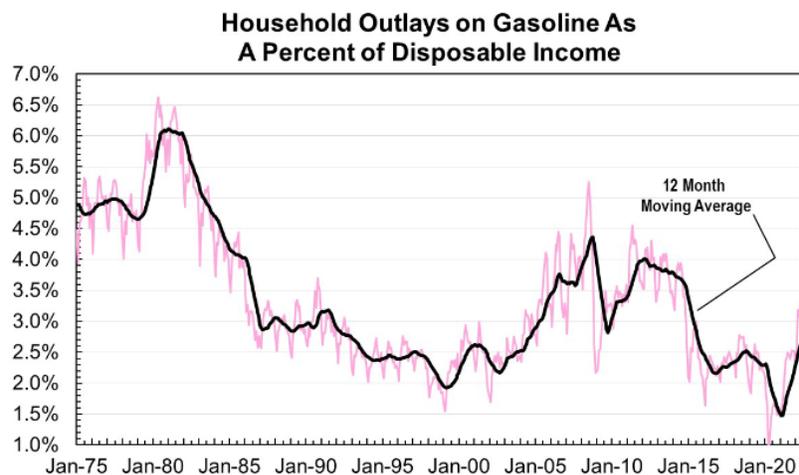
Oil is still number one like Russia, and precious metals are in there but, the U.S. mainly exports finished goods, some of which are non-necessities.

We expect global trade to slowly look more and more like this going forward. Lines drawn, alliances defined, the one wild card will be Turkey, a NATO and G20 nation that regularly critiques the West and that the EU has issues with. For now, it seems the invasion of Ukraine has pushed Turkey closer to the East than the West.

Center Stage

Energy prices have become an extremely decisive issue across the world. Paired with inflation, it might be issue number one for voters in upcoming elections.

In reality, energy has not budged much in terms of household disposable money being spent on energy.



Consumers can withstand some price increases and will continue to purchase energy. They will cool their homes, fill up their tanks, buy propane for a BBQ, purchase plane tickets, and continue to use oil in the short to medium term. Consumers will decrease luxury goods purchases before major energy demand drops.

A Name That Fits

This week we share a photo that speaks for itself.



A gas station in the U.S. went viral for its price, the irony. We wish it was funny but gas prices at this level do more harm than good. We only hope our leaders learn and quickly pivot from this policy failure. One can hope.....

[HOME](#) \ [NEWS](#) \ [POLITICS](#)

Biden: Record-high gas prices part of ‘incredible transition’

One day high gas prices are good as it proves the world is transitioning, but the next the oil companies are price gouging. It’s hard to keep up with all the western narratives on energy.

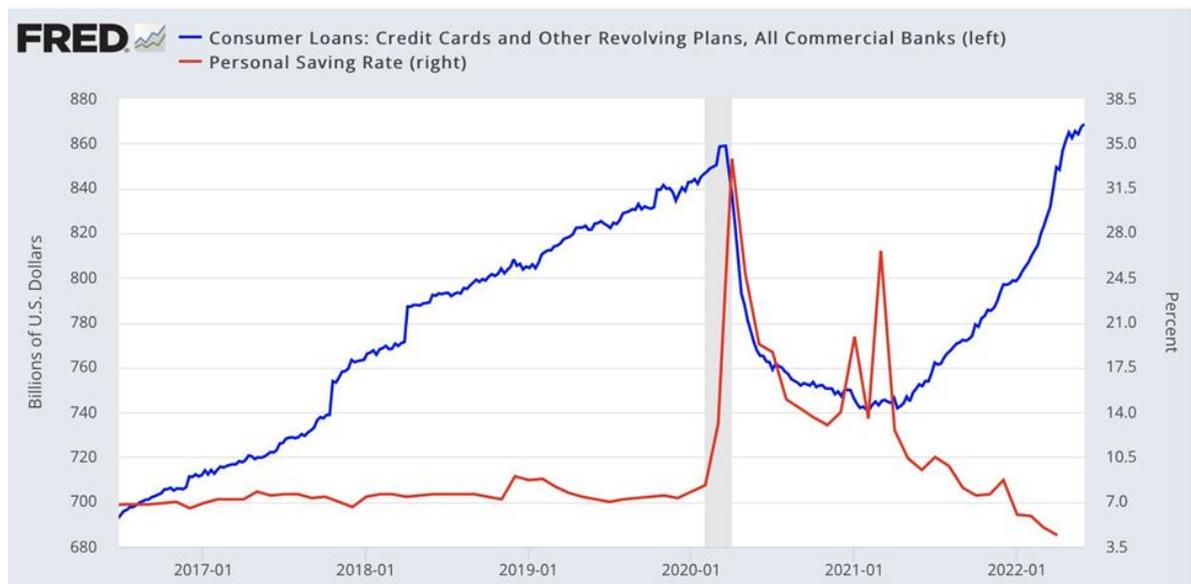
Speaking of green, look at this:



Hundreds of acres of fossil fuels have destroyed the environment in Inner Mongolia as China goes all-in on an energy transition. We are not environmentalists or even scientists, but we think one pipeline through this field would be better for the ecosystem than the destruction of it.

Savings Plummet, Debt Soars

A frightening trend.... personal savings are even lower than pre-Covid-19 and consumer loan debt continues to chug even higher. Notice debt starts to increase again in mid-2021, when growth markets peaked, from then on debt was added and people saved less. People saving less also proves inflation is eating away at consumer's wallets (which is not surprising).



*Does not include consumer mortgage debt.

Death of the 60/40

If you took the advice of certain financial advisors and remain in a 60/40 portfolio, you are having a horrible year. Down as much as major indexes but with less upside as 40% of your portfolio would be bonds.

60/40 Portfolio: US Stocks (S&P 500) and Bonds (Bloomberg US Aggregate) Total Returns (1977 - 2022)					
Year	Return	Year	Return	Year	Return
1977	-3.0%	1993	9.9%	2009	18.2%
1978	4.5%	1994	-0.4%	2010	11.7%
1979	11.9%	1995	29.9%	2011	4.4%
1980	20.1%	1996	15.2%	2012	11.3%
1981	-0.3%	1997	23.9%	2013	18.6%
1982	25.3%	1998	20.6%	2014	10.6%
1983	16.7%	1999	12.3%	2015	1.1%
1984	9.7%	2000	-0.8%	2016	8.2%
1985	27.6%	2001	-3.8%	2017	14.5%
1986	17.2%	2002	-9.2%	2018	-2.6%
1987	4.6%	2003	18.8%	2019	22.4%
1988	13.1%	2004	8.3%	2020	14.0%
1989	24.8%	2005	3.9%	2021	13.8%
1990	1.7%	2006	11.2%	2022 YTD	-18.0%
1991	24.7%	2007	6.1%		
1992	7.5%	2008	-20.1%		

 **COMPOUND** @CharlieBilello

This will continue to happen, and we would expect the 2022 return on this chart to get much worse especially as rates rise and the S&P 500 struggles due to heavy technology and communication services weighting.

Active managers will earn their money in the next decade, constant rotations will separate good managers from great managers. Indexers will be left in the dust.

Federal Gas Tax Relief

Even though oil prices retreated this past week, there was some positive news. Biden and his administration have created relief at the pump through a 3-month suspension of the federal gas tax. This will save drivers money all across the nation. It also decreases consumer oil prices but keeps demand high even as oil prices surge. It increases the demand destruction price.

Even though natural gas, oil, and diesel prices came down, do not expect this to continue. Oil prices remain above \$100/bb and companies are printing cash. There is also no short-term solution to increase supply. The energy sector has been hit hard in recent weeks due to the overall market selloff. In larger market selloffs where the magnitude is larger, every sector's correlation with another usually increases as everything sells off.

The 18.4 cents-a-gallon federal tax on gas and the 24.4 cents-a-gallon federal tax on diesel fuel would be suspended for 3 months. If the gas savings were fully passed along to consumers, people would save roughly 3.6% at the pump when prices are averaging about \$5 a gallon nationwide. Relief but not a solution.

Oil was down this week upon recession fears across the U.S.

Canada, in a Tier of its Own

Real estate prices in Canada have reached new heights in 2022. Canada is in a league of its own even compared to its G7 counterparts. Canadian homes are 50% more expensive than in the United Kingdom on average and double the U.S. These prices are relative and exchange rate adjusted.



The Economist



This is a major reason we have focused outside of Canada even though we are a Toronto-based firm. A majority of these price increases have been due to massive price increases in the 3-4 largest Canadian cities. Even though the U.S. has a slight supply problem in residential real estate, in Canada it's much worse. Permit backups, high construction costs, long waiting times, and material shortages have led to these problems in Canada.

Canada is also fifth on Bloomberg's real estate risk ratings.

New Zealand at Top of Risk Ranking

Five gauges of property risk for OECD member and accession countries

	Rank	Price-to-Rent Ratio	Price-to-Income Ratio	Real Price Growth (%)	Nominal Price Growth (%)	Credit Growth (%)
New Zealand	1	156.8	143.9	27.6	23.1	1.5
Czech Republic	2	169.7	140.9	25.8	20.2	2.4
Hungary	3	160.5	131.4	19.5	11.2	-0.5
Australia	4	141.5	119.7	23.7	21.1	-3.3
Canada	5	154.9	143.0	17.6	12.2	-4.7
Portugal	6	156.0	146.8	11.6	9.4	-2.0
US	7	139.2	135.9	18.7	11.7	-2.5
Austria	8	134.1	140.9	14.9	11.9	-1.3
Russia	9	157.6	99.8	22.8	11.6	-1.4
Luxembourg	10	166.5	143.7	12.1	8.2	-5.7

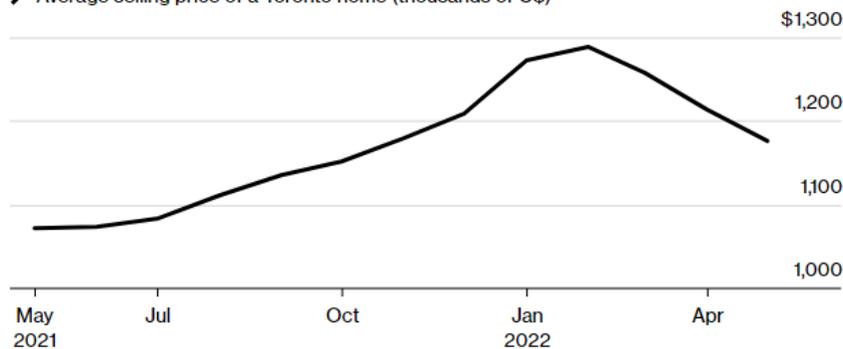
We have already seen the market price of these risks north of the border.

In Toronto, home prices are down 9% from their peaks.

Peak Housing in Canada's Largest City

Prices are down almost 9% since February

Average selling price of a Toronto home (thousands of C\$)



Source: Toronto Regional Real Estate Board
 Note: Seasonally-adjusted

It's a drastic change in a country that saw prices rise by more than 50% over the two years since the pandemic started. With prices rapidly outpacing wage growth, some buyers' hope of entering the market came from low rates that are now jumping.

It has to be an act, right?

At this point, any person with a brain is realizing oil and gas are the solutions to the current climate crisis. They are not the cause and will remain a part of the energy grid for decades to come. Any person using the current energy crisis to push renewable energy propaganda, either is stupid or is acting (or both). We say acting because there could be alternative motives to what they say (investments, ownership, beliefs).

This week the Secretary-General of the United Nations won the dumbest tweet of the week.



António Guterres ✓
@antonioguterres

New funding for fossil fuel
exploration and production
infrastructure is delusional.

Fossil fuels are not the answer.

Renewable energy is.

2:45 AM · 6/29/22 · [Twitter Web App](#)

696 Retweets 86 Quote Tweets 2 147 Likes

New funding for fossil fuels is delusional? Limited funding and ESG investing were the primary drivers of today's crisis. Middle-class Canadians and Americans are running broke by just driving to work and the grocery store. The Secretary-General must also ignore Germany's failures over the years. Germany has long invested heavily in renewables and is seeing the worst shortages in the developed world.

We will remind him and our readers of a few things in the energy argument:

1. Substitution between fossil fuels and renewables is extremely limited in Western countries
2. Renewables and electric vehicles need fossil fuels to be made
3. Western countries are turning coal plants back on (smells like desperation)
4. Renewables are classified as "unreliables" to us

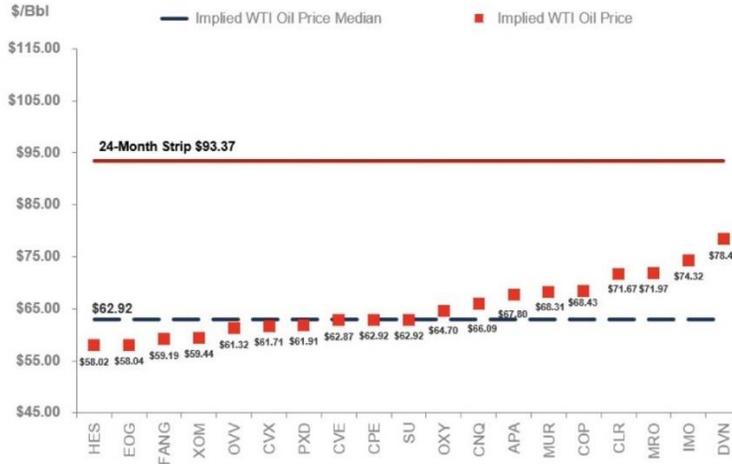
Even though oil stocks got crushed over 2 weeks when oil fell from \$120 to \$105/bb, we did not sell our energy holdings. We believe in the macro thesis we have developed that surrounds the energy industry. Since then the price has rebounded to \$114/bb. Just wait for free cash flows in the coming months/quarters for many of these refiners and producers.

After the oil price retreat, Morgan Stanley released their U.S. energy sector analysis. Looks like they remain bullish on oil and gas stocks and it's no surprise why. The average company trading like oil is at \$63/bb when the 1- and 2-year averages are much higher than that.



Morgan Stanley | RESEARCH

Exhibit 4: Our energy coverage is pricing in ~\$63/bbl WTI, well below the 24-month strip of ~\$93/bbl



Source: Bloomberg, Morgan Stanley Research. Note: Prices as of 6/17/22 close.

Goldman Sachs also went activist investor on CNBC when oil prices retreated to reaffirm their macro thesis on the sector. That does not happen that often. Usually, the banks avoid energy and talking about it publicly due to the ESG crowd. We guess the banks realize there is no better trade-in in today's environment, and they do not want to be left out of this trade.

Squawk Box @SquawkCNBC

"The bottom line is the situation across the energy space is incredibly bullish right now. The pullback in prices we would view as a buying opportunity," says Goldman Sach's Jeff Currie on #oil. "At the core of our bullish view of energy is the underinvestment thesis."

7:20 AM · Jun 27, 2022 · Wildmoka

70 Retweets 29 Quote Tweets 230 Likes



Keep watching the energy sector, there is tremendous value all over the place. If you do not want to touch oil and gas (not sure why you would not), look at the uranium sector, something that we have highlighted since the inception of *The Weekly Beacon*.

Uranium is a blend of clean and reliable energy (the clean part of solar and the reliability of fossil fuels). The ESG crowd will need to come around to uranium usage and energy investors already understand the massive upside in the uranium sector. There is a physical supply gap that will come to fruition as uranium usage increases.

Money Burning Machines

The word unicorn has seemingly been thrown around more and more over the years. One could argue in financial circles, that the term unicorn peaked in early 2021, right on track with the big SPAC boom and bust. Every IPO, SPAC merger, or even private company was labeled a unicorn, and all promised to revolutionize their respective sector. Every company labeled itself as the Uber of this or the Amazon of that. This was a clear sign to us that growth was tremendously overvalued and the companies not generating revenue could go bankrupt. Investing became an idea-based business due to certain investors, valuations, fundamentals, and analysis being thrown out the window. Companies were generating cash through share issuance and not profits, a horrible business model.

This strategy has finally caught up to investors who invested in unprofitable technology IPOs, SPACs, and other hyped-up stocks. Their investment accounts could be considered money-burning machines.

Here are a few examples:

CarLotz

Founded out of frustration with a broken system. (Website)

CarLotz is a marketplace for used cars, trucks, and other automobiles. Even though used cars have soared in price over the last 2 years, hitching your wagon to CarLotz would have been a disaster.

The stock trades below \$0.50 well below the \$10 SPAC price.....




Carlotz Inc
 NASDAQ: LOTZ : [Overview](#) [Compare](#) [Financials](#)

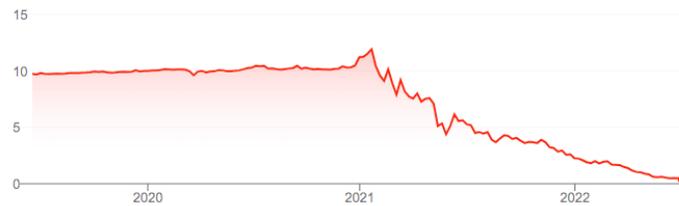
Market Summary > Carlotz Inc

0.40 USD

-9.35 (-95.86%) ↓ past 5 years

Jun 29, 2:18 p.m. EDT • Disclaimer

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



We bring this up because articles like this were written about the company regularly during the SPAC boom.

CarLotz aims to revolutionize the used car industry (and the public this week)

[Leave a Comment / Top Series / By movienews](#)

CEO Michael Bor of CarLotz, a used car platform he co-founded and hopes to make public this week through a SPAC, says the sale of used cars is not so different from his previous task as a M&A investment banker. cases, approached him to sell an asset, would locate a client and charged him a payment for his efforts.

Upstart

Upstart is an AI lending platform that partners with banks and credit unions to provide consumer loans using non-traditional variables, such as education and employment, to predict creditworthiness.

Upstart went public in 2020 at \$44/share, an expensive valuation but nothing close to its 2021 peak.....

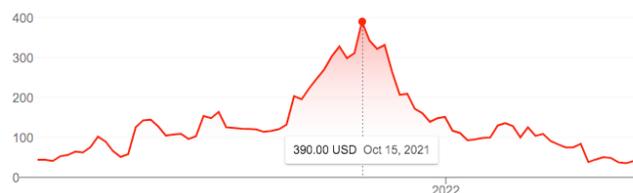
Market Summary > Upstart Holdings Inc

32.17 USD

-11.85 (-26.88%) ↓ past 5 years

Jun 29, 2:59 p.m. EDT • Disclaimer

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



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



\$390 in October and \$32 now, was there a stock split?

Anyways, the same sort of story as CarLotz, a company that will revolutionize its sector and industry. People gobbled it up and we are sure some retail investors are down over 60-70% on their investment.

Long Ideas Tech

Upstart: Revolutionizing Consumer Credit

Dec. 24, 2021 2:35 AM ET | Upstart Holdings, Inc. (UPST) | INTU | 61 Comments 25 Likes

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Upstart CEO Dave Girouard — Revolutionizing Lending & Taking a Fintech Public!

We brought Upstart up because Morgan Stanley slashed its price target this past week to \$19.

Eddy Elfenbein [@EddyElfenbein](#)

Morgan Stanley lowered its price target on Upstart **\$UPST** from \$88 to \$19.

LOL

12:34 PM · Jun 29, 2022 · Twitter Web App

In December, Morgan Stanley downgraded Upstart from a buy to a neutral. It's funny because nothing has changed except variable input metrics on DCF and relative valuation models. Sell-side analysts could project massive revenue and earnings based on an idea in a bull market because nothing went down, fast forward 9 months and reality is setting in. There might be a whole generation of sell-side analysts who have lived off of outlandish variable inputs and are having trouble adjusting.....

We just named 2 companies that have suffered in this boom and bust, we could find 100 and chances are someone you know probably invested in one of them.

MacNicol & Associates Asset Management Inc.
July 5, 2022