

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.*



Tower of Hercules, Spain - The oldest operating lighthouse in the world.



St. Mary's Lighthouse, UK

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



ESG Has a Competitor

Whether you are an active investor or watch from the sidelines, we are sure you have heard the acronym ESG. Whether it's your financial planner, local bank advisor, Bloomberg TV, mainstream news networks, social media advertisements, or even through a trading platform, everyone talks about ESG. It is the new, hip thing to do when investing. ESG stands for Environmental, Social, and Governance. Essentially, companies are graded on a scale of 100 on their commitments to social and environmental issues and their governance. Who comes up with these rankings? Well, that is complicated, numerous companies' grade ESG scores and there are major inconsistencies across the rankings. There are also glaring holes in many of the rankings. Tesla, an Electric Vehicle (EV) maker scores poorly while some global fossil fuel companies grade better, it's almost like the companies who lobby for better regulations and laws are also lobbying for ESG scores.....

We hope you do not invest based on arbitrary ESG scores; we think companies who focus on that will suffer financially. They also do not maximize returns for shareholders, they focus on ESG scores. ESG has become a punchline and has been a fancy way people can make more money from consumers.

In the ESG space, there are thousands of ETFs, mutual funds, and closed unit funds that invest in ESG first and finances second (yea, that's a big no-no for us). We think climate change, social issues, and strong governance are important, but they should not be the major reason to invest in a company.

We only bring this up this week because those thousands of funds finally have a challenger. An Anti-ESG ETF launched in North America last week with the ticker DRLL as in "drill". The company believes in drilling more oil domestically.

The aim of the Strive US Energy ETF (ticker DRLL), which began trading last week, is to accumulate enough assets for the Ohio-based manager to have a say in the boardroom of energy companies. Strive Asset Management was co-founded by Vivek Ramaswamy and Anson Frericks in 2022 with backing from billionaire investors including Peter Thiel and Bill Ackman.

With an expense ratio of 41 basis points, Strive is directly positioning itself against BlackRock's \$2 billion iShares US Energy ETF (IYE), which charges the same fee. "We are post-ESG," Ramaswamy said in a phone interview. "US energy stocks have tremendous potential if they're unshackled from the shareholder-imposed ESG mandates."

Roughly \$27 million was traded into DRLL on its first day, Bloomberg data show. Bloomberg Intelligence highlighted that this is an impressive amount for a new company launching its first ETF. Strive's website had its net assets sitting at \$115.8 million as of August 15th.



Strive's largest holdings are shown below:

% Of Net Assets	Name	Ticker	CUSIP	Shares Held	Market Value
21.10%	EXXON MOBIL CORP	XOM	30231G102	287,032	26,498,794.24
16.46%	CHEVRON CORP NEW	CVX	166764100	131,869	20,678,377.89
7.03%	CONOCOPHILLIPS	COP	20825C104	87,609	8,828,358.93
3.66%	EOG RES INC	EOG	26875P101	40,936	4,596,294.08
3.34%	OCCIDENTAL PETE CORP	OXY	674599105	65,220	4,196,254.80
2.96%	PIONEER NAT RES CO	PXD	723787107	16,184	3,721,348.96
2.85%	MARATHON PETE CORP	MPC	56585A102	37,608	3,580,657.68
2.81%	SCHLUMBERGER LTD	SLB	806857108	98,540	3,523,790.40
2.55%	VALERO ENERGY CORP	VLO	91913Y100	28,564	3,197,739.80
2.53%	EXELON CORP	EXC	30161N101	68,068	3,178,775.60

Oil, diesel, and even some natural gas. Even at this week's numbers, Strive is quite the distance away from obtaining some board seats on these large-cap energy companies.

Although a new phenomenon, the anti-ESG movement is growing and will continue to do so. Investors fed up with sub par ESG returns will help grow this ETFs asset and possibly create many more. We think fund managers and even consumers are getting sick and tired of giving up returns for good ESG grades. This will be fun to watch.

Failing Upward

WeWork Founder Adam Neumann is back at it again. The man known for the mess that is WeWork has launched a new venture and he was greeted with a big cheque. Venture capital firm Andreessen Horowitz announced Monday that it plans to invest in Adam Neumann's new residential real estate company called Flow. This is not a small venture firm; it is arguably one of the most established and well-known technology funds in the world. Andreessen gave Neumann \$350 million which is the largest individual investment the company has ever made. The deal places Flow's valuation north of \$1 billion. The one major problem, nobody knows what Flow does and the company does not launch until 2023. We are extremely skeptical, and we are not alone.

If this were any other tech entrepreneur who had moved on from their first venture, we would question the valuation or financials (like any other company) but not the deal itself. The fact that Andreessen is trusting Neumann with \$350 million makes us think that they have short-term memory loss or are in the business of losing money.

Neumann took hundreds of millions of dollars in compensation from WeWork, spent like a mad man, and used WeWork's capital like a bank ATM. He even attempted to trademark the word "We" which cost millions of dollars. Neumann's time at WeWork can also be highlighted by the valuation of WeWork which was placed at \$47 billion in 2019 before crashing due to financial revelations. The company could not even IPO as its books were a mess and inaccurate. As the company was desperate for cash, it even tried to IPO at \$10 billion later that year but could not. Later that year, Softbank, WeWork's largest

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private investor took over the company and placed a \$5 billion valuation on it. Softbank sunk close to \$11.7 billion into WeWork and many other investors have lost billions, they will arguably never recoup their investment. The business model and work-from-home environment have set WeWork up for extremely slow growth. In 2021, WeWork finally went public through a SPAC.

The company's value has dropped 40% since trading in public markets and is worth only 10% of its "peak" private value. Even though it was never worth \$47 billion, some investors bought Neumann's crap and assigned to him that value. If you do not believe any of this, go watch WeCrashed on Apple TV, a new show that chronicles the mess that was WeWork. WeWork has also yet to make a profit.

Market Summary > Wework Inc

5.76 USD

-4.06 (-41.34%) ↓ all time

Closed: Aug 17, 9:11 a.m. EDT • Disclaimer

Pre-market 5.65 -0.11 (1.91%)

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



Open	-	Mkt cap	4.20B	52-wk high	14.97
High	-	P/E ratio	-	52-wk low	4.50
Low	-	Div yield	-		

After looking at his history, it is alarming that such a reputable, and large venture firm would sink that much money into a company and not release any details of what the company will do. The New York Times described the company as "effectively a service that landlords can team up with for their properties, somewhat similar to the way an owner of a hotel might contract with a branded hotel chain to operate the property." Presumably, some sort of shared real estate venture launching when interest rates are at their highest point in almost 10 years, sounds like a wonderful idea from a guy with a strong track record.....

Adam Neumann is failing upward.

The Big Short Investor Cashes Out

Michael Burry, CEO of Scion Asset Management known for shorting the housing market during the Financial Crisis has cashed out of every position he had (except one). Burry is played by Christian Bale in the movie The Big Short. In Scion's latest 13F filing with the SEC, Scion's financials showed that

everything from long positions to puts against Apple's stock was sold during the quarter. Burry essentially cashed out and is waiting on the sidelines.



Burry has been warning investors that a large crash is coming for months, even with markets pulling back over the last 9 months, it seems Burry is as worried as ever. Burry locked in short positions across the market and held some through multiple filings with the SEC. His uncertainty reflects how irrational markets have been over the last year. We are sure, Burry is trading daily but thinks he is trading on very short-term increments rather than holding long-term positions.

Desperate Times in August

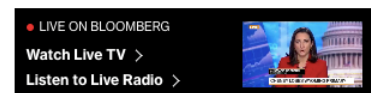
If Europe and the world are already showing desperation in securing energy, what will happen when the temperature drops, and energy becomes a necessity for survival? It's only August and major cracks are being exposed across the globe.

Just this week, the UK ordered natural gas from Australia.

UK to Import Rare Australian Gas Cargo in Latest Sign of Desperation

- Shipment is first observed on the route in at least six years
- Vessel Attalos loaded LNG via ship transfer in Malaysia

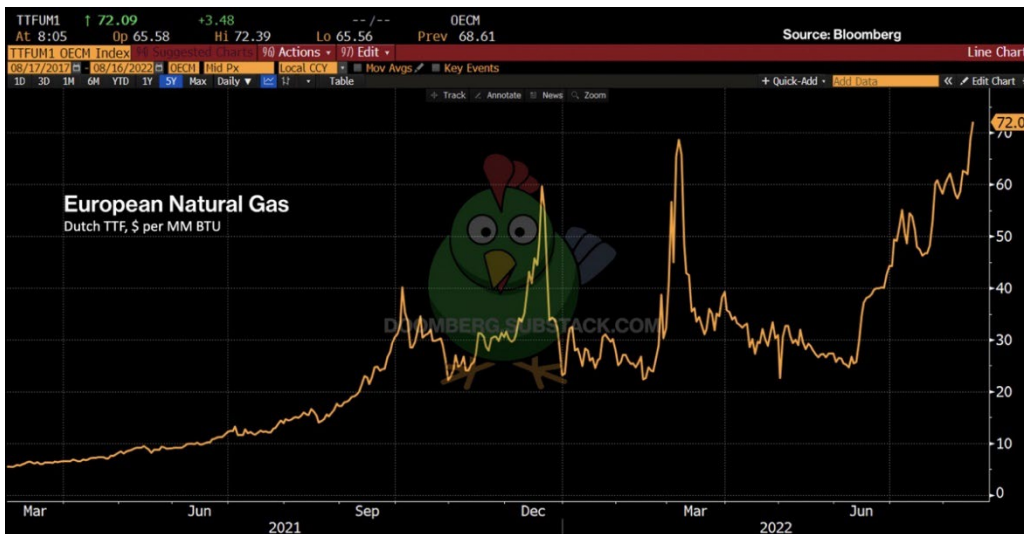
By Anna Shiryayevskaya and Ann Koh
August 16, 2022 at 5:38 AM EDT



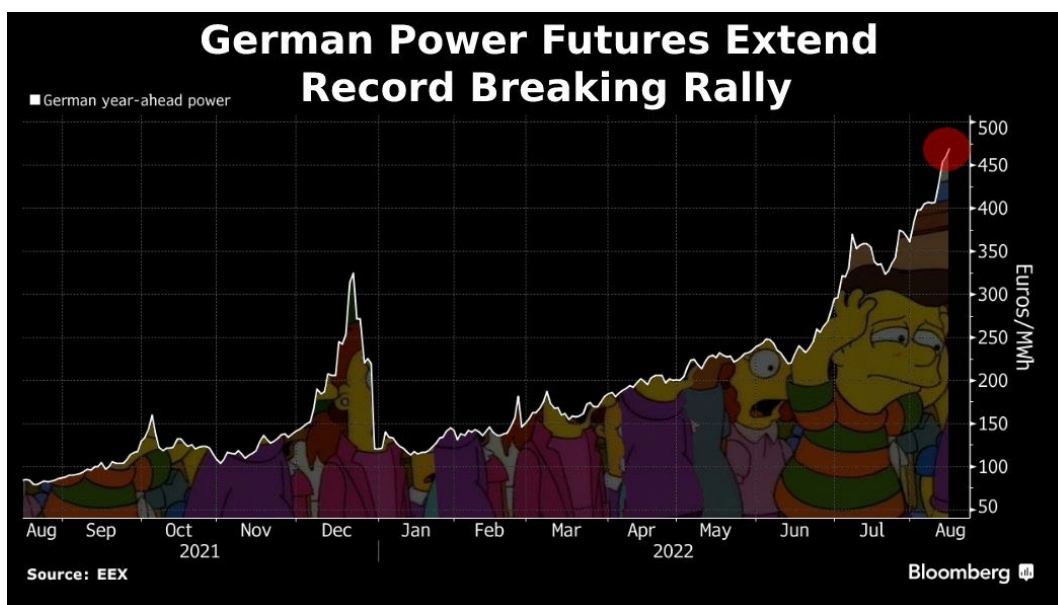
For the first time in six years, natural gas is being shipped across the globe for the UK, highlighting the European region's desperation in grappling with its worst energy crisis in decades.

The UK and continental Europe typically import LNG from nations such as Qatar, the US, and even Peru, on the western side of South America. Deliveries from the Asia-Pacific region are rare because of the economics of lengthy journeys and usually high demand from Asian buyers. Australia hasn't shipped a single observed LNG cargo to Europe in Bloomberg tracking going back to 2016.

Even though oil prices have retreated on recession fears, China Covid policy, and a slowing Chinese economy, natural gas prices in both Europe and North America continue to rip to new highs. What would happen to energy prices if the economy was chugging along during a growth period?

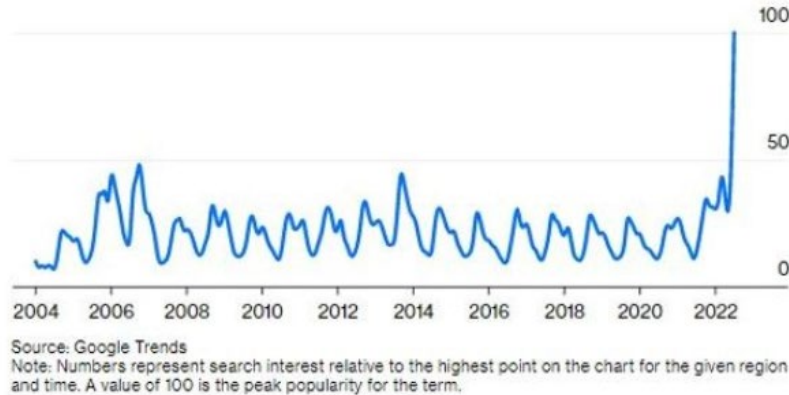


Imagine if people focused on natural gas prices and not oil prices. Wait till they get their furnace bills this winter and double the previous year. Almost every country across the world is pricing in massive price increases for power. In Europe the situation is the worst, just look at ESG-focused German power prices:



Wait for the seasonal surge in December, when power is in more demand. Countries are already begging consumers to not use power so that they have enough when they need it this winter. This is a horrible situation that will get much worse before it improves.

In Germany they are prepping for this cold winter by burning Russian coal and stocking up on firewood. The term "firewood" in Germany has never been Googled more.



But do not worry, they are claiming firewood is clean energy, and it will not hurt their ESG scores.....

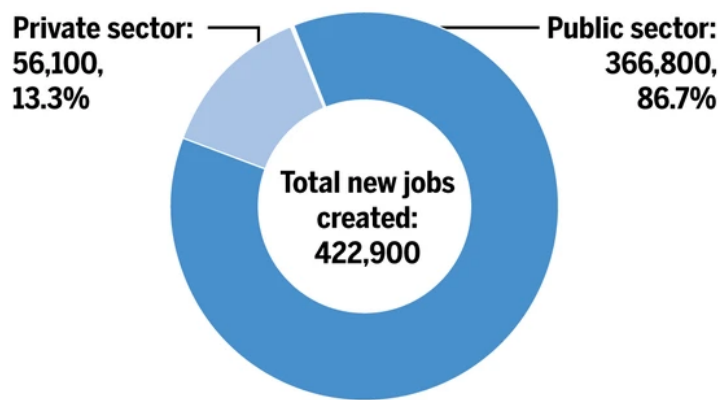
All this could be solved with nuclear energy, but Germany remains stubborn on the fact that they will not use nuclear, and that nuclear energy is harmful. No matter how you look at this, it is a self-inflicted problem that will have serious repercussions for consumers. Government stupidity across Europe stems from both major political parties.

Canada Jobs Update

Canada's economy lost 30,600 jobs in July, it's the second month in a row of lost jobs, coming on the heels of 43,000 jobs lost in June. Economists had been expecting the economy to eke out a slight gain of about 15,000 jobs, but instead, the employment pool shrank. A large miss from economist projections and a signal of worry for many Canadians.

Although most western nations have added thousands of jobs since Covid-19 began, Canada has done this in an alternative way, a way that should alarm Canadians. All of the jobs that have been created have been in the public sector in Canada.

INCREASES IN NEW EMPLOYMENT February 2020 to July 2022



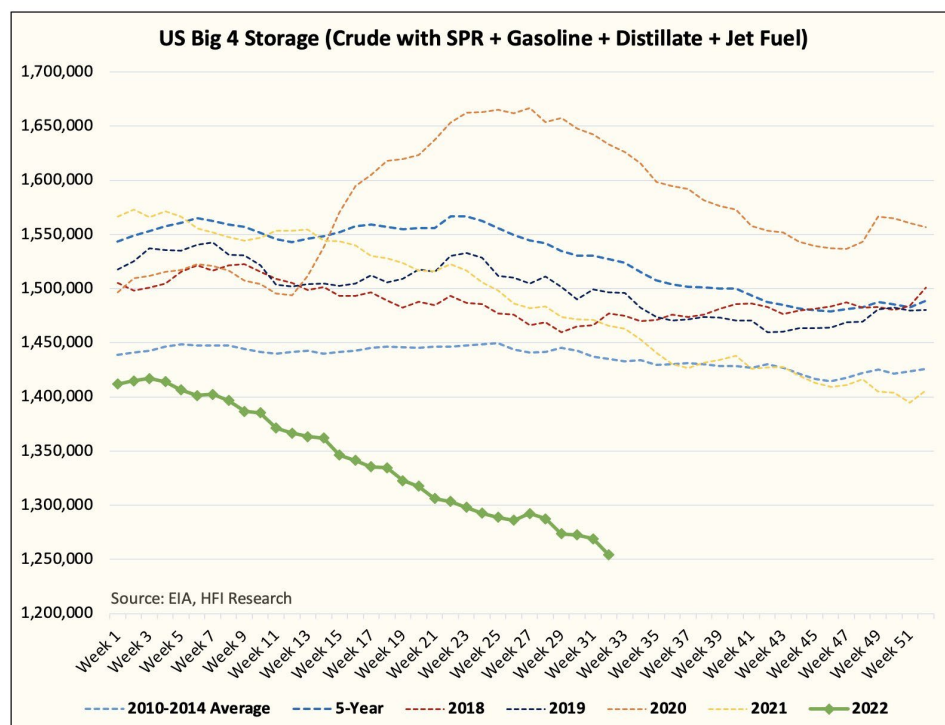
86.7% of jobs that have been created since February 2020 have been through the government. It looks more and more like Canada is spending to keep employment levels high. This statistic also is a signal of where our economy could be headed, more command, less market (for our economist readers). Although this is only a 2.5-year period it has us raising our eyebrows as Canada could not create new jobs in private enterprises due to low demand. Perhaps, the economy that recovered (post-Covid-19), actually never did, and the holes caused by Covid-19 were filled by the government so that statistics looked good to the public.

What all those jobs within the government do is something we do not have the answer to so we will not speculate.....

Demand Destruction?

A few weeks ago, the Energy Information Administration (EIA) claimed that the U.S. used less oil over 2 weeks than it did in 2020 and 2021 over the same period. Many claimed that this was a misleading number and another way the U.S. was trying to put downward pressure on oil prices. We were not sure what to think but thought the number was odd, to say the least....

A few weeks later and the under-supply and high-demand thesis that we have was once again confirmed:



We are getting to historic lows in terms of energy storage heading into the winter and it's heading south at an alarming rate.

It makes us think – will they ever get it or do they not care?

These are also the same people that tell us to buy EVs if we do not want to feel the impact of gasoline prices increasing. Even though.....

“The average price paid for a new electric vehicle (EV) increased in June by 3.8% compared to May and 13.7% versus a year ago. The average price for a new electric vehicle – over \$66,000, according to Kelley Blue Book estimates, is well above the industry average and more aligned with luxury prices versus mainstream prices.”

If you cannot afford to fill up your tank for \$100+, drop \$60-70,000 on a fresh EV. One thing to remember before you buy an EV, charging prices have increased as most EV chargers are powered by natural gas, diesel or coal which have surged in price.

MacNicol & Associates Asset Management Inc.

August 19, 2022

