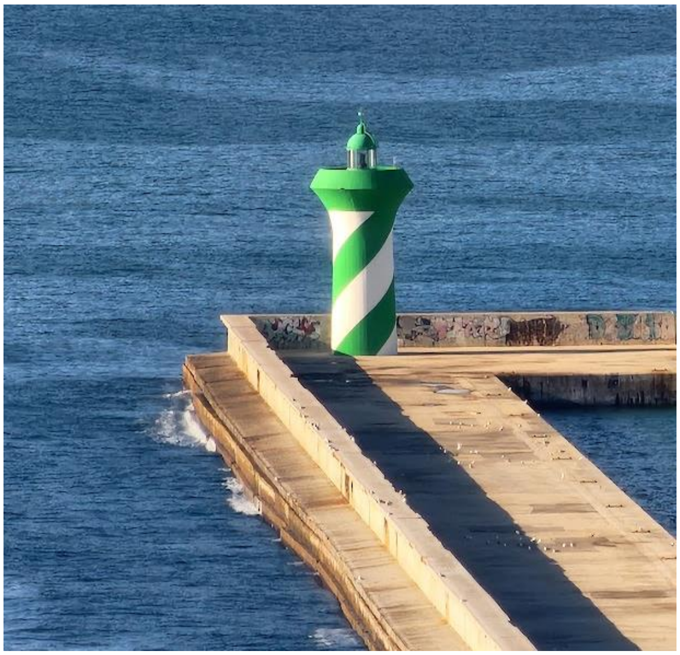
The Weekly Beacon

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.*



Lighthouse on the Barcelona Seawall from David MacNicol in Europe this week.

Kermorvan Lighthouse, France.

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

The Story Continues Despite the Narrative

It is always important to understand the difference between the story and the narrative and why different sides are using certain narratives, it helps us make decisions in financial markets and will do the same for you.

Over the past 5-6 weeks a narrative has been deployed across the financial, political, and news worlds: "inflation has peaked", "inflation is falling". Many pundits who fell for this believed the FED beat inflation, they pointed to oil prices declining since June, home prices coming off their all-time highs, used car prices dropping, and even certain retail prices dropping. One (multiple) problem(s): food, rent, and even electricity prices have risen. The other thing to remember, even though prices are down over 3 months they remain heavily elevated in a historical sense and are up A LOT YoY (Year over Year).

We did not buy into that narrative and have consistently stated that inflation will swing higher as we head into fall/winter. Energy prices will rise, food prices will not improve, and the housing problem will not solve itself. The people who claimed inflation had peaked acted more like activists rather than investors. We are glad we were not one of them. Even though the YoY number dropped from July to August, prices still increased in August, and we expect that trend to continue.

The inflation numbers for August's end were released this past Tuesday and inflation not only increased, but it also beat analyst expectations…. yet again (after another month missing their estimate, maybe we should use different economists to estimate inflation). Economists projected a 0.1% dip in prices for August, prices increased by 0.3%.

Consumer prices climbed 8.3% annually in August, decelerating less than expected.

Note: Year over year change in consumer price index; seasonally adjusted.
Source: Labor Department.

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In one particular sore spot for Americans, the cost of food is now up 11.4% over the past year, the largest 12-month surge since May 1979. Most worryingly for the Fed, the so-called core CPI—which strips out volatile food and energy prices—climbed 0.6% over the month, doubling its monthly pace from August.

The report makes clear that the Federal Reserve has more work to do in its fight to bring inflation back to 2%. It all but guarantees that the central bank will raise interest rates by three-quarters of a percentage point when officials meet next week.

Markets took this news release as many expected. U.S. Markets were down 4%+ on Tuesday as investors are beginning to realize more pain is ahead as the FED fights inflation. The Dow traded lower than on Biden's inauguration day, the S&P 500 had its worst day since June 2020, and the Nasdaq was down over 5%. We remind our readers to remember what they own and look at what outperformed the market on days like today. Some of the best opportunities present themselves on the worst days (think divergence).

Even with the tick-up in prices in August, the White House reiterated that progress is being made in tackling inflation, the disconnect is truly remarkable but, typical for the political world. After all, on the day they held the press conference for the "Inflation Reduction Act Bill", they had to claim they were winning, even if the stock market was bleeding out at the same time.

The one thing to watch, the FED could pivot as we head closer to the election. A tanking stock market is not popular when Americans head to the polls and decide the fate of the House and Senate. Perhaps a pause in FED policy is upcoming, or even some fancy stimulus payments to voters to help combat rising prices. Do not expect the norm, we expect some surprises ahead, especially in today's markets. Plan for anything.

Active contrarian investors have arguably outperformed every other group in 2022. It is as important as ever to be ahead of the curve in financial markets.

Twitter Shareholders Green Light Musk

On Tuesday, Twitter shareholders approved the Elon Musk deal offered months ago to take Twitter public at $54.20/share.

If you believe the court system will force Musk into purchasing twitter at that price, Twitter presents as a slam dunk, if you do not believe Musk will buy Twitter, Twitter could fall and fall quickly.

Twitter shares are only down 2% YTD while its social media competitors are getting blown out of the water. Facebook shares are down 55% YTD, and Snapchat shares are down 75% YTD.

We hope present shareholders understand the risk-reward of holding shares now. Even if Musk is forced to buy Twitter, we think it will take time especially as whistleblowers come forward in favour of Musk and the data is combed through in the legal system.

Now that shareholders have green-lit the deal, the only thing holding this deal back is the U.S. legal system which could go either way. We will not dive into predictions on the case like many have. Many financial professionals and media pundits have picked a side on this case completely based on bias and their predetermined opinion of Musk. Many hate him and many love him, Musk is truly polarizing and for once not down political lines.

The Ugly and Forgotten

Chances are your portfolio is down this year and big. Public markets have been trounced, the S&P 500 is down 18% year to date, and the Nasdaq much more. If you are outperforming major indexes, we can assume you have at least some exposure to energy and utilities. We say that because the energy and utility sectors have produced the largest returns in public markets this year and it's not even close.

We have a long track record of diversifying client assets through asset classes such as our Alternative Asset Trust, this has helped us produce positive returns during down markets. However, as Asset Managers, we still focus on our allocation in public markets and always make sure we are positioned for what is coming. Therefore, we do not ignore sectors like energy and utilities because they are not "hype" or "sexy". We knew these areas were positioned well for today's climate and the coming shortages.

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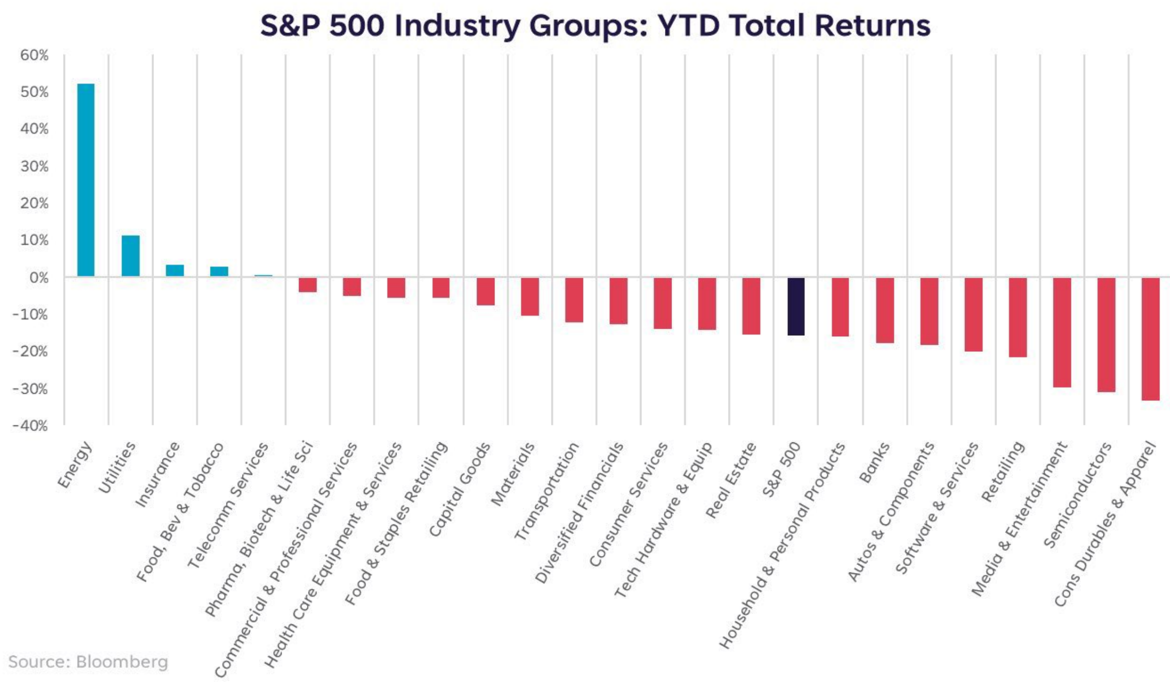
If you look below at sub-sector returns this year, you will notice a trend. Everything "sexy" is down big (Media, Software, Autos), and everything looked down on (Energy, Food, Utilities) is up. Funny enough the only things up this year are necessities to humanity (energy, food, and heat/hydro).



We hope you were not an investor who looked down on utilities because it is safe or had limited upside or ignored energy due to ESG mandates and renewable energy sources or ignored food stocks because you thought "we will never run out of food".

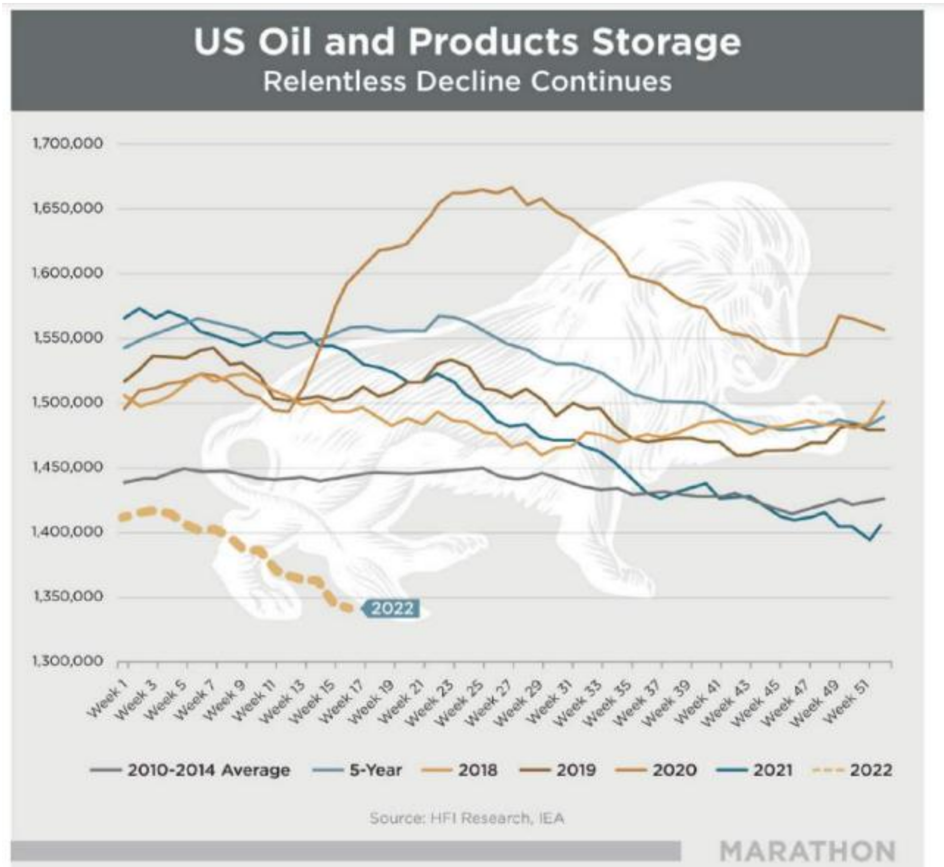
Either way, hundreds of managers got caught ignoring what they thought was ugly and their investors are the ones who will lose. Employees who have a pension probably have no exposure to energy due to strict ESG mandates set by regulators, governments, and managers.

Oil Market Getting Tighter

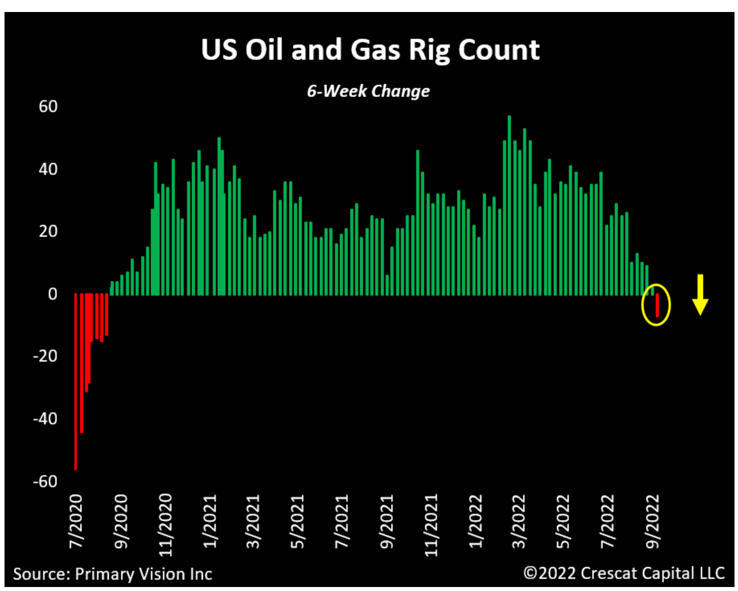
In past editions of this publication, we have highlighted that the energy market is tight. It seems to somehow be getting tighter. China is locked down and oil is still trading near $90/brl a week after a record SPR (Strategic Petroleum Reserve) release. Why is that? The SPR is going to eventually dry up and no progress has been made in improving supply. OPEC has announced a decrease in production as they believe the gap between the physical and financial market is too wide. The entire sector is a mess and it's being led by bad policy.

Just to show you what we mean by "tighter", here are a few charts:

Domestic Oil Storage:



U.S. Rig Count:



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We know why oil storage matters especially heading into winter but why does the U.S. Oil and Gas Rig Count turn negative matter? Companies are not expanding production, companies will not expand production, and maintenance has to be done. Oil production in the U.S. has been flat in recent months and is lower than pre-Covid-19 production. Companies do not want to fight the government, pay fines, and be tied up in court, the entire energy sector is being targeted so why should they increase production? Energy companies were not given any handouts in the 2010s when hundreds were restricted or went bankrupt. Until governments start working with energy companies, companies will not increase production. Remember they serve shareholders, not governments.

Investors Remain Bullish

During Tuesday's market drop, traders on Fidelity loaded up on everything technology.

Top Buys and Sells AS OF 09/13/22

Rank	Symbol	Company	Price Change	# Buy Orders	Buy / Sell Ratio	# Sell Orders
1.	TSLA	TESLA INC	-12.29 (-4.0372%)	7,199		5,101
2.	SQQQ	PROSHARES ULTRAPRO SHORT QQQ	+6.65 (+16.4971%)	5,189		6,616
3.	AAPL	APPLE INC	-9.59 (-5.868%)	8,157		3,505
4.	TQQQ	PROSHARES ULTRAPRO QQQ	-5.09 (-16.4565%)	7,166		4,340
5.	NVDA	NVIDIA CORP	-13.74 (-9.4726%)	6,882		1,837
6.	SPY	SPDR S&P 500 ETF TRUST	-17.87 (-4.3482%)	4,850		3,344
7.	AMZN	AMAZONCOM INC	-9.63 (-7.0575%)	5,807		2,036
8.	AKRO	AKERO THERAPEUTICS INC	+16.78 (+136.7563%)	3,256		3,399
9.	META	META PLATFORMS INC	-15.83 (-9.3691%)	5,020		1,254
10.	GOOGL	ALPHABET INC	-6.54 (-5.8993%)	5,488		747
11.	QQQ	INVESCO QQQ TRUST SERIES 1	-17.04 (-5.4837%)	4,056		2,054
12.	MSFT	MICROSOFT CORP	-14.66 (-5.4978%)	4,047		1,044
13.	AMD	ADVANCED MICRO DEVICES INC	-7.61 (-8.991%)	2,530		1,552
		DIREXION DAILY				

Despite the sector being hit the hardest this year and on Tuesday, investors saw this as a dip buy. Most of these stocks down 5%+ were heavily overbought. Everything from Tesla to the FAANG group to semiconductor producers. No matter how you slice it, investors want outsized tech returns like they saw in 2020 and 2021. We would remind investors that the Covid-19 rebound was a once-in-a-lifetime event.

We understand people dip buying as the market drop presented some great opportunities but blindly buying "big names" can be dangerous. Jump on opportunities but the limited diversification on this top 10 is quite revealing. No materials, no energy, no consumer staples, no health care. All technology.

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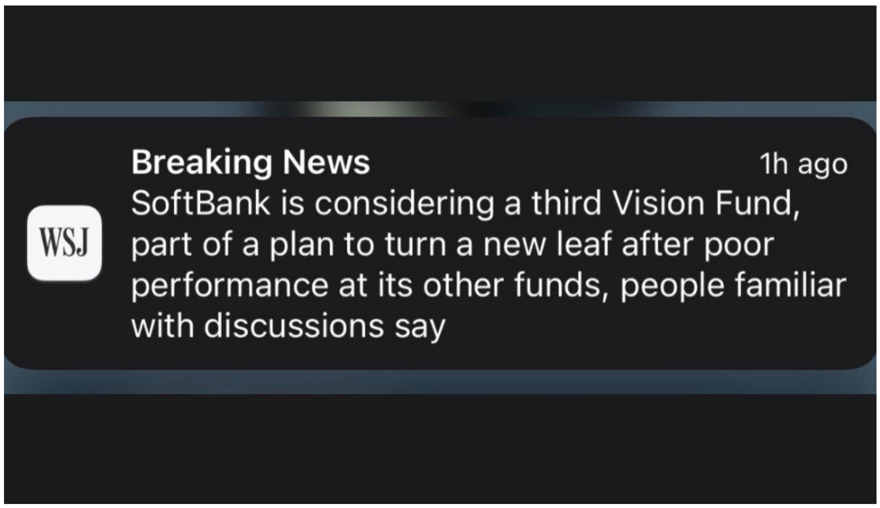
Despite the blood in the streets, it seems investors are bullish on a rebound.

Third Time's the Charm?

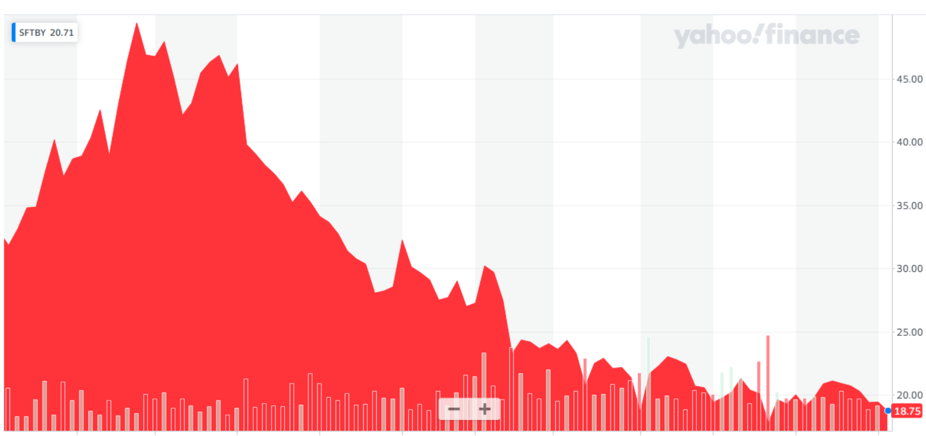
Fool me once? Shame on you. Fool me twice? Shame on me.

What happens on the third time?



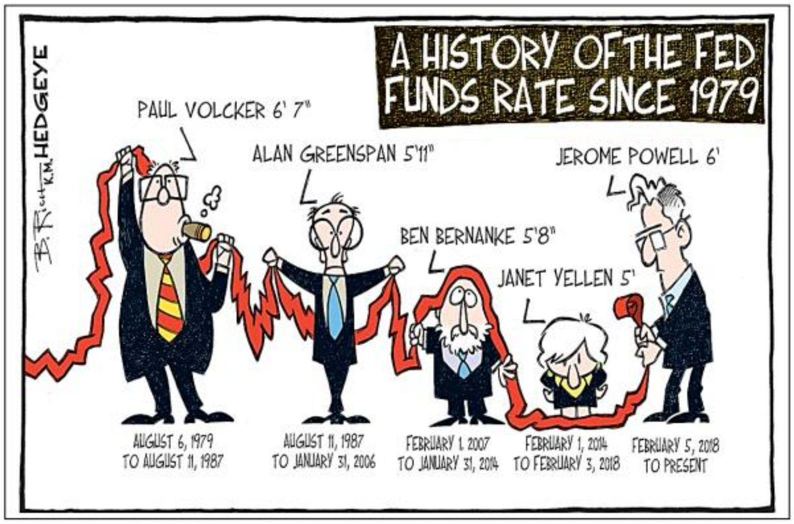
Buyer beware……….

SoftBank's stock price has been cut in half since its all time high (March 2021) and the Vision Fund's are to blame. When we talk overvalued technology stocks or overvalued disruptors, chances are it's in one of the Vision Funds.



This Weeks Humour

An image courtesy of HedgeEye: A History of the FED.



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