

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.*



Farol de D. Maria Pia, Praia, Cape Verde



James Town Lighthouse, Accra, Ghana

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



Mainstream Wakes Up

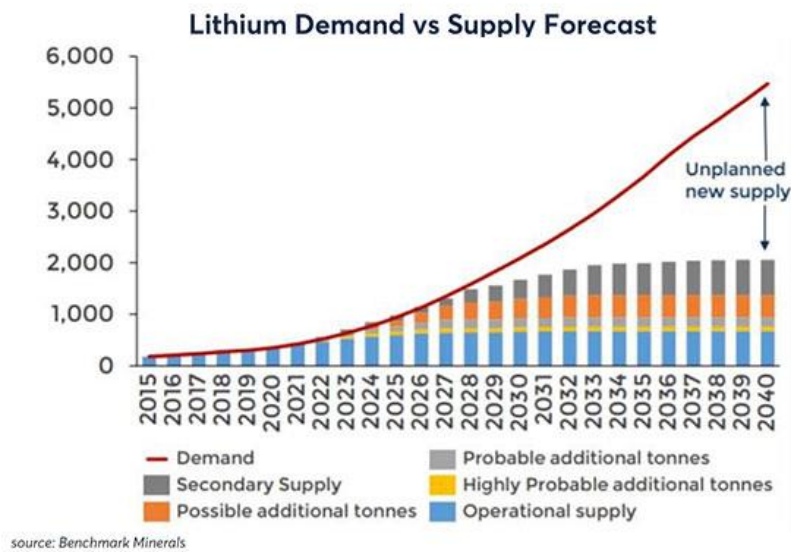
For months, if not years we have been warning investors and our network about coming metal shortages stemming from the development of green technology. We have not been alone in this thesis, many investors, industry professionals, and select members of the media have echoed this point. However, many average consumers have ignored our cries. Therefore, we have recommended investors buy a basket of companies who extract these EV metals rather than betting on an EV producer and paying 50x+/- sales.

It appears some in the mainstream world have awoken.

Barron’s ran an article this week where they discuss coming lithium shortages.



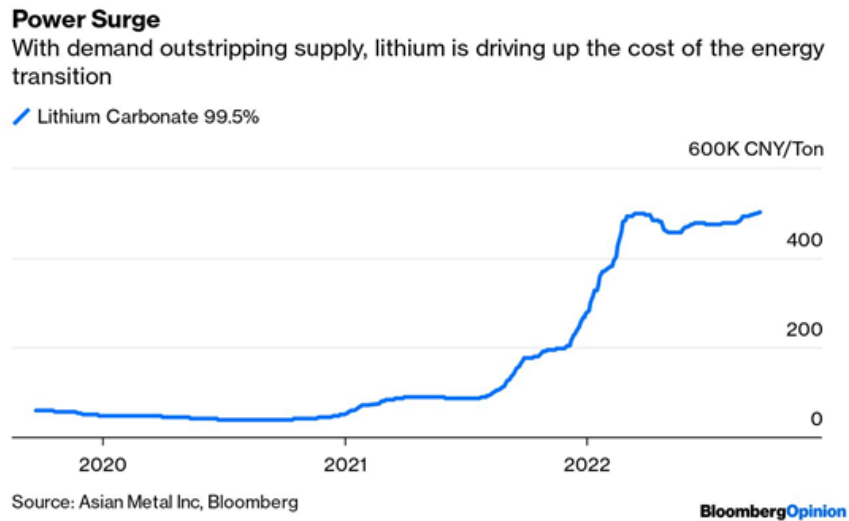
Who would have thought?



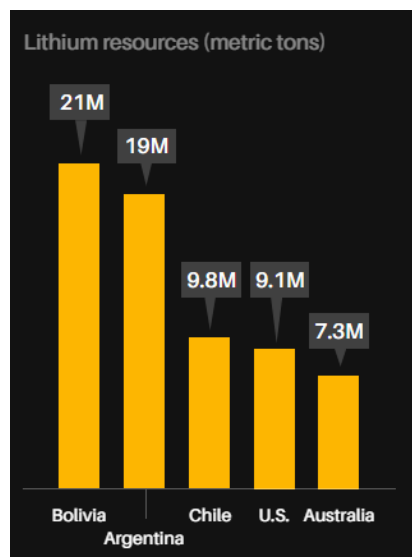


Barron’s has cited that Lithium Shortages will be a major obstacle for EVs being the dominant car on the road. While that might be true, an “EV takeover” is further away than many think, especially with the fill-up costs increasing exponentially this year. The cost savings of filling up an EV has almost disappeared this year as the price of natural gas and coal have risen exponentially. Natural gas and coal are two main sources of energy that power the electrical grid.

The price of lithium carbonate has increased by 10x since early 2020. Those input price increases are increasing retail prices for consumers, which will only continue. The average EV sold for 38% more than standard automobiles in August 2022.



Currently, Australia is the world’s largest producer of lithium followed by Chile and China. However, there are two countries with larger reserves.





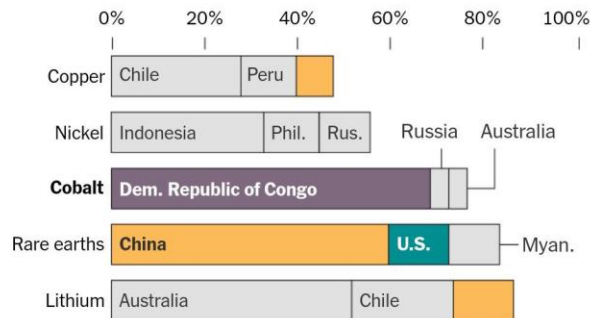
If Bolivia and Argentina can start increasing production, it could be a huge boost to their economies. As the world slowly undergoes an energy transition, countries like Bolivia and Argentina will be key to watch. Will they be able to extract their resources or will they fall on the same path as a fellow South American nation, Venezuela? Venezuela has the world's highest inflation which has been caused by the nationalization of private assets, and mass money creation. Venezuela is led by a socialist leader. The country has one of the world's largest oil reserves yet was the 25th largest producer in 2021. A country that is resource rich yet is in deep poverty. Sometimes the solution is less complicated than you think.

Staying on the topic of electric vehicle input metals, we ran by an interesting chart we had to share with you.

As we have learned this year, the west especially Europe is heavily reliant on Russian energy. It has become a serious and critical issue. This has led to record level prices and electricity bills increasing by multiples. Well, the issue will remain true for renewable energy except swap China for Russia.

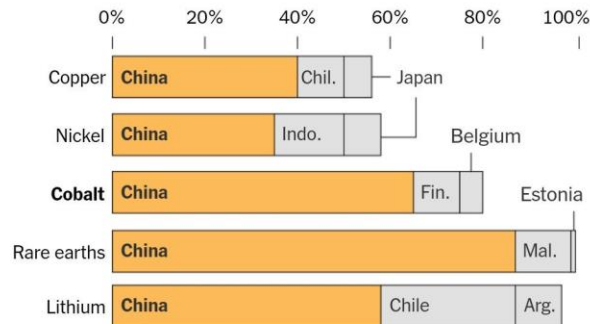
Where Clean Energy Metals Are Produced

Production of key mineral resources is highly concentrated today. Charts show top three producers.



And Where They Are Processed

China dominates the refining and processing of key metals.



Source: International Energy Agency • By The New York Times



If the west finally realizes it cannot live without the help of Russia, why is it setting itself up for another failure in 10-30 years when critical metals are needed. China wants to replace the U.S. as the world's most dominant economic power, they do want to help us and will not.

Even though China does not own the world's largest reserves for most of these metals, they are the largest processors. Processing these metals allows them to be utilized for industrial purposes (raw material to an input metal). The U.S. and the west need to begin securing supplies and begin processing these metals at home. The west needs to stop relying on its adversaries from key resources and rely more on themselves or their allies.

For now, the Russian energy problem looks like it will continue and eventually evolve into a China critical metal problem.

Update on a Failed Strategy

Remember when your bank told you the 60/40 (60% equity/40% bonds) portfolio limits risk and when stocks are down bonds will have positive returns, well we give you the 60/40 in 2022:

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)									
Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.2%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.0%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.2%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.2%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.0%	2008	-13.9%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.7%	2009	11.1%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.1%	2010	12.3%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.2%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.7%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.6%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.7%	2014	12.4%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.2%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	23.8%	2016	7.3%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.0%	2017	14.1%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.2%	2018	-2.5%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.6%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.3%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.1%	2021	15.3%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.2%	2022*	-16.2%



COMPOUND

*As of 9/19/22

@CharlieBilello



This is not some new thesis by us, we have been mentioning it to clients for close to a decade, but many banks still recommend this for investors with long time horizons. That's what happens when interest rates go down for 45 years as soon as they tick up (now), bonds hit the fan.

Tell your friends to get new advisors if they are recommending a 60/40 portfolio. 60/40s have no diversification, limit upside, and have no downside market protection in TODAY'S markets.

Scamath Update

A major running topic in the early days of *The Weekly Beacon* was Chamath Palihapitiya. Chamath was an early executive at Facebook and has parlayed that into billions. He is now an active investor voicing his firms' opinions on Twitter, CNBC, and wherever else he can get his word across. He is like Cathie Wood in that he has a cult-like following and loves unprofitable, disruptive companies. A major difference is that he got directly involved in the SPAC boom. His company had 9 SPAC listings at one point (this was a sign of the SPAC bubble).

We have highlighted that most of his deals have gone belly up and the companies he invests in are pipe dreams that Twitter accounts site as disruptive innovators of the future.

Here are some of the SPAC deals that his firm has completed:





Market Summary > SoFi Technologies Inc

5.87 USD

-4.54 (-43.62%) ↓ all time

Sep 21, 09:54 EDT • Disclaimer

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



Market Summary > Opendoor Technologies Inc

3.56 USD

-7.36 (-67.32%) ↓ all time

Sep 21, 09:55 EDT • Disclaimer

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Pick your poison, someone lost. All down massively from their \$10 SPAC price and much more from their 2021 highs.

We hope you did not Scammed by these SPACs led by empty promises of changing the world.

We bring this all up because Chamath made an announcement regarding 2 of his final SPAC shell companies that have yet to reach deals.

He is terminating the SPAC NYSE listed companies with the tickers IPOD and IPOF. Money will be returned to investors minus administration fees.

[You can read the full announcement by clicking here.](#)

We highlight this because finally after 2-3 years of a SPAC boom, investors have realized these private companies are immature and are cash burning. Their investment will be diluted, and the companies are not ready for public markets. Who would have thought? At the height of markets, any cool or hip company could be sold but when times are tougher people do some due diligence.

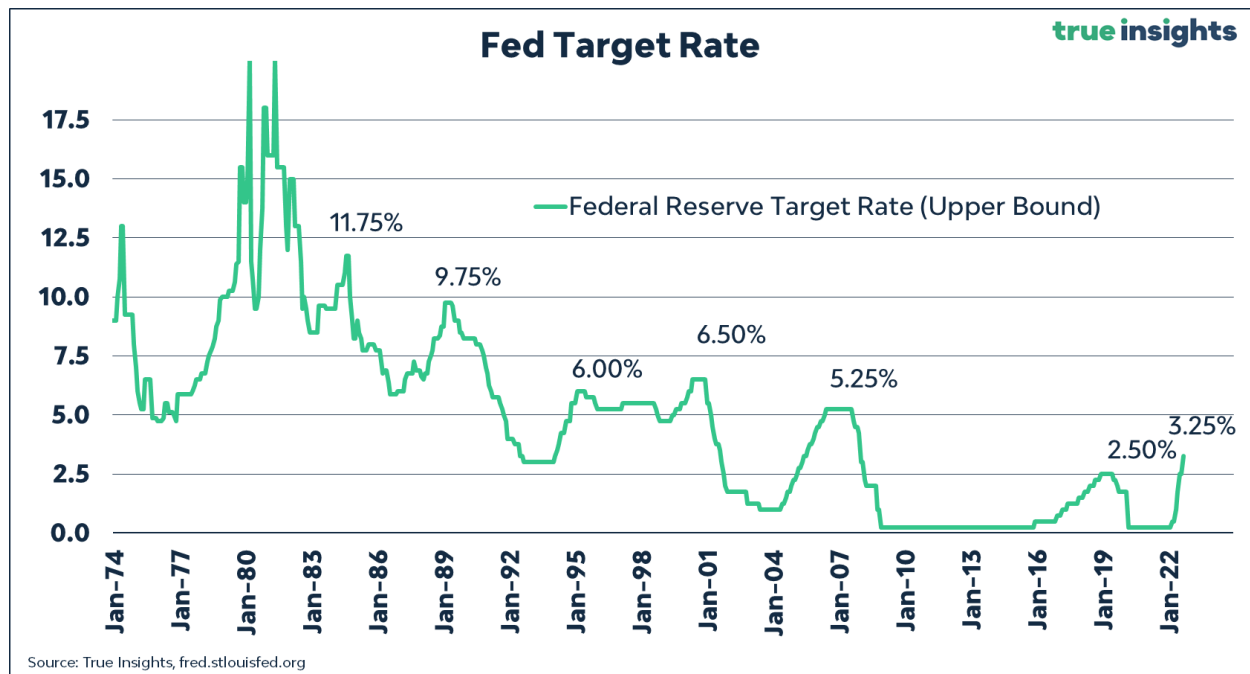
Chamath listed Valuation and Volatility as the reasons he was terminating his final 2 SPACs. He could not get the right valuation and the founders were not willing to take on added public market volatility. We think he was not able to sell his followers on disruption when his disruptions are circling the drains, so he went back to the drawing board.

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The SPAC bubble will be something we all look back at and say to ourselves, “How did we not see it?”, the answer is simple, people like Chamath are extremely smart and are brilliant at marketing their ideas especially to young, and impressionable investors with fresh stimulus cheques in their pockets.

FED Decision

On Wednesday the U.S. FED Target Rate was increased by 0.75% to 3.25%.



This was lower than many who thought with a hot August inflation print that the FED would get “uber” aggressive and hike rates by 1%. It will be interesting to see what the FED does next month (if anything) as we approach the Midterms in November.

Either way, 3.25% as a base interest rate is not the end of the world. Wednesday’s announcement also breaks the high for the last rate hike cycle in 2016-2018. The same investors who placed terminal growth rates of 8-10% on their DCF models are the most nervous about these rate hikes. It’s because they recommended stocks at 50 times sales and their clients are down 40% YTD in garbage tech. We again tell our readers to look beyond a 1-month horizon as the market has become extremely reactive and emotional over recent months. Always remember if you own quality assets that are in demand, they will continue to perform well.....

MacNicol & Associates Asset Management Inc.
September 23, 2022

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