

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.*



Hwy 1, San Francisco, California from Chris L.



West Pierhead Lighthouse, Lake Ontario, New York

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

Bezos Follows Musk

It appears the world's second-richest man has followed the world's richest man (official values, Putin could be richer). And no, we are not talking about their space race.

This week Jeff Bezos took to Twitter and offered some criticism towards the Biden administration.



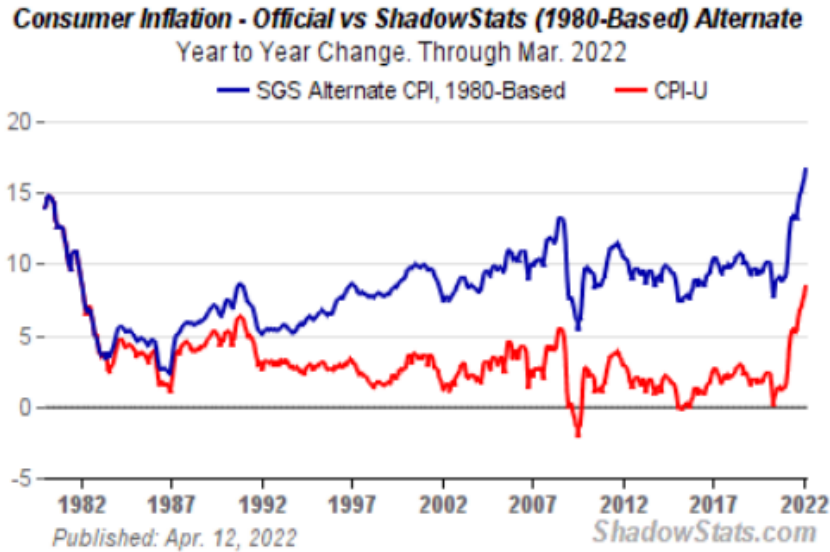
Bezos' tweet was regarding the U.S. government failing to solve inflation, being behind on inflation, and causing the issue. He said what we have all thought for almost a full year. When you print trillions, the money you print becomes inherently less valuable. Bezos even praised Manchin who has shut down other Biden-backed Bills. Manchin is a moderate democrat who must answer to West Virginians (a historically deep-red state). Manchin might be the most important Joe in the world right now.

The Biden Administration even shot back at Bezos:

"It doesn't require a huge leap to figure out why one of the wealthiest individuals on Earth opposes an economic agenda for the middle class that cuts some of the biggest costs families face, fights inflation for the long haul, and adds to the historic deficit reduction the President is achieving by asking the richest taxpayers and corporations to pay their fair share. It's also unsurprising that this tweet comes after the President met with labor organizers, including Amazon employees."

Bezos also agrees with us when we say inflation hurts the lower class the most. We did not think this was a controversial take but over the last few months, a major narrative has been created, that inflation helps the lower class.

Just a reminder on the topic of inflation, inflation is roughly 15% when using the 1980 method of calculating inflation.



Perhaps we are in a time of transparent billionaires who go at the “ruling class” or perhaps this is an isolated event for Bezos.

Ignore Celebrities

We have been extremely critical of celebrity fund managers who go on CNBC or weekly to promote their junk. Cathie Wood still regularly goes on CNBC and Chamath was a regular on CNBC during the SPAC boom.

This week we are going to look at a different type of celebrity, traditional celebrities. You know those celebrities who have numerous financial advisors and are worth millions. Over the last year as crypto went mainstream, numerous celebrities endorsed cryptocurrencies and crypto exchanges. We hope you were not one of their fans that bought in because they did.

If you watched the Super Bowl, we are sure you saw a commercial with Matt Damon endorsing Crypto.com.

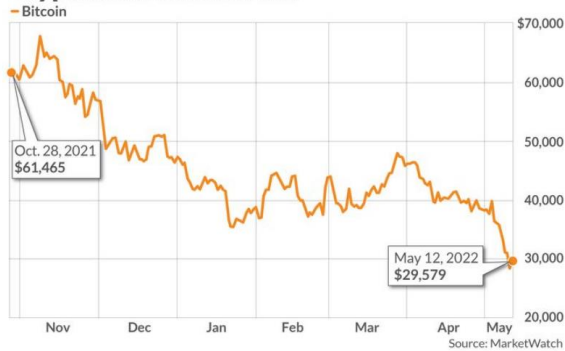


The commercial originally premiered in October but was rerun during the Super Bowl. The commercial has also been viewed over 28 million times on Twitter and YouTube.

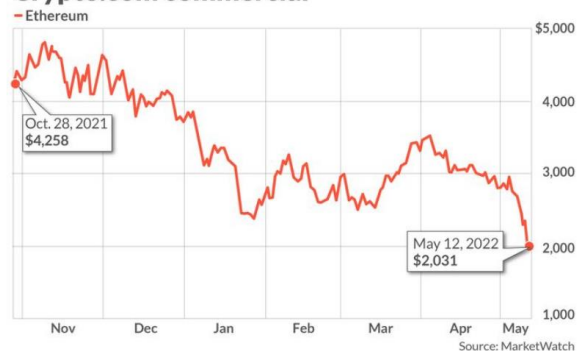


Unfortunately, if you bought crypto at the time of the commercial, half of your money is gone, and you bought at all-time highs. Both Bitcoin and Ethereum are down over 50% since that date.

How bitcoin prices moved since the notorious Crypto.com commercial



How ether prices moved since the notorious Crypto.com commercial



The commercial is not to blame for the crypto meltdown, but the commercial was a sign. A crypto commercial on cable, everything signaled peak crypto bubble.

We also would assume some retail investors were persuaded by a megastar endorsing crypto. They probably saw crypto as safe at the time.

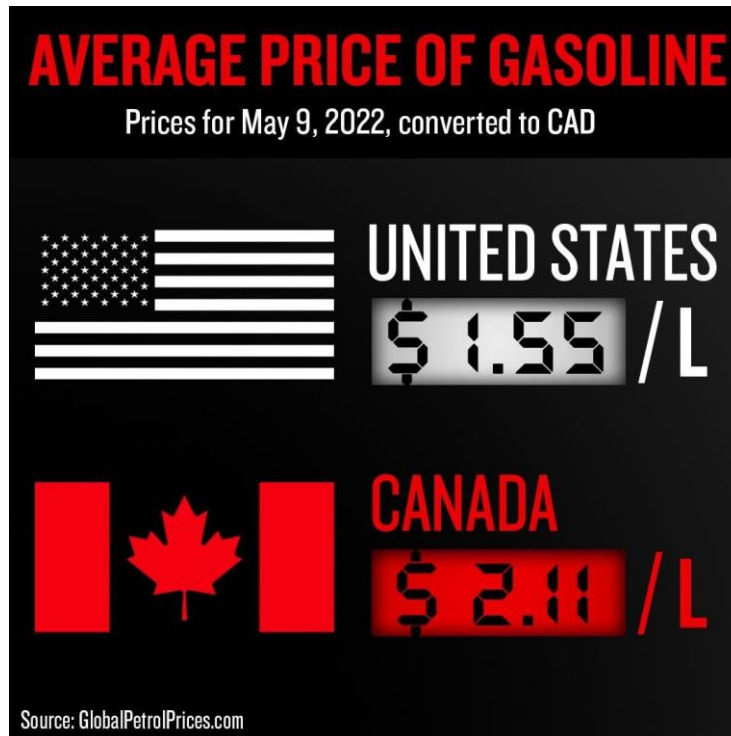
Damon was not the only celebrity who starred in a crypto commercial. Larry David appeared in a crypto exchange commercial that aired during the Super Bowl.

The Great White North

As oil prices have surged, blame has been placed on all sorts of things. Putin. Russia. Oil Companies. Covid-19. Many have avoided placing blame on Western leaders. The blame should be shared amongst European leaders who have relied on Russian fossil fuels, leaders who depend on renewables and have forced an energy transition, and North American leaders who have sanctioned the entire energy sector. Pipelines canceled, excess profit taxes, and permits revoked, the industry cannot grow. Oil prices surging should be known as the great underinvestment.

However, as prices reach \$2/liter in the GTA this week, the prices for Canadians are even more elevated than the prices for Americans.

Canadians are getting robbed at the pump. Prices are 36% higher than in the U.S.



Why is that?

Taxes. Every form of them. Canada loves taxes.

The major difference is our carbon tax.

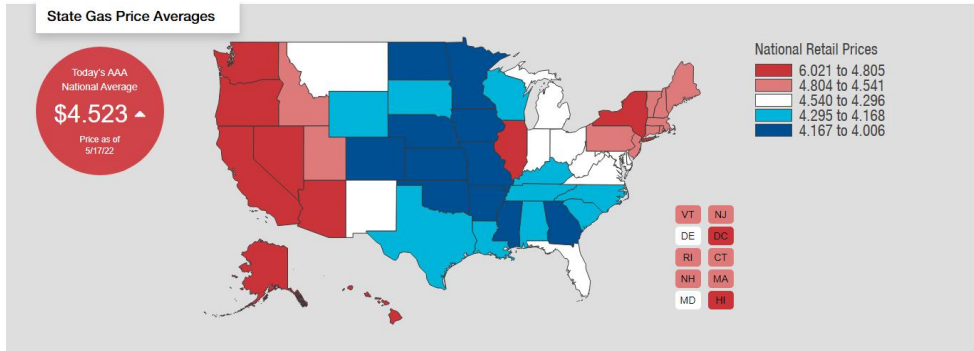
California, known to have the highest U.S. gas prices is priced much lower than gas everyone in Canada.

In California gas costs on average \$6.021/gallon (\$7.72 CAD) statewide. In San Francisco, it's \$6.248/gallon (\$8.02 CAD) (the most expensive gas in a city in California).

1 Gallon = 3.78541 Liters

The price per liter in San Francisco would be \$2.11 CAD. The average price of gas in Canada is equivalent to the most expensive gas in the U.S.

It does not sound like a savings until you look at other places in the U.S. where gas is much less expensive. The average price for gas in Florida is \$4.503/gallon (\$5.78 CAD). That equates to \$1.527/liter CAD. Florida gas prices are near the average for all the U.S.:



Prices are as of May 17th, 2022

As a Toronto-based firm, we would love to get back to \$1.50 gas!

It also hurts when you look at this table. Proven oil reserves by country in 2016. Canada has 5 times the reserves of the U.S.

#	Country	Oil Reserves (barrels) in 2016	World Share
1	Venezuela	299,953,000,000	18.2%
2	Saudi Arabia	266,578,000,000	16.2%
3	Canada	170,863,000,000	10.4%
4	Iran	157,530,000,000	9.5%
5	Iraq	143,069,000,000	8.7%
6	Kuwait	101,500,000,000	6.1%
7	United Arab Emirates	97,800,000,000	5.9%
8	Russia	80,000,000,000	4.8%
9	Libya	48,363,000,000	2.9%
10	Nigeria	37,070,000,000	2.2%
11	United States	35,230,000,000	2.1%

Energy Epiphany

Goldman Sachs Asset Management released their latest North American Energy Industry update.

We want to highlight a few things from the slide deck. [You can find the entire slide deck here.](#)

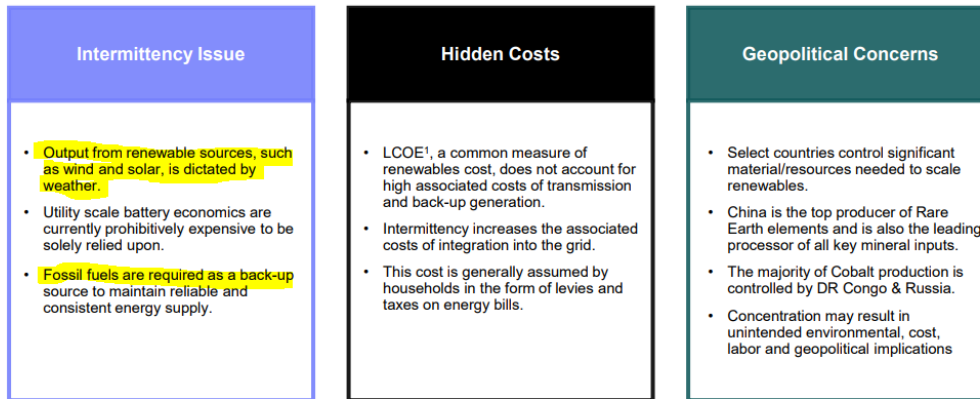
It appears Goldman reads [The Weekly Beacon](#).

From their deck:



Renewables Are Not A Stand-Alone Solution

Renewables alone can't satisfy the world's energy needs due to intermittency issues, hidden costs, and potential geopolitical considerations



Sources: Goldman Sachs Asset Management, Bloomberg, Energy Information Administration (EIA), and International Energy Agency (IEA). Data as of March 31, 2022. ¹Levelized cost of energy (LCOE): a measure of the average net present cost of electricity generation for a generating plant over its lifetime. Past performance does not guarantee future results, which may vary.

Goldman Sachs Asset Management 8

Take a look at what's highlighted, does it ring a bell?

We have reported in numerous issues of this publication how renewables alone cannot solve the climate problem. We have also highlighted the major issues with renewable energy sources due to their unreliability stemming from weather inconsistencies (sometimes its not sunny or windy). We have also highlighted that this unreliability has caused numerous countries to buy natural gas and coal in an emergency to keep the lights on for their citizens. This emergency fossil fuel usage has led to further price surges.

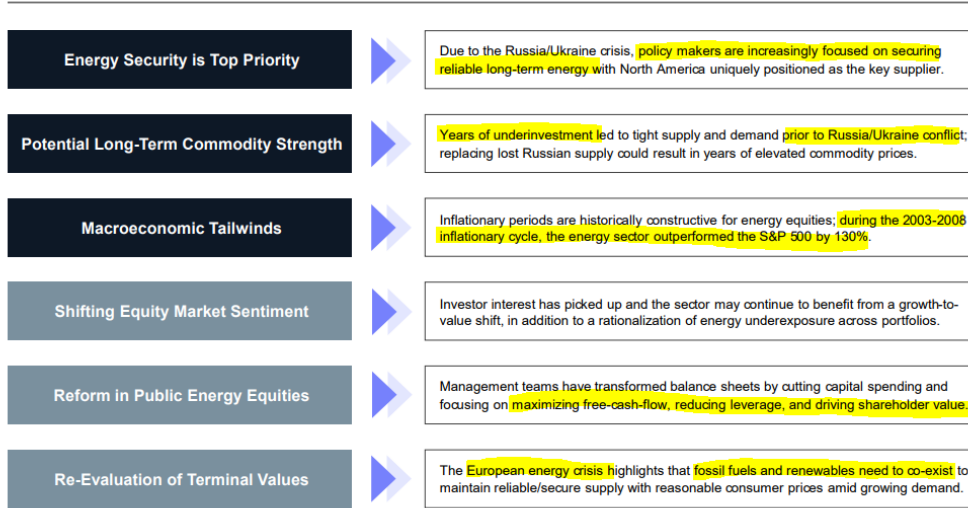
When a large institution like Goldman slowly starts changing its tune on energy, you know something is coming. They have been underexposed for years and know a fundamental problem is unfolding in front of our eyes. Banks divested from oil and gas companies in favour of ESG guidelines. This is a real turning point. They do not want to miss the upside.

The next slide explains every issue with the energy market and Goldman does not blame the Russia-Ukraine crisis for high prices (who would have known).



Energy & Equity Market Backdrop

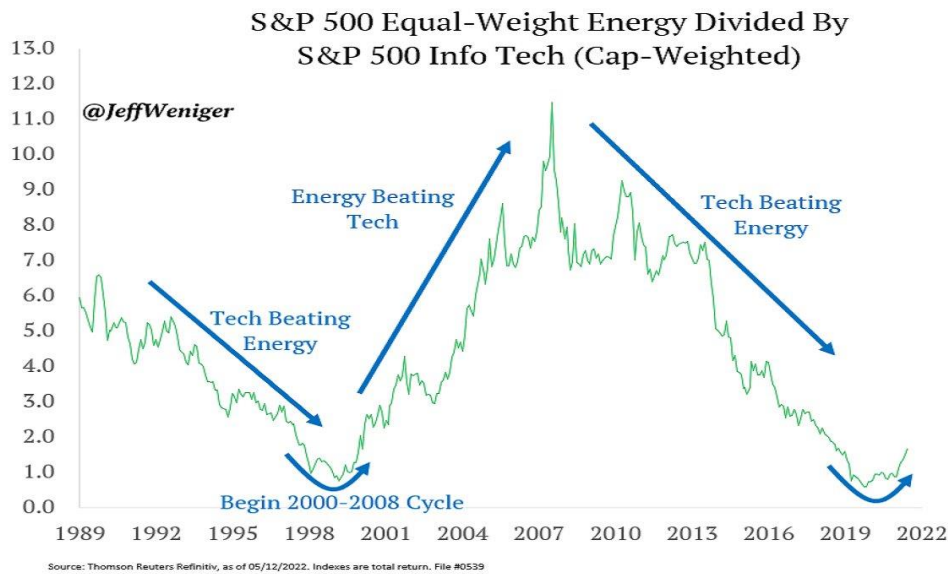
We believe that a combination of fundamental and technical factors have created a very constructive landscape for commodity prices and energy equities over the next decade



Sources: Goldman Sachs Asset Management and Bloomberg. Data as of March 31, 2022. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation. Past performance does not guarantee future results, which may vary.

Why are the tides changing? Energy is the only sector up year to date and the banks are tired of missing out due to ESG guidelines so they will tweak those guidelines.

Charts like this have become repetitive in this publication but have tremendous value to us and our readers:



History usually has a tendency of repeating itself.

How Much Has Been Lost?

Due to the way markets have melted up since the Covid-19 crash, the total value of wealth lost in this recent market downturn is unprecedented.

A graphic from CNBC:



Almost double the value wiped out now versus Covid-19. When we look back on market downturns it's easy to explain market meltdowns for experienced investors (Early 2000s technology IPOs galore and astronomical valuations, 2008 housing bubble, March 2020 a global pandemic). The major issue with the 2022 meltdown is how investors will classify the meltdown. They will blame inflation or interest rates or Putin or some combination. Although those could be contributing factors, we think a major reason is technology valuations once again. SPACs boomed, valuations have soared, IPOs hit record levels, and crypto has become mainstream. This new tech-focused economy has led to the demise of public markets over the last 5 months. Companies trading at 50x Sales, Price to Book ratios in the 80s, and cash-burning companies with no road to profitability had become the norm. We needed a reset. Remember you do not buy stocks, you buy companies that create revenue, cash flows, and profits.

*These losses were before Wednesday May 18, 2022.

The \$7.6 trillion that has been wiped out this year does not even include the over \$1 trillion that has been wiped off the crypto market. We would expect the crypto market to continue to get hit and get hit hard. Thousands of projects with no intrinsic value whose founders create a coin. Some of these have already been exposed as pyramid schemes and many more will. Never forget peak insanity.

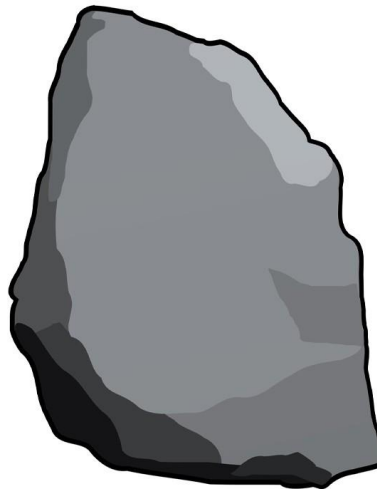
In August 2021:



An NFT JPEG of a Rock Sold for \$608,000 USD Before Price Floor Surpassed \$1 Million USD

Even the cheapest "EtherRocks" skyrocketed 900 percent in value.

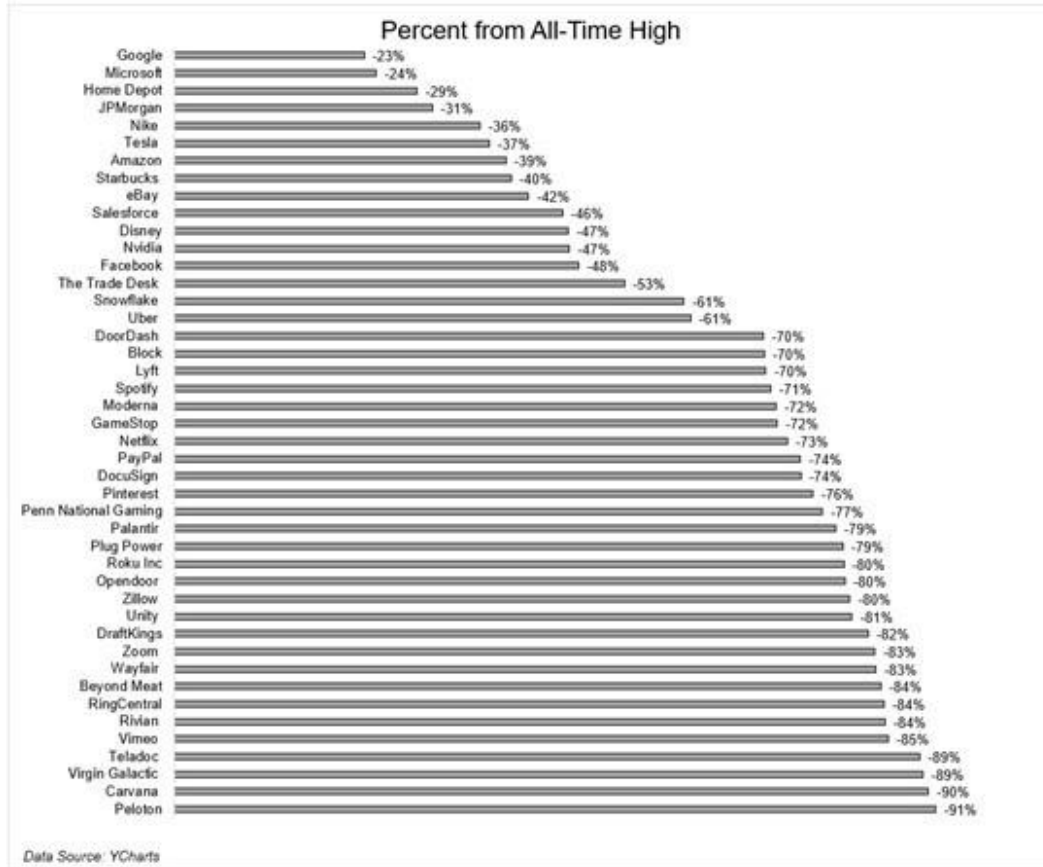
The "NFT" has no added value and was a picture of a rock.



For this NFT, we think we could have drawn a better one on Windows Paint.

The interesting thing about the meltdown is it's basically across the board (minus agriculture, energy, industrials, and utilities).

Even stocks that are historically considered safe have been beaten down. A lot of these recession-proof or value-oriented stocks were run-up over the last year and were trading at their highest multiples ever. The tech names like Peloton and Teladoc have been hit the hardest but some economy backbones (Home Depot, JP Morgan, Starbucks, Nike) have even been hit quite hard as well:



These lower-risk large-cap non-tech names enjoyed the melt-up that technology names enjoyed over the last 18 months (they soared in price (maybe not as fast and as high but, records for themselves)).

Market Summary > JPMorgan Chase & Co

120.39 USD

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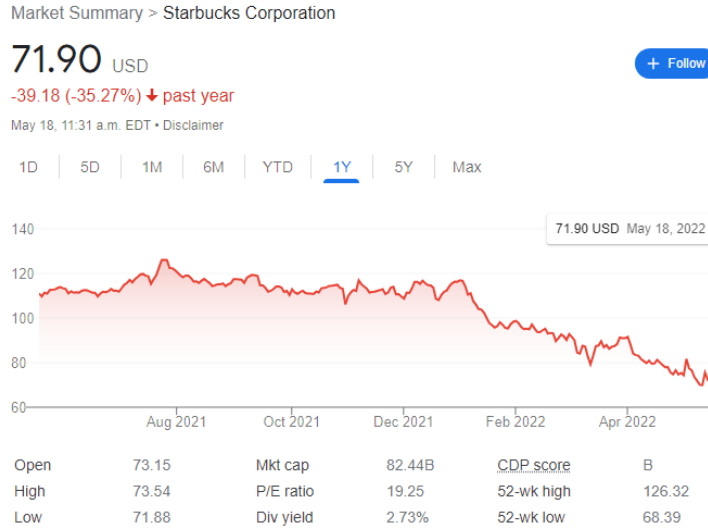
-41.80 (-25.75%) ↓ past year

May 18, 11:30 a.m. EDT • Disclaimer

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



Open	121.30	Mkt cap	354.06B	52-wk high	172.96
High	121.97	P/E ratio	8.94	52-wk low	115.37
Low	120.54	Div yield	3.32%		



We do not want to say this pullback is good but it could benefit public and private markets in the long term as sky-high valuations are reset to reasonable levels. We just hope you did not get punched in the mouth by holding any hyped-up growth companies.

Even with all the pain the markets have been put through in 2022 the worst single day occurred on Wednesday May 18th (for the S&P500).



MacNicol & Associates Asset Management Inc.
May 20, 2022