

## 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.*



Agtorssuit Light, Nuuk, Greenland



Harbour Town Lighthouse, Hilton Head from David MacNicol – taken on a ferry about a mile offshore.

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

## U.S. Midterms



And just like that, we are almost halfway through President Biden's first term. Even if they want to admit it or not, we bet he and his administration would change some decisions they made through the first 22 months of his Presidency. We highlight this as an almost halfway point as the U.S. hit the polls next Tuesday for Midterm Elections where every seat in the House of Representatives is up for grabs, 1/3 of the Senate will be decided, and numerous Gubernatorial races will be decided. Local and national politics will be on center stage and there will be massive impacts across the country. Capital markets participants will be on the edge of their seats as the election will have an impact on almost every sector.

Even the most liberal states are swinging to conservative candidates. We would call this, over correcting and usually happens when the President and Congress go too far in one direction. We do not blame voters. Energy is a mess, the economy is a mess, inflation is a mess, 401k's are crashing, and those are just financial issues. Even some voters are seeing a preference for conservative social policies after the past 2 years.

New York and Washington, deep blue states are a toss-up. Biden won 61% of votes in New York in 2020 and 58% in Washington state.

POLITICS • 2022 MIDTERM ELECTIONS

# Why the New York Governor's Race Is Now Too Close for Democrats' Comfort

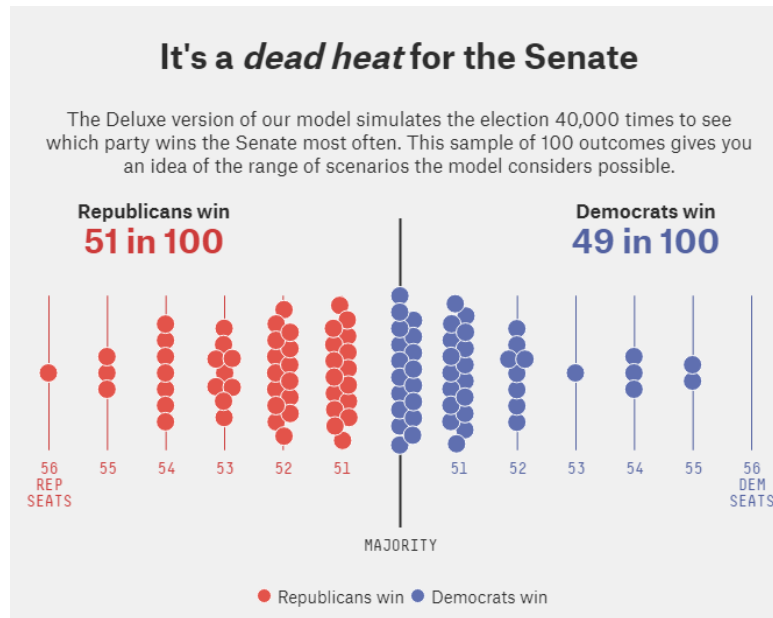
JASON RANTZ

## Rantz: WA Senate race statistically tied as Tiffany Smiley surges

Oct 30, 2022, 1:01 PM | Updated: 8:33 pm

Many in the media are even predicting a Red Tsunami next week.

In just over a week since last week's publication of *The Weekly Beacon*, the Senate projection from Project538 has gone from 45% Republican to 51% Republican. Quite a shift in a short period. It seems almost every poll is seeing this late surge in Republican candidates.



The one thing to remember, even though Republicans want more oil, and believe in energy independence, they will not be able to cut taxes, or change policy in any significant way, to increase supply in the short term. Biden will have to approve anything major and will essentially filibuster anything he does not like coming out of Capitol Hill.

This gridlock could be a good thing for financial markets. Potentially fewer surprises for us investors. The 3rd year of a presidential term has also been the best for financial markets throughout history:

From Investopedia:

In 2016, Lee Bohl, a Charles Schwab researcher, analyzed market data between 1933 and 2015, and found that, in general, the third year of the presidency overlapped with the strongest market gains.<sup>[4]</sup> The [S&P 500](#), a fairly broad index of stocks, exhibited the following average [returns](#) in each year of the presidential cycle since 1933:

- Year after the election: +6.7%
- Second-year: +5.8%
- Third-year: +16.3%
- Fourth-year: +6.7%<sup>[5]</sup>

Things could be very different in just a few days.

## Brazilian Election



Speaking of elections, Brazil held another election last weekend. The Presidential election resulted in a familiar face returning to the Presidential Palace.

### Presidential results

From [TSE](#) via Reuters · Second round · Official results

✓ **Lula wins** · 100% reporting

Candidates	Vote %	Vote count
 <b>Lula</b> PT	<b>50.9%</b>	<b>60,345,999</b>
 Jair Bolsonaro PL	49.1%	58,206,354
Invalid/null	–	5,700,443

Voters in Brazil on Sunday ousted President Jair Bolsonaro after just one term and elected the leftist former President Luiz Inácio Lula da Silva to replace him. Lula is known as a socialist and many think his election could have negative impacts on the production of fossil fuels in Brazil. Last year, Brazil produced the 9<sup>th</sup> most oil as a nation under Bolsonaro's leadership. Lula has promised a quasi-Green New Deal in Brazil to protect the environment. Lula and his advisers have embraced the transition to a green economy as a focus of their state-driven development policies, joining a wave of left-wing leaders prioritizing climate policy in the region, including in Chile and Colombia. However, many doubt Lula will have enough support in the Brazilian Congress to pass a major climate Bill. There is also the issue of funding a massive deal in a developing country like Brazil.

Many also believe that the election of Lula will result in a return to a state-run economy.

We have been interested in the Latin American regions over the last 12 years as they may have solutions to many of the world's agricultural supply issues. We also thought many of these countries could be turning the corner. We thought they were making the right steps to develop and industrialize their overall economy. This election is going to cause a major analysis of our overarching idea. Brazil is the largest economy in the region and presents the largest market. At minimum, energy in Brazil and the region may have a major setback. We are not sure what will happen, but every outcome must be looked at. Worst case, they nationalize oil reserves like Venezuela, best case scenario he backs off his climate agenda or cannot pass anything major in Congress. We are fascinated with how this will unfold. Brazilian equities have been a bright spot across global capital markets in 2022. The iShares Brazil Fund was up 18% year to date as of last week. Brazilian indices took the election news positively on Monday jumping 1-3%. Brazilian oil producers were hit hard and are trading close to 52-week lows. They declined on Monday due to the election but had been on the decline for a few months due to polling that suggested the climate-friendly Lula was going to win. We are not telling you to act as if there could be more downside from here, but it is something we have our eye on.



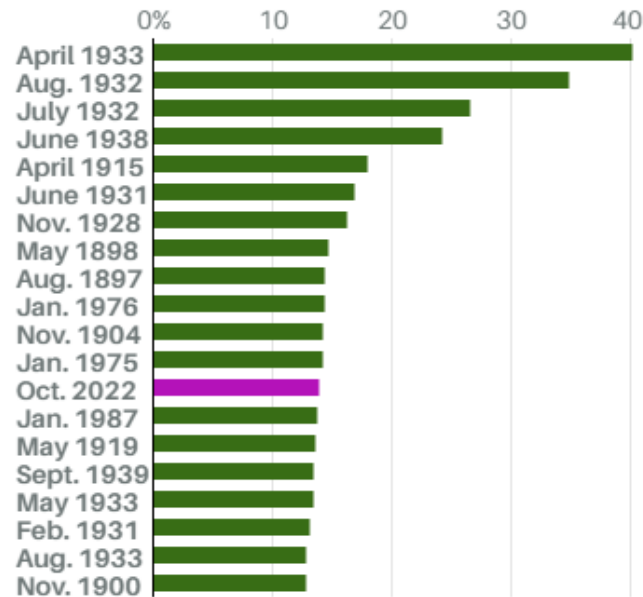
Many believe Lula winning was a sign that people were sick of Bolsonaro's polarization and environmentally destructive policies (even though the Brazilian economy grew). Although the return to Lula as the Brazilian leader is not much smoother. Lula is a former metalworker and union leader with a fifth-grade education who led Brazil during its boom in the first decade of the century but was later convicted of corruption. He spent time in a Brazilian detention center after being found guilty.

### **Dow Jones: Full Steam Ahead**

The Dow Jones Industrial Average had its best month in almost 45 years, and we are sure many investors have no idea (*The MAAM Investment Team is currently back testing a Blue Chip Growth Model using components of the Dow Jones for U.S. clients. We are looking to mitigate volatility without sacrificing upside and returns. Stay tuned for more information in the coming weeks-months.*) . Investors are so hyper-focused on the Nasdaq and FAANG stocks, Bitcoin, and technology indices that they have seemingly forgotten about the most value-oriented index in North America. So why did this happen? The Dow Jones trades at the lowest multiples amongst U.S. indices. The Dow Jones also has numerous noncyclical companies that perform well during any period. The Dow also has a low technology (sector) exposure relative to the Nasdaq and S&P 500.

We highlight this not to promote indexing but to remind investors that there are opportunities even during bear markets. It is also important to note that some of the largest moves to the upside are often during bear markets. These "false bounces" can be dangerous for new entrants that are bullish as they seemingly jump in, and the floor falls out from under them (the index/market falls further to a new low). We are not forecasting this but think it is important to remind our readers. Just look at the chart below of the best months for the Dow Jones ever. Notice something? Many of the best months were during violent, downward, bear markets. The 1930s were highlighted by crashes, and a major recession yet some of the best months ever for the Dow Jones were during that period.

The Dow industrials had their best month in about 45 years.



Source: Dow Jones Market Data.

## Elon Take Over

For months, we have highlighted the ongoing battle for Twitter's ownership. First, Elon Musk went to Twitter seemingly joking that he would buy the platform, then he placed a tender offer, then he backed out (probably due to the value and performance of the markets over this time), then Twitter sued him, then they went to court, and finally he agreed on a resolution that would make him the owner of Twitter and would remove Twitter shares from trading in public markets. Yes, we know that sentence is a long and borderline run-on, but it gives us a timeline.

The one thing that always confused us regarding this offer and story was how could Twitter who was SO against him taking over originally force him to buy them out. Can you not back out of a deal, honestly we know it is frowned upon but is that not just acting in bad faith? Who knows? We will stick to stocks. We will let the lawyers stick to legal proceedings and legal jargon.

Either way, Elon took over, took hold of Twitter's office space, fired executives, and anointed himself "Chief Twit".



Apart from firing executives and a few software engineers, Musk announced that no decisions would be made on allowing previously banned accounts back on the platform until he constructs and applies a panel that will discuss major decisions on an ongoing basis. He said the group will be diverse in opinions and ideologies. Twitter is also considering charging verified users a monthly fee to be verified. We think most will do this. Celebrities live for their blue checkmarks, and brands need it to show people who the real account is. Elon has also reportedly found a way to avoid paying hundreds of millions in compensation and severance to several high-profile employees from Twitter's previous regime.

Perhaps the funniest part of this entire situation was a few online Comedians posing as fake Twitter employees claiming they got fired on Musk's first day. The Comedians were interviewed by press members almost immediately. The Comedians went viral, and most media members could not figure out the joke (which included the extremely obvious fake names that the Comedians used). We will not share those names here but feel free to Google them if you have not already seen the clips from news outlets.

Either way, this story will be fascinating, and it will be interesting to watch in real-time. Keep your eyes on content moderation, free speech, and news reporting and if they change with Elon's acquisition of Twitter.

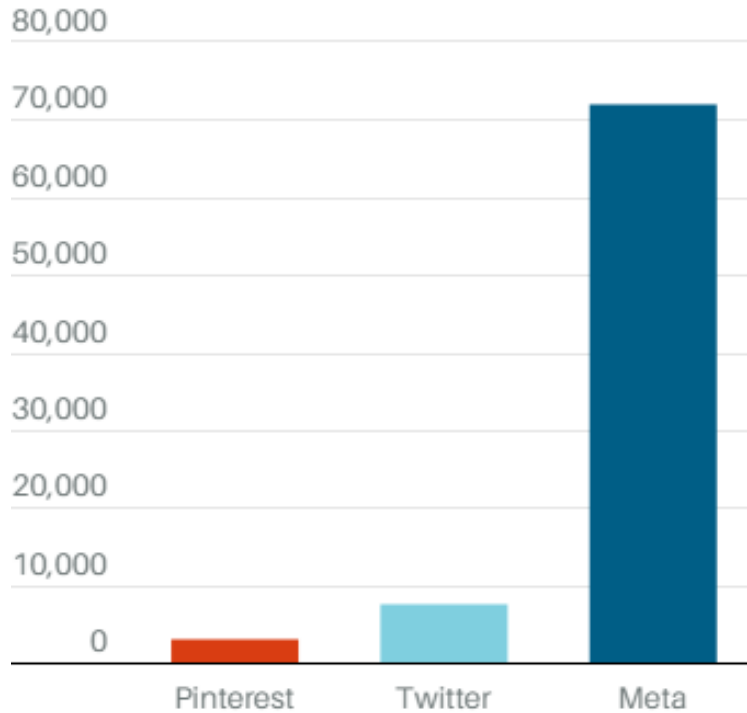
Beyond the storyline, we think Twitter has the potential to perform well over the next decade after underperforming its competitors, and stock indices over the last 10 years (since its IPO). Do not get too excited, it does not trade in public markets, plus even though it may become more efficient and more profitable, it still is overvalued. The company's efficiency could reportedly increase as Musk weighs laying off more staff to make Twitter instantly profitable.

We had no idea but look at the spread between Facebook and Twitter, who knew Facebook had 7x the employees Twitter did? We bet Meta/Facebook are probably weighing staff layoffs (like Musk) with their stock down 72% YTD. Zuck's wealth has essentially been lit on fire in 2022 as he cash-burns his

company in pursuit of the Metaverse. Eventually, investors will grow tired of his ability to lead a failing giant due to hopes and dreams of a new product.



A firing spree could leave Twitter with a staff the size of Pinterest's. It has double the revenue.



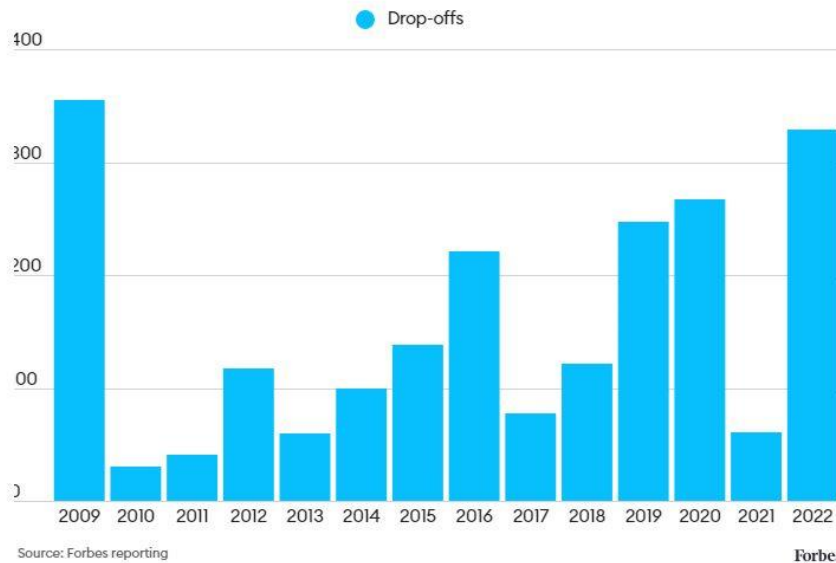
Source: FactSet.

### **Billionaires Eating Losses**

We often heard billionaires gaining the most during the pandemic-fueled melt-up. Aside from founding pandemic winners, these individuals gained as financial assets bubbled due to the monetary packages that were pumped into the system. We will not get into the monetary policy failures of Western nations during Covid-19, you guys get enough of that when we talk inflation, and Central Banks. We will focus on the wealth wipeout that occurred in 2022. Markets have lost trillions in 2022. It is the largest wealth wipeout in global history. Last week, we read an article from Forbes that we found interesting.



### NUMBER OF BILLIONAIRE DROP-OFFS



Over 300 billionaires dropped off the Forbes Billionaire list in 2022. This is the largest drop off since 2009. China led the way losing 153 billionaires, Russia had 35, and the U.S. 33. This number is probably much larger as the data set is only up to April 2022. We are not telling you to be sympathetic to these 1%ers but found the people who dropped off the list interesting.

Here are a few:

#### Kate Wang

Net worth: Less than \$500 million (down from \$5 billion)

Source of wealth: E-Cigarettes

Country: China

Wang cofounded RLX Technology, the biggest player in China's vaping market, and took it public on the New York Stock Exchange in January 2021 in a \$35 billion listing. Then the Chinese government threatened to nationalize e-cigarette sales, prompting investor lawsuits and sending Wang's fortune up in smoke.

Kate Wang's wealth dropped by 90% in 2022. Even Meta's stock outperformed her wealth.....



## Will Wei Cheng

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Net worth: Less than \$300 million (down from \$1.2 billion)

Source of wealth: Ride-Hailing Service

Country: China

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His Didi Global waged a price war that drove Uber out of China—only to come to a screeching halt when China’s government banned the Didi app days after the company’s NYSE debut last June, citing “cybersecurity concerns.” (Didi said it would “fully cooperate” with the review.) The stock is down 89% since.

The Founder of DiDi’s wealth is an example of why we avoided Chinese investments.

## John Foley

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Net worth: Less than \$400 million (down from \$1.5 billion)

Source of wealth: Peloton

Country: United States

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Talk about a bad PR cycle: Two prominent TV characters (Mr. Big from Sex and the City and Mike “Wags” Wagner from Billions) suffered fictional heart attacks while riding Foley’s Peloton fitness bikes last year. The company isn’t faring much better as customers return to gyms, leading Peloton to scale back production and lay off workers. Cofounder Foley stepped down as CEO in February; he remains chairman.

And finally, John Foley, the Founder of Peloton has seen his wealth collapse by more than 2/3, and it's no surprise to use. Peloton was a pandemic darling and became one of the most overvalued companies across financial markets We also never talked about their inventory problem in this publication, but wow was their bet one of the worst in financial markets history (they scaled production anticipating pandemic demand in perpetuity).

Hopefully, these billionaires along with the many others who have seen a drop in their wealth in 2022 did not lever themselves to the moon with their stock as collateral. Even the founders of trash companies come out on the losing end (sometimes).

## Policy Pivot in the Cards

Last week, the Bank of Canada raised interest rates by less than what analysts expected, something investors liked (lower interest rates). We have long said they will eventually pause and pivot and begin slashing interest rates to increase economic growth. They being, Western Central Bankers. This week, Biden reportedly endorsed a FED pivot just a week before the U.S. Midterms. Even though he helped balloon inflation, he cannot deal with what happens when we try to stop inflation. Perhaps he is also being given next year’s budget and the service cost on U.S. debt is going to quadruple which will cut into the social programs that he promised his supporters.

JUST IN:

White House's Economic Adviser Bernstein has just said  
Biden has endorsed a Fed's policy pivot

12:09 PM · Nov 1, 2022 · Twitter Web App



Central Bankers and politicians got lazy with interest rates in the basement, so they continuously added on debt with no extra cost. Finally, rates move the other way, and they are facing a harsh reality. Perhaps the White House is also realizing increasing rates slow the economy, slows hiring, increases unemployment, and tanks the market. The messy economy is something Western governments have created over the last 10 years and that has exponentially ballooned since Covid-19 began.

Now before you jump back into high-risk assets thinking “here we go, another boom”, wait for the FED to slowly change its narrative. We do not think they will follow Biden’s orders immediately but do think a change is coming and coming sometime soon.

**MacNicol & Associates Asset Management**  
**November 4, 2022**