

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.*



Prince Christians Sund Lighthouse, Greenland



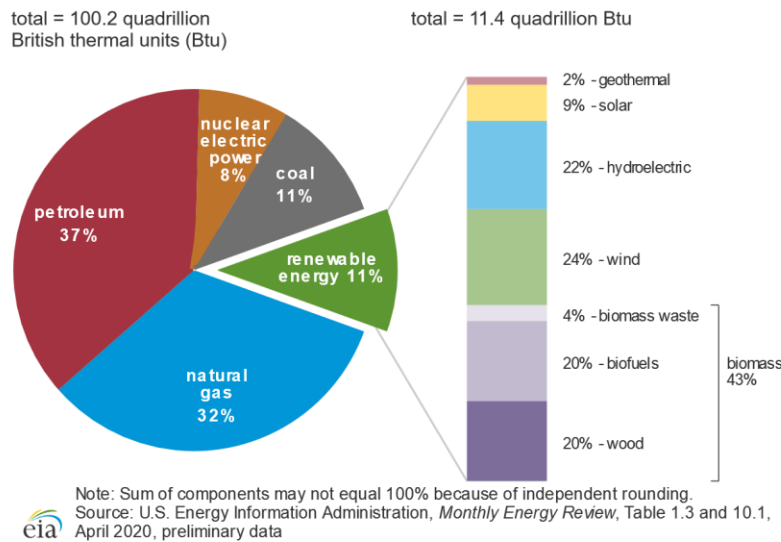
Akranesviti, Akranes, Iceland

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

EV variable costs add up

The upfront costs of electric vehicles are a major deterrent for many consumers. Greenies argue your added cost (upfront) will be saved (plus much more) over the lifetime of the car due to less maintenance for an EV and charging is cheaper than gasoline or diesel. We have been firm in our warnings to consumers and our investors that this could change and change quickly. Even though electric vehicles charge via a plug in the wall or a plug in a parking lot, those chargers are powered by a number of sources which include coal and natural gas.

U.S. primary energy consumption by energy source, 2019



Most energy consumed in the U.S. comes from fossil fuels. Over 1/3 of the U.S. electricity grid is powered by natural gas.

[A study from the Massachusetts Institute of Technology Energy Initiative](#) found that the battery and fuel production for an EV generates higher emissions than the manufacturing of a traditional automobile. Sergey Paltsev, a senior research scientist at the MIT Energy Initiative explained that the full benefits of EVs will be realized only after the electricity sources become MORE renewable, and it might take several decades for that to happen.

We bring this up because natural gas prices have surged over the last year or so due to supply constraints (like the oil market). Many see this reflected in their power bills rising in cost, but those EV owners have more than likely been impacted in a greater way. Natural gas prices are well off their highs from last year but are still elevated from historical levels. Prices are much higher across Europe due to supply problems.

Electricity bills may continue to shock you even as overall inflation eases. Here's why.



Medora Lee
USA TODAY

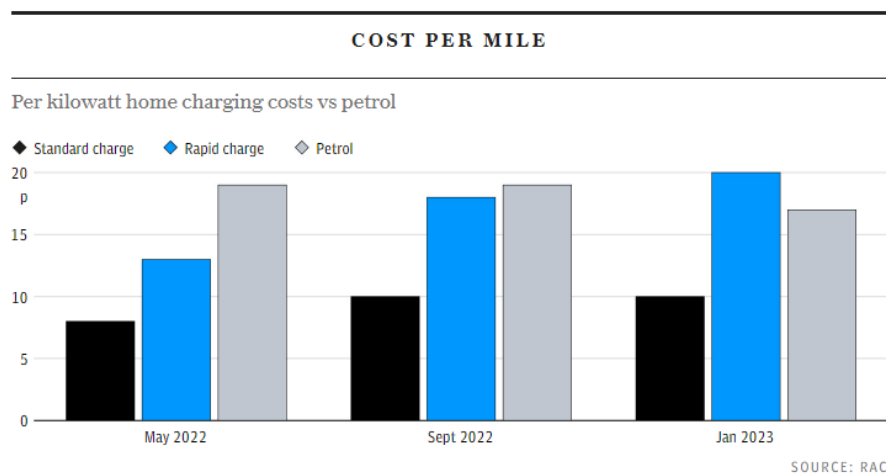
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In an article from USA Today *“Economists say consumers should expect their electric bills to continue rising at a fast pace as liquified natural gas, a key fuel for generating electricity, remains in short supply in the U.S. and companies' operating costs rise. Average U.S. electricity prices could rise at a 10% clip again this year and possibly next, predicts Mark Wolfe, director of the National Energy Assistance Directors Association.”*

This week [The Telegraph](#) (a British newspaper and publisher founded in 1855) published an article on how EVs at peak times are now more expensive to charge than to fuel up a traditional automobile in England.

Rapid chargers used by motorists in peak hours are now nearly £10 more expensive than filling up a car with diesel or petrol.



Yes, standard charging of an EV is cheaper than fueling up a traditional automobile but that could change and change quite quickly. Many consumers also do not have hours to wait for their car to charge and require a rapid charger to allow them to get on their way like how fast it takes to fuel a car with petrol.

If this trend continues in the UK and leaks across the pond to North America for a sustained period, it could have a real impact on the green policy being pushed by governments. Consumers could also decide against buying an EV if charging costs continue to be greater than fuel costs. Why pay more upfront and more to drive something that is an inferior product?

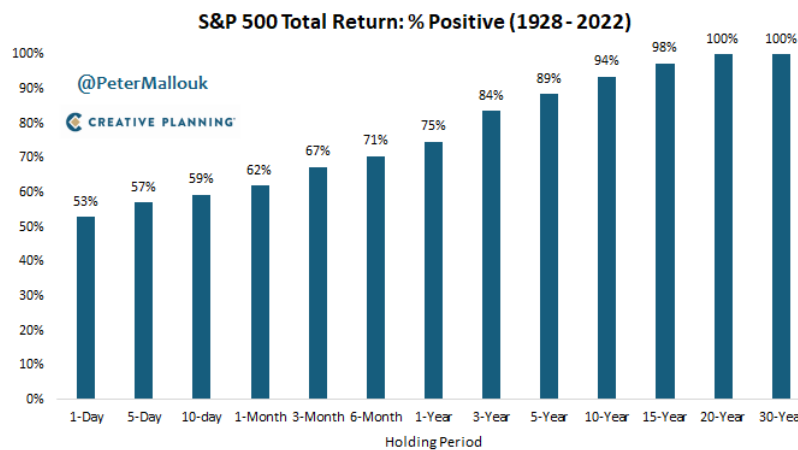
In the UK, new petrol and diesel cars will be banned from sale in the coming years as part of the Government's drive towards net zero carbon emissions. Perhaps, traditionally used car prices could have a 2020/2021 renaissance if charging costs for EVs continue to surge.



Odds Market

As we approach the Super Bowl and sports betting has its biggest day, we wanted to highlight a very interesting chart that we ran across this week.

Peter Mallouk created a chart that has various holding periods and the percentage of those periods that created a positive return since 1928. Unsurprisingly to many the longer the period you hold for, the higher the odds your return will be positive.



The one thing to remember not everyone has a 30-year time horizon for their savings, many may need access to their savings in a few years due to unexpected costs, retirement, or something else happening. People cannot afford a down 3, 5, 10, or 15-year period. Even though these are odds, they are odds that are nowhere near perfect (in the short and mid-term). This study was also taken during a secular decline in interest rates.

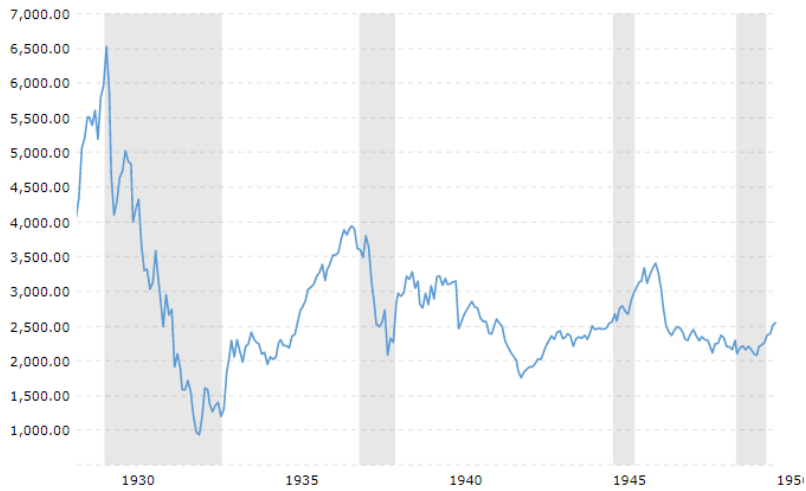
Although select periods display negative results, they have happened quite regularly throughout history.

The next few charts display the Dow Jones Industrial Average.

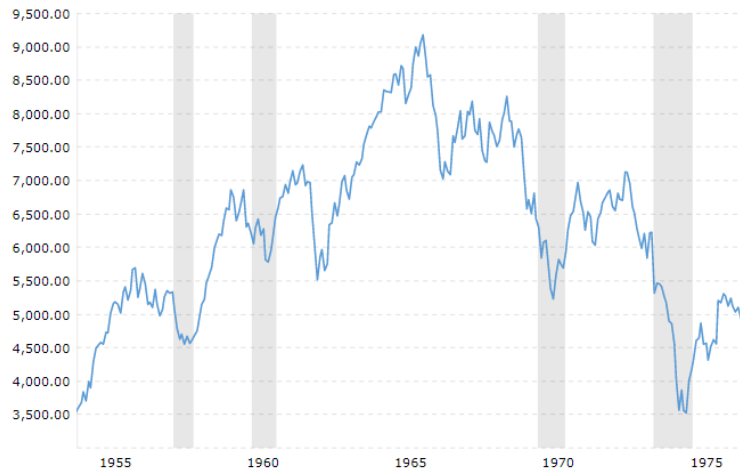
From April 1915 to August 1934 the DJIA was flat:



From April 1929 to May 1949 the DJIA collapsed from \$6,524 to \$2,099:



From May 1954 to December 1974 the DJIA was flat.



From July 1965 to late 1995 the DJIA was flat:



And finally, the DJIA's most recent flat decade where it was flat from December 1999 to January 2014:



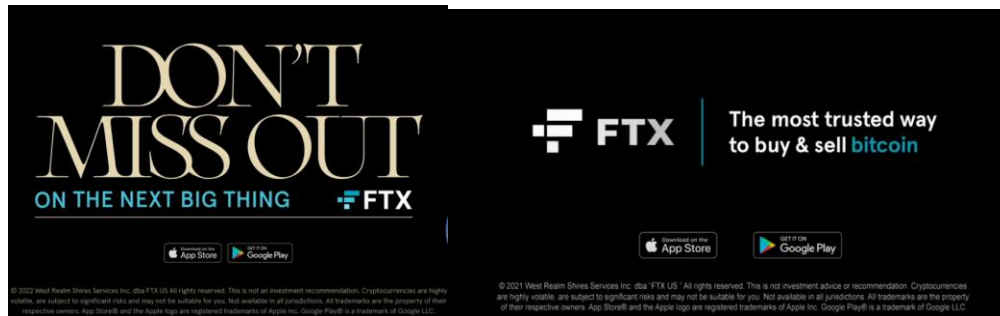
What does this mean? Lost decades are possible and happen quite regularly when you zoom out and look at the total picture. However, remember during these periods there were years when the stock market roared (a bull year in a bear period).

Even though it is possible we could have a flat decade, we think opportunities will present themselves in various sectors and will allow fund managers to earn their fees. It's easy to earn your fee in a bull market, but harder in a bear market. We also think there will be years when the stock market roars during a lost decade.

We highlight all of this to show results are not always guaranteed. Indexing could be a strategy of the past. Innovation occurs in every industry and is currently transforming the asset management industry. The sleepy 60/40 (equity/bonds asset mix) is on the way out and active managers are on their way back in.



Even though we started this topic by mentioning sports and casino betting, we think it is important for all investors to understand that the stock market is not a casino. If you want to hit a casino, find the slots, or gear up for the Super Bowl - go crazy. After all, every other commercial will be a sports betting commercial. Last year's Super Bowl was all about crypto, we assume most crypto firms will not be able to afford those same commercials this year. Never forget who advertised during last year's Super Bowl:



SBF and FTX were stars last February, their Super Bowl commercials featured Tom Brady and Larry David. Fast forward a year later and things have changed.

Easy money slows down

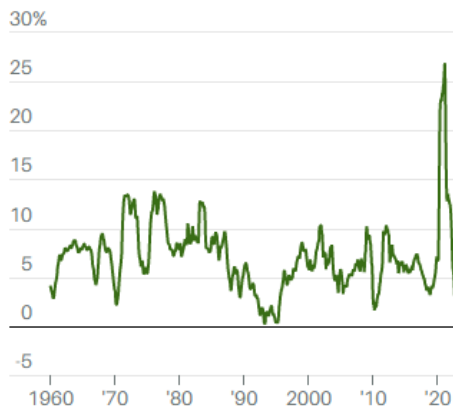
Pandemic printing by Central Banks allowed asset prices to balloon. This printing was one of the major drivers of inflation even if governments do not want to admit it. The money supply in the U.S. grew at its fastest rate ever through the first year of the pandemic. The U.S. government began tracking money supply growth rates in 1959.

Since then, money supply growth has collapsed as the FED has tightened its monetary policy and the economy is contracting. The money supply growth rate for December was a negative 1.3% versus a year ago. The lowest ever and marking the first-ever decline in M2 based on all data available. M2 is a measure of money supply in the economy that includes currency in circulation, balances in retail money-market funds, savings deposits, and more.



Reversing Course

Money has never been tighter in the U.S.



From a peak growth rate of 27% in February 2021 to a decline in the M2 we have come a long way as the Central bank bubble has begun to pop. It is important to remember that the M2 is still 37% higher than it was before the pandemic despite going through one of its sharpest decelerations. Some argue that a detraction in the money supply is evidence that rate hikes are working but some other economists argue that liquidity in the system remains high and more needs to be done by the FED.

The FED's total assets were down 5.3% since last year's peak (January 2022-January 2023), yet the balance sheet remains more than double the \$4.1 trillion in February 2020 before the onset of the pandemic. The issue is the FED can't wind down its balance sheet in any significant way without tanking public markets. We will see what happens next (and if this continues) but the first-ever reduction in the U.S. money supply seems too significant to not share with our readers.

Hindenburg Research's new target

Hindenburg Research LLC is an investment research firm with a focus on activist short selling. They have written scathing public research reports on some of the biggest companies across the world. They pride themselves on finding fraud, exposing investigations, and exposing financial irregularities.

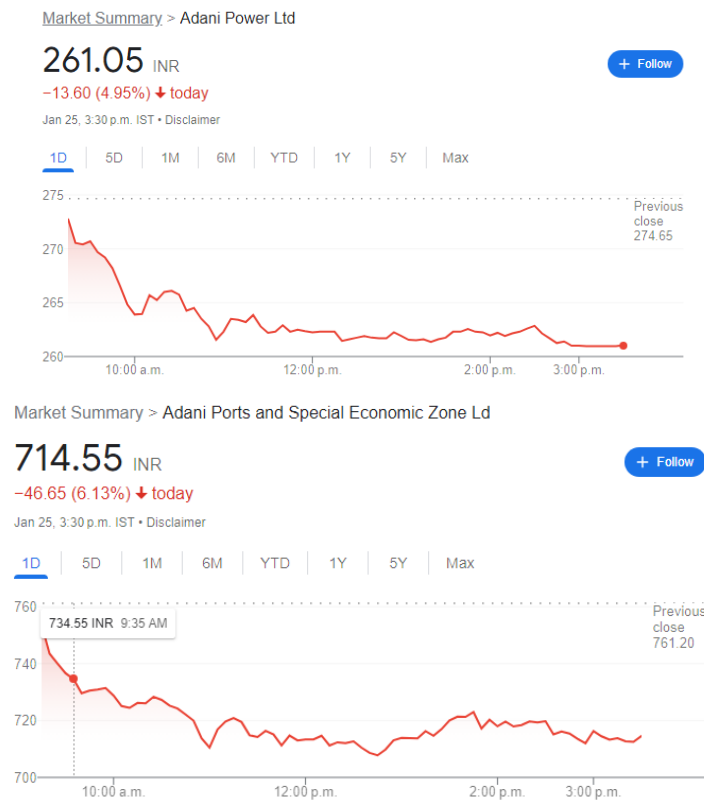
They have written reports on the likes of Nikola, Clover Health (Chamath's SPAC), China Metal Resources Utilization, SC Worx, and RIOT Blockchain over recent years.

On Tuesday, they released a new report on the Adani Group and how the world's 3rd richest man is pulling the largest con in corporate history. Adani Group is an Indian multinational conglomerate. The Group's business units include port management, electric power generation, and transmission, renewable energy, mining, airport operations, natural gas, food processing, and infrastructure. Adani employs over 100,000 people globally. Gautam Adani is the chairman and founder of the company and has an estimated net worth of \$129.3 Billion according to Forbes.



Hindenburg published their findings after a 2-year investigation into Adani Group where they show evidence that the company had purposely engaged in market manipulation to overvalue Adani Group's seven listed companies. Hindenburg believes they have also been committing accounting fraud for decades. Gautam Adani's net worth has risen by over \$100 billion over the last 3 years on surging stock prices where his companies have averaged an 819% gain.

On Wednesday, Adani shares dropped but not in great value due to the report. Perhaps investors in India have not seen this report or do not care about an American short seller. Nikola's stock dropped 40% in a matter of days after Hindenburg released its short report on the company in September 2020.



Their research involved talking with former executives, reviewing thousands of internal documents, and numerous site visits across several countries.

We highlight this story not because we invested in Adani or because we are actively shorting the company but because it's new knowledge and an interesting way to look at a conglomerate in an area of the world, we are quite interested in. We think the Indian economy is a country that could have a strong 10-20 years.

[We will not go into major depth in this article but encourage you to read the full Hindenburg report by clicking here.](#) Warning, it is quite long and will take numerous sittings to read it all.



The 10,000-foot summary before you read it:

- 8 of the 22 key leaders are family members and the family is in complete control of the company's financials. A former executive labeled the conglomerate as a "family business".
- The Adani Group has been the focus of 4 major government investigations which have included money laundering, theft of taxpayer funds, fraud, and corruption. Investigations have either been paused or stonewalled by the Indian government.
- The family has used corporate and personal offshore entities to operate illegally across the world. This reportedly includes forged import/export documentation and a diamond trading scheme.
- Adani Group executives seemingly are holding stock offshore through shell companies breaking Indian Securities law due to disclosure and insider ownership percentages.

Hindenburg also highlighted that if you do not believe them, the numbers themselves are quite worrisome for Adani. The companies are extremely overvalued and have massive downside potential. 5 of 7 of the companies have current ratios of less than 1 and are facing near-term liquidity issues. Hindenburg highlighted the expensive multiples that Adani trades at which should deter investors on its own (even without looking at its potential wrongdoings).

Name	Price/ Earnings	Industry Avg.	Implied Downside	Price/ Sales	Industry Avg.	Implied Downside	EV/ EBITDA	Industry Avg.	Implied Downside
Adani Green Energy	815x	24x	-97.10%	60.6x	1.1x	-98.13%	101x	12x	-88.33%
Adani Power	29x	24x	-18.17%	3.9x	1.1x	-70.66%	13x	12x	-10.42%
Adani Total Gas	831x	20x	-97.64%	139.3x	1.0x	-99.31%	303x	9x	-97.16%
Adani Transmission	312x	24x	-92.43%	27.3x	1.1x	-95.84%	69x	12x	-83.01%
Adani Enterprises	508x	12x	-97.68%	5.7x	0.5x	-91.33%	66x	8x	-88.16%
Adani Wilmar	90x	30x	-67.12%	1.3x	1.1x	-20.90%	37x	15x	-58.26%
Adani Ports	35x	2x	-93.26%	10.5x	0.9x	-91.65%	20x	2x	-88.07%

(Source: FactSet & Hindenburg analysis)

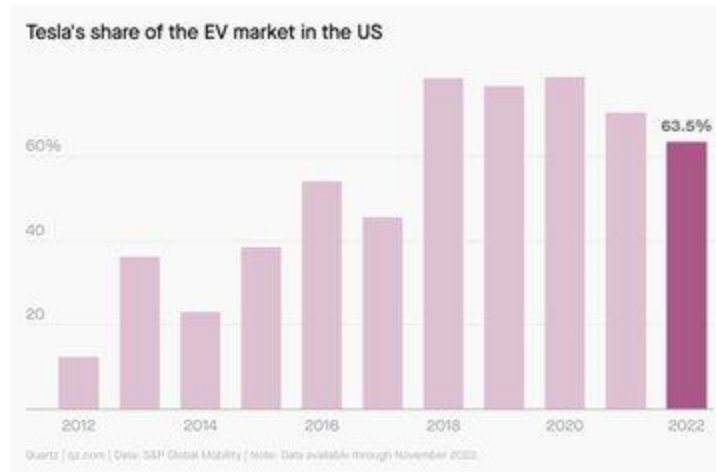
Also, very interesting how expensive these utility, industrial, and energy companies trade at. Utility and industrial stocks historically trade at some of the lowest multiples across markets (in terms of sectors). These companies trade at multiples that you would find in the ARKK ETF.

Either way, we hope your pension fund or fund manager is not invested in any of the 7 Adani Group companies.



Tesla has competition, sort of

Competitors in the EV space have started to bite into Tesla's market share. Their market share has dropped from 70.5% in 2021 to 63.5% last year. Tesla's sales made up 79% of the total EVs sold in 2020. Many believe Tesla's market share could drop to as low as 20% by 2025.



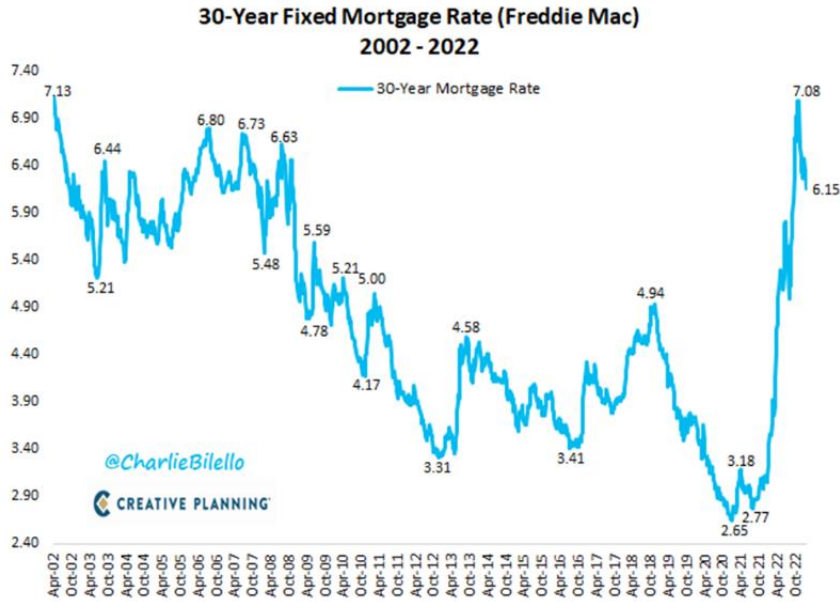
It was only a matter of time before other automakers would catch up to Tesla. The question now is whether Tesla will be able to keep an edge over its competitors.

As per data from Motor Intelligence, in second place for market share after Tesla last year was Ford, with a 7.6% share, followed by Hyundai and Kia combined with 7.1%. Who would have guessed traditional automakers would be Tesla's largest competitors? We did. Companies like Rivian and Lucid Motors will continue to struggle to scale production from the ground up, it will take years for them to catch up in terms of units sold.

Mortgage rates dip, remain elevated

Even though mortgage rates have retreated from their highs in the spring / summer, they remain high compared to the last 20 years. If you do think that is having a major impact on residential real estate prices than you are lying to yourself. Sure, some markets have barely been impacted but some have been extremely impacted. The overvalued markets have seen the biggest slow downs due to rising interest rates even with real estate prices dropping.

The 30-year mortgage rate is still higher than anytime over the last 15 years. Do not expect mortgage rates to drop back to their pandemic lows - rates will remain elevated for years to come.



MacNicol & Associates Asset Management
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