

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.*



Lake Tahoe Lighthouse



Mark Abbott Memorial Light, Santa Cruz, California

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



Happy New Year!

We wish you and your friends and family a happy and healthy New Year. All of the best for 2023!

Electric Vehicle Costs Surging

It's no secret that input costs have risen for electric vehicles. It is a major reason prices have rapidly increased for Electric vehicles (EVs) over the last 1.5 - 3 years. This trend will continue, and it will become even more expensive for consumers to buy EVs. EVs are already more expensive than traditional automobiles and they will arguably become even more expensive for years to come. If you are a long-time reader of *The Weekly Beacon*, we are sure you understand why prices are surging. Rare Earth metals which are used to manufacture EVs have a fixed supply. EVs also use more of these metals than traditional automobiles due to the fundamental construction of an EV.

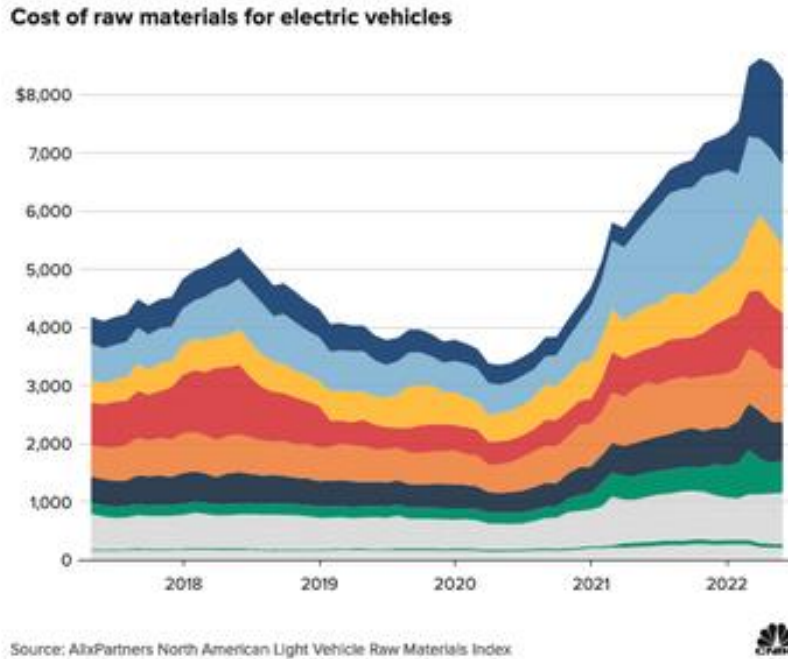
Even though lawmakers and environmental extremists want us to switch to EVs and claim we will save money at the pump, it is not economical for most consumers to do so. The upfront costs will simply deter most of the population from buying an EV, especially during tough economic conditions. People would rather buy a used car for \$12,000 or a new car for \$30,000-40,000 than buy a brand-new EV for \$50,000+.

EVs seem to always be expensive. The cost to replace an EV battery is exponentially higher than a traditional automobile. One Toronto family was quoted \$23,000 to replace their electric model Kia's battery. Now that is probably on the high end of replacement costs - EV batteries usually cost \$10,000-20,000 (CAD) to replace. The cost varies by model. In comparison, the average cost of a replacement battery for gas-powered vehicles is about \$350 - RepairPal estimates. Quite the spread and a factor consumers will look at before making the jump to electric.

TORONTO | News

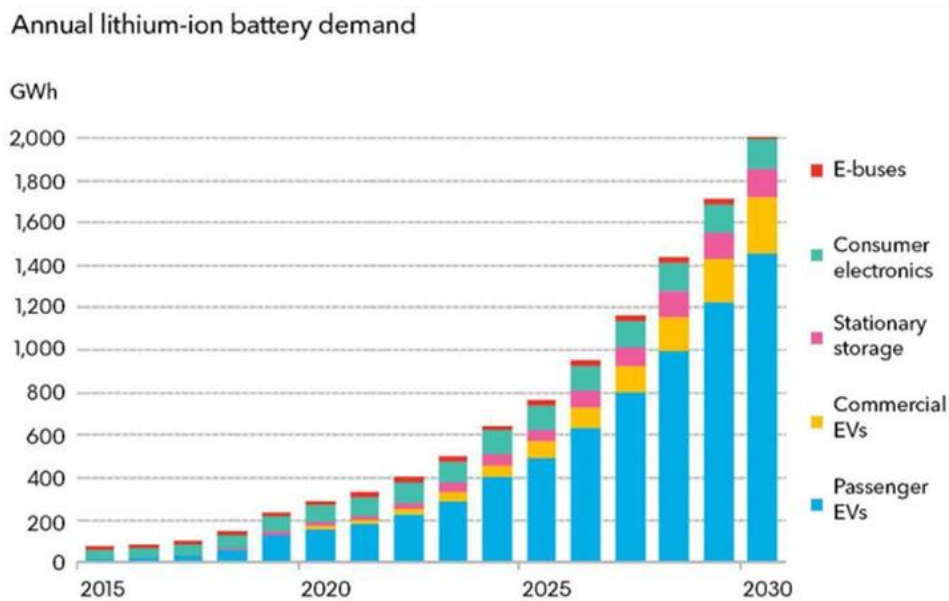
Families shocked when battery replacement for electric vehicle tops \$20,000

Looking beyond the environmental costs and the lifetime of a traditional automobile's battery versus an EV's battery, costs are surging for producers of EVs. Producer costs will be passed on to consumers.



The raw material costs of an EV have doubled over the last 2 years. Prices will continue to surge as the demand for rare Earth metals increases. EV production and adoption will present a circular problem for governments. Even if consumer demand surges for EVs through campaigns and government promises, prices will certainly increase due to the relationship between supply and demand for these metals.

An example of demand in this space can be seen below in the forecasted demand for lithium in the production of lithium batteries.





Even if you are fine with the added cost of an EV, it will take 10+ years for mass adoption. The one thing politicians and environmentalists completely ignore on this issue is many consumers only ever buy used automobiles. Used cars are cheaper for consumers due to the depreciation of the asset. There are two problems with this in the EV market, 1. There are not many used EVs for sale and 2. The cost to replace an EV battery is extremely high.

Either way, we remain in the camp that the best way to play the EV boom will be through the metals. Buy the miners who provide producers with the metals. Picking an EV stock in today's market comes with extreme difficulty. Many electric vehicle producers have burned through billions and have barely delivered a vehicle to a customer. How do you expect us to stock pick in an industry that seems littered with new entrants? Even if you picked Tesla over the last year or two, your capital has essentially been lit on fire as the market has finally recognized that valuation and price multiples matter.

Market Summary > Tesla Inc

108.10 USD

-275.10 (-71.79%) ↓ past year

Closed: Jan 3, 4:05 p.m. EST • Disclaimer

After hours 107.90 -0.20 (0.19%)

+ Follow

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



Tesla is the best pure EV producer as of January 2023, could that change? Yes, does that mean we would buy the stock today? No, price and more importantly - valuation always matters.

Where are the people?

Migration matters, by country and even by state. We focus on migration by the state to forecast the U.S. real estate market as a whole and on a regional level. As you know we have exposure to the U.S. real estate market through our MAC 360 Degree Real Estate Fund. [Click here to learn more about our Real Estate Fund.](#)

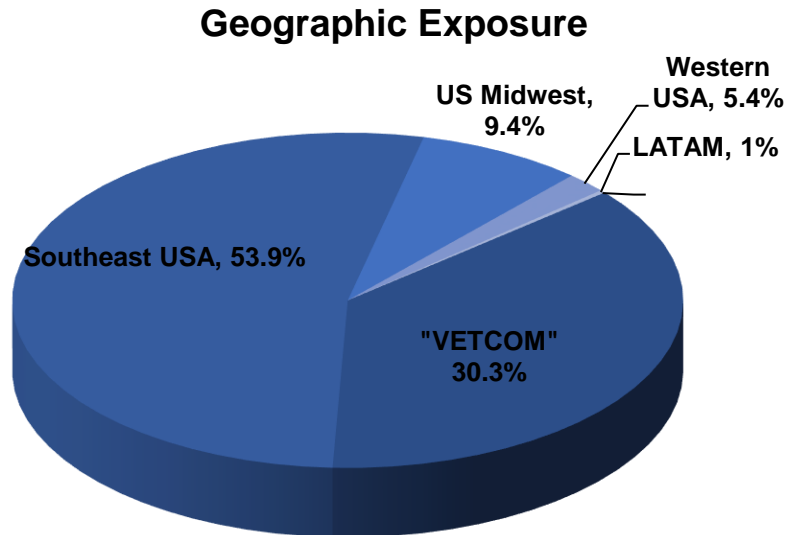
* The 360 Degree Fund invests in a variety of real estate projects and third-party real estate funds primarily in the United States and Canada. The objective of the Fund is to generate income and capital

gains from investments in real estate assets including mortgages and mortgage-backed securities, apartments, condominiums, whole loans, developable land, and single-family homes.*



The MAC 360 Degree Real Estate Fund has its largest exposure in the southeast U.S.

MacNicol & Associates Asset Management has positioned its real estate holdings to capture the value of recent migration patterns with a focus on states/areas that have seen an increase in population.



Most of the states that have seen an increase in population over the last 12 months are in the southeast area of the United States.

Ten states with the most and least net domestic population migration from July 2021-July 2022

| Bottom 10 | | Top 10 | |
|---------------|----------|----------------|---------|
| California | -343,230 | Florida | 318,855 |
| New York | -299,557 | Texas | 230,961 |
| Illinois | -141,656 | North Carolina | 99,796 |
| New Jersey | -64,231 | South Carolina | 84,030 |
| Massachusetts | -57,292 | Tennessee | 81,646 |
| Louisiana | -46,672 | Georgia | 81,406 |
| Maryland | -45,101 | Arizona | 70,984 |
| Pennsylvania | -39,957 | Idaho | 28,639 |
| Virginia | -23,952 | Alabama | 28,609 |
| Minnesota | -19,400 | Oklahoma | 26,791 |

Source: Census Bureau

We expect these patterns to continue and expect people to flock to warmer suburbs and leave their northern cities. This is why southern regions have been less impacted by falling real estate prices compared to northern cities like Boston, New York, and Chicago.



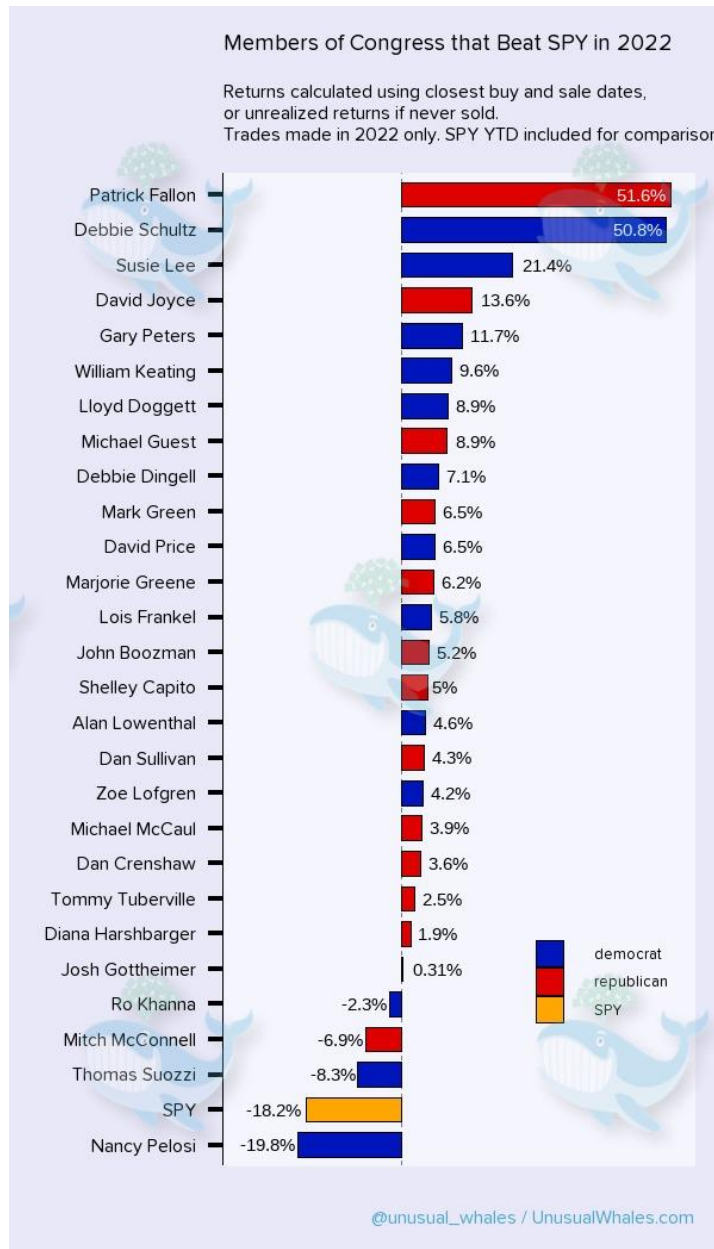
Always follow the numbers and the major data points and positive results will follow.

Worlds Hottest Traders

Who are the world's best traders? A New York-based hedge fund? No. A banker from Toronto? No. A fund manager in the Bahamas? No.

The best traders in the world seem to be members of the United States Congress.

We are sure you have read in one publication or another that Nancy Pelosi, the former Speaker of the U.S. House of Representatives (she gave up her gavel earlier this week) is the greatest trader in Wall Street's history. Although that is true her portfolio took it directly on the chin in 2022 due to her large exposure to U.S. technology stocks. Some other members of Congress did not miss a beat in 2022 despite markets struggling throughout the year.



While hedge funds and asset managers struggled to create positive returns, politicians leveraged their networks to create positive returns. The ultimate insider trading continues to occur within Washington, DC. When you make and direct policy and you understand what is coming and what is going to get government money, it is easy to front-run the market. The only issue GOP and Democrats members of Congress can agree on is no accountability for trading in Washington. It is the only explanation for why most politicians grow their net worth exponentially while they are elected.

If you do not think politicians leverage their job to enrich themselves, explain how Mitch McConnell and Nancy Pelosi grew their net worth from close to nothing in the 1980s to \$40-200 million each today (estimated). We chose a politician from each party because it's not a single-party issue.



A recent example of this enrichment can be seen through Liz Cheney a former Congresswomen from Wyoming whose net worth reportedly grew from around \$7 million when first elected (2016) to approximately \$40 million in 2020. These are estimates and not official numbers, we are simply using the numbers as part of this exercise to highlight the structural issue in Congress.

The new members with returns in the 50s should quit being in Congress and start their own fund. Investors would throw money at them. Oh wait, they cannot do that. Their returns are a result of their elected position.

Washington insiders continue to dominate in a game they have a clear advantage in.

According to Unusual Whales (a large Twitter account) the average Democrat was down -1.8% in 2022, whereas Republicans were up +0.4%. Meanwhile, the S&P500 itself was down 18.2% in 2022.

Wall Street's best (worst)

Sell-side analysts will sell you whatever comes across their desks. Lofty price targets for “disruptive” companies where their reports use buzzwords and ridiculous terminal values to justify their forecast. They also slap ridiculous sales values to justify their high prices. Many retail investors and financial advisors live by these sell-side price targets which are often horribly wrong. It's easy to stamp Tesla with a \$400 price target in a bull market where trillions are injected into the system, but not so much during the bear market.

Just look at this chart shared by a Twitter user that points out the hypocrisy of sell-side analysts who are seemingly chasing Tesla's share price. We understand being wrong but when the consensus price target is continuously wrong and analysts continue to ignore red flags, there is a major problem.



Holger Zschaepitz
@Schuldensuehner

How funny: Analysts are chasing the #Tesla price target and not the other way around, as it should be.



9:50 AM · Jan 4, 2023

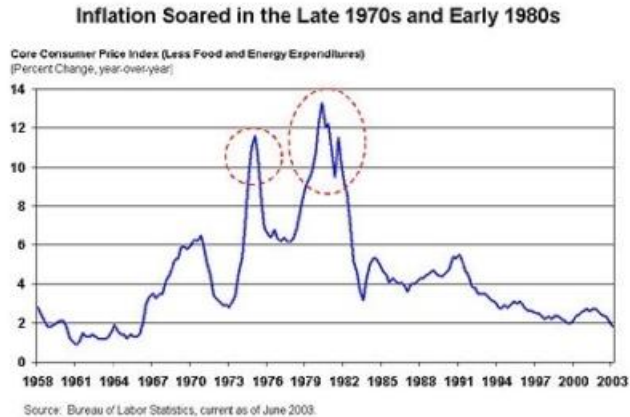
26.7K Views 33 Retweets 7 Quote Tweets 189 Likes

Just remember these analysts like their commissions and bonuses as much as anyone.

FED Minutes Released

No rate cuts. According to the minutes released from the last FOMC meeting, the FED will not cut rates this year to help kickstart a struggling economy. Many investors believed the FED would eventually cut rates due to recession fears, we thought it was possible but were not solely positioned for this to happen. We think there will be a long pause by the FED. The FED will stop hiking but will not cut rates to let their policy decisions have an impact on the economic environment. Plus, maybe they have read our commentary and know that this round of inflation could just be the beginning and a second wave could be on the horizon in the coming months to a year.

The minutes reflected those sentiments, noting that no FOMC members expect rate cuts in 2023, despite market pricing.



The second round usually hits harder, and most consumers will not be expecting it. Just something to keep in mind when making any major financial decisions over the next year.

U.S. reaches export milestone

Yes, energy prices are down, we know. Oil and natural gas prices have dropped over the last few months. Natural gas especially but after large gains.

It has been historically warm in Europe and North America for most of the winter so far. However, even with the warmth, there are fundamental gaps between the supply and demand of energy going forward. We are not cheering for blackouts or shortages but understand it will be a reality due to the green policy being pushed by environmentalists and many politicians. We remain steadfast in our approach to energy exposure and have not changed our tune. We have regularly said this trade is not a month-by-month move and believe in the medium to long term it will pay off.

We wanted to highlight a chart that was released by Bloomberg this week. As Canadians, we know how much oil we have and how much the Canadian economy relies on the energy sector. Many politicians in Ottawa have made it hard for Canadians to reek the benefits of our natural resources and have helped deter us from being a global leader in energy production. Most pipelines on the east coast have been blocked, the Keystone Pipeline was canceled by Biden and Trudeau, and the Canadian government has almost made it impossible for energy companies to operate in Canada without their approval.

Even though we are a leading producer of oil, we could be producing much more.

For those who mention the environmental costs and pollution from this added energy production in Canada, we argue the world needs it, why don't we produce it and benefit from it? Western fossil fuels are produced in cleaner methods than other energy producers across the world. Canada increasing its oil production would also help the western world decrease its reliance on Russia and middle eastern nations for global oil production. It would help us and hurt our enemies like Russia, which seems like a no-brainer.

We highlight this because the U.S. officially tied Qatar as the world's largest exporter of Liquefied Natural Gas. This is historic because the U.S. only started exporting LNG in 2016.



Either way, do not panic sell your energy holdings, the sector is just getting started.

MacNicol & Associates Asset Management
January 6, 2023