THE WEEKLY BEACON **APRIL 21, 2023**

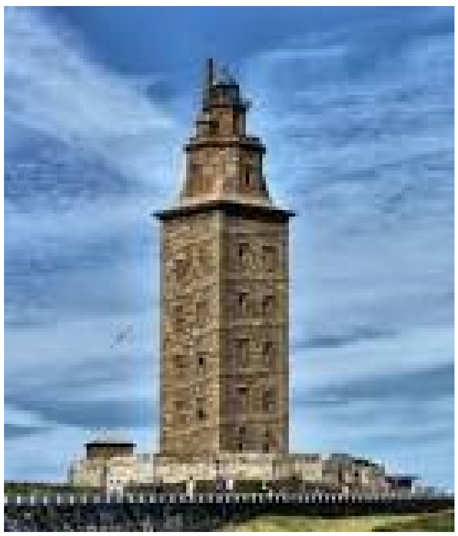
We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

MacNicol & Associates Asset Management

Contact us today if you would like to meet about your investment future. info@macnicolasset.com

BEACONS OF THE WEEK

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.



The Tower of Hercules, *A Coruña, Galicia, Spain*

This lighthouse was built in the 2nd century AD and stands 57 meters tall. It overlooks the North Atlantic coast of Spain. The lighthouse was designated as a World Heritage Site in 2009.

Cabo da Roca Lighthouse, *Sintra, Portugal*

Cabo da Roca is not only the westernmost point in Portugal, but in Europe. The lighthouse sits 150 meters above the sea and began its operations in 1772.

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

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Apple's diversification

Apple, the technology conglomerate which was founded in 1976 by Steve Jobs and went public in 1980 is now the world's largest company (by market cap). Apple's market capitalization is $2.628 trillion, almost $500 billion larger than the second-largest company in the world, Microsoft.

So just how much bigger is Apple relative to other companies?

$500 billion (the market capitalization difference between Apple and Microsoft) is equivalent to the 24th largest economy in terms of GDP in the world. Countries that do not have a total GDP greater than $500 billion include, Belgium, Thailand, Austria, Norway, United Arab Emirates, Nigeria, Israel, South Africa, Denmark, Singapore, and many more. That makes the gap between Apple and the world's second-largest company as big as Belgium's entire national output.

$500 billion is equivalent to Johnson & Johnson's market capitalization. Johnson & Johnson is the world's 10th largest company (measured by market capitalization). Companies whose market capitalization sits below half a trillion include Visa, LVMH, Exxon Mobil, United Health, Tencent, JP Morgan Chase, Walmart, and many more.

The only reason we give you relative comparisons is to explain the sheer magnitude of Apple's size.

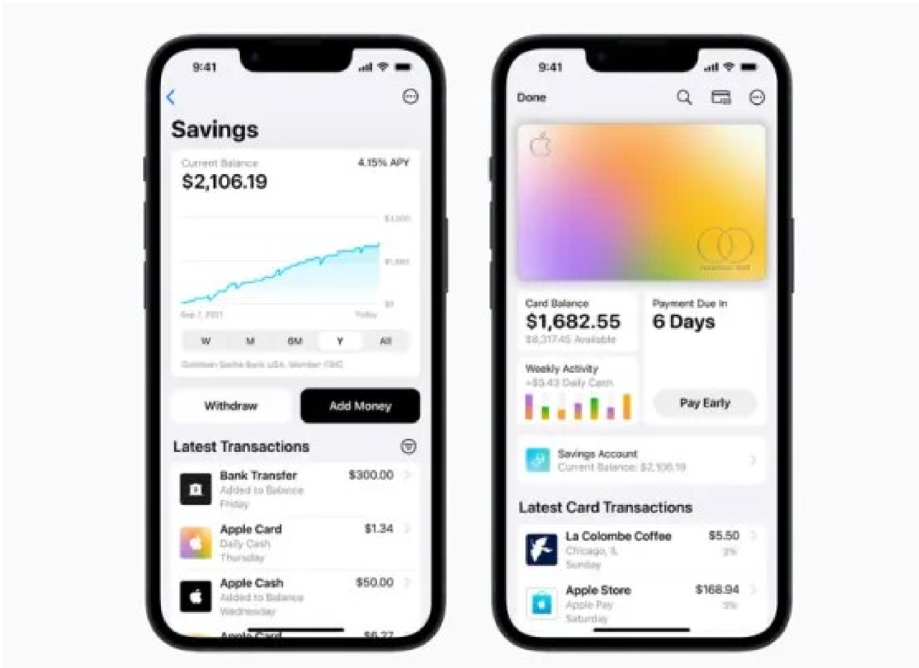
Apple has even expanded beyond its traditional technology products and services. In 2019, they offered consumers a credit card. As of early 2022, 6.7 million Americans held this credit card. Apple's card had several consumer-friendly attributes, allowing the card to become popular amongst young users. Fast forward to today and Apple has a new offering.

Apple has offered consumers a high-interest savings account that pays out 4.15% per year. Apple's launch comes at a time when the world recently faced numerous banking crises and consumers in America have begun to question their regional banks. Signature Bank and Silicon Valley Bank were both regional banks in the U.S.

The new Apple account will be offered through the wallet application on an iPhone. The only stipulation is users must have an Apple Card. The account will be administered by Goldman Sachs.

The account compounds interest daily. The Apple Savings Account can hold up to $250,000 per account (interestingly the same number that the Federal Deposit Insurance Company (FDIC) covers per account). These accounts are FDIC insured.

Here is what the account page will look like for users:



Apple's savings account will pay out 4.15%.

UPDATE
April 17, 2023

Apple Card's new high-yield Savings account is now available, offering a 4.15 percent APY

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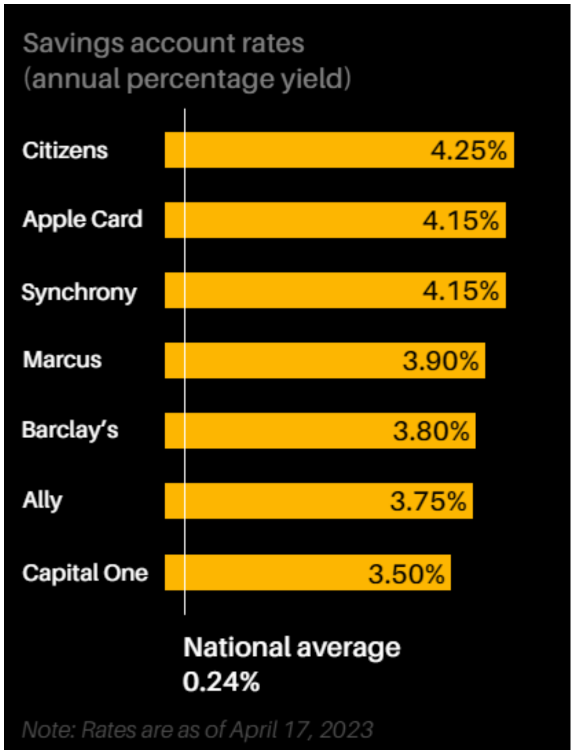
Apple's quoted yield beats most financial institutions for yield on a savings account:



Real Vision estimates that this yield offer is over ten times higher than the national average.

The only stipulation for opening an account is opening an Apple Card account. Once that is active, there will be no minimum account balance, no lockups, or no fees for Apple's high-interest savings account. Apple's credit card also has no fee and is accessible through Apple Pay.

This offer by Apple is not yet available to individuals in Canada and is only available to Americans.

This push by Apple is a new initiative to increase their credit card users.

Apple has also recently launched a service in 2023 that allows users to buy now and pay later. It allows consumers to split purchases into four separate payments with zero interest or added fees.

Expect Apple to continue to roll out financial products and rotate into the financial sector. The company continues to diversify itself. Many are pleased with the recent diversification as Apple's traditional sales have slowed down. Personal computer shipments from Apple dropped by 41% for Q1 2023, year over year. Apple also faces demand issues in its flagship product, the iPhone 14 had much lower demand than was expected.

The move by Apple comes at an opportune time. It is also smart to offer consumers a high yield and efficiency. Young consumers love the convenience and will be more than happy to move their savings account from a traditional bank to their iPhone where Apple is offering them a much higher yield on their cash.

As of December 31st, 2022, Apple had $51.4 billion in cash and cash equivalents.

Buffett rips streaming

Warren Buffett is back again in this week's publication. This is the third straight week we have featured him. Two weeks ago, it was his thoughts on Bitcoin, last week his thoughts (and trip) on Japan and this week its his recent comments on the streaming industry.

Yes, you read that right. Netflix, HBO, Hulu, Disney+, and their competitors were the targets of Buffett's most recent comments.

Buffett explained that streaming is not a great business and is a poor business model. He went on to say that it's a glamour industry and not a money-making industry for shareholders. He claimed the streamers have been successful at attracting subscribers but at a terrible price.

Buffett said this even though he is Paramount Global's largest shareholder. Berkshire Hathaway owns approximately 14% of Paramount Global, the owner of CBS and Paramount Studios. Paramount recently launched Paramount Plus, a subscription-based streaming platform that competes with the likes of Netflix and HBO.

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In the same interview, Buffett was asked about his contradictory investment and comments claiming "we will see" about Berkshire's investment in Paramount Global.

Paramount Global has been a loser in Berkshire Hathaway's portfolio since its original purchase date. From Buffett's language, we can only assume that buying Paramount was not his decision. Buffett and Munger hired two investment managers, Todd Combs, and Ted Weschler over a decade ago who manage around 10% of the total portfolio. Many believe the Paramount trade was their doing. Todd and Ted are the rumored successors of Charlie Munger and Warren Buffett.

We will not comment on every streaming company's financials but believe the industry is spending at an unsustainable rate to produce original content. The push for original content comes as licensing rights for popular TV shows surge in price. Consumers are pushing back against streaming giants as they tighten their password-sharing rules and increase their prices.

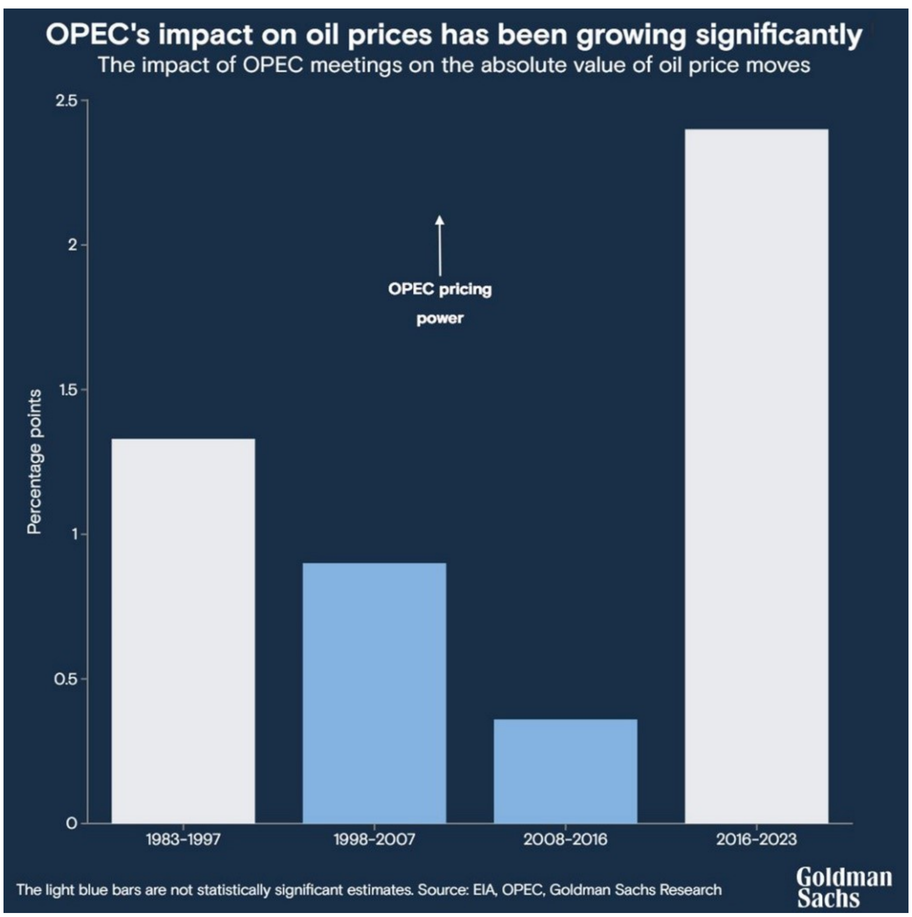
Consumers got used to low prices and will not be happy with their bill increasing, expect subscribers to decrease this year.

Netflix reported earnings this week slightly missing revenue and subscriber estimates. Earnings and revenue projections disappointed and Netflix revealed it anticipates earning $2.84 per share on $8.24 billion in the second quarter, below Wall Street forecasts for earnings of $3.05 per share on $8.5 billion in revenue.

OPEC flexing its muscles

OPEC is gaining more and more pricing power in global energy markets.

Since 2016, OPEC meetings have had the largest impact (percentage change) on oil prices in the organization's history. The organizations policy (ie. Output) is decided on at organization meetings. OPEC's meetings seem to steer oil prices down to the minute in today's markets.



OPEC's stranglehold on the oil market puts a floor under oil prices. OPEC and its members have shown a willingness to defend the price of oil, especially over the last few years. We expect this to continue moving forward. OPEC's pricing power could potentially become stronger in the future as Western nations cut oil production to meet energy goals.

When we talk about energy goals, and net zero targets set forth by companies and countries, we are doubtful for a number of reasons. If you are a long-time reader of this publication, we know you are aware of those reasons so we will not bore you.

However, we ran by an interesting one-minute video on the subject this week and wanted to share it with you.

Click the link below to watch author Ronald Stein talk about emissions, net zero, and the production of products. He explains why oil matters and why it matters beyond the scope of energy consumption.

https://www.youtube.com/watch?v=stf2YrznkZU

Gambler's paradise

Have investors become impatient or is that a growing attribute of society today?

We think society has become much more impatient in recent years. This is also true for how people choose to invest. People want short term solutions and do not want to wait. The development of Uber, food delivery, 1 day shipping, and much more serve this instant gratification and lack of patience that we are describing in society today.

People are holding stocks for the shortest time in recorded history purely out of impatience and inexperience.

Why is that?

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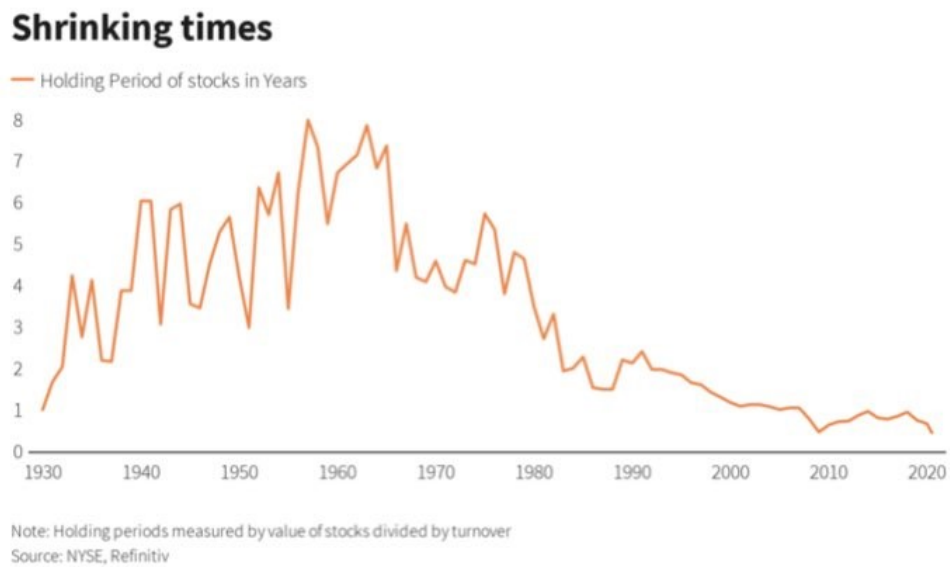

People want the quick fix, no work, and immediate answer rather than putting in the work to have long-term gratification. We are sure this sounds redundant and more than likely is in a bunch of self-help books, but patience is key especially when you are dealing with financial markets.

Constantly entering and exiting positions with no thought other than fear of missing out (FOMO) and wanting to hit big immediately is essentially gambling. For those investors, we recommend casinos or even sports betting because the odds on a short-term basis are higher for you than gambling or day trading in financial markets.

According to Ramsey Solutions, 97% of day traders lose money over time:

> Studies have shown that more than 97% of day traders lose money over time, and less than 1% of day traders are actually profitable. Oct 20, 2022
>
> Ramsey Solutions
> https://www.ramseysolutions.com › Articles
>
> What Is Day Trading and How Does It Work? - Ramsey Solutions
>
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If you were new to financial markets, you would probably think that number was much lower purely based on statistics or gurus selling day trading courses online.

We are not saying to hold every position for 5-10 years, but we are saying many investors operate on a weekly basis and are hasty to exit positions way to early. These traders are also burning through their own capital due to trading fees.

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Recession???

Things that always slow down during a recession are luxury purchases by consumers, especially purchases of the most expensive brands. Consumers buy what they need and avoid unneeded luxury purchases as times are tough.

It appears even though we are in tough times, and many would classify the current state of the economy as a recessionary period. Some consumers continue to dive into purchasing luxury goods. This has allowed two notable companies to run through 2022 and 2023 unscathed. Both companies that we are about to mention have stock prices trading at all-time highs. This is extremely surprising as most major indices are well below their all-time highs due to 2022's poor performance.

Those companies are LVMH (Louis Vuitton, Moet, Hennessy) and Ferrari.

Ferrari’s stock price sits $6 below its all-time high price, and it has recouped all of its 2022 losses.

The stock is up 26% year to date.

LVMH’s stock price sits $10 below its all-time high price, which it reached last Friday.

LVMH is up 28% year to date.

LVMH’s stock price performance relative to broader markets over the last 16 months has helped propel its CEO, Bernard Arnault to be the world’s richest person.

RANK	NAME	NET WORTH	CHANGE	AGE	SOURCE
1	Bernard Arnault & family	$239.0 B	▲ $2.2 B | 0.93%	74	LVMH
2	Elon Musk	$185.9 B	▼ $1.5 B | -0.82%	51	Tesla, SpaceX
3	Jeff Bezos	$126.5 B	▲ $1.1 B | 0.89%	59	Amazon
4	Larry Ellison	$120.4 B	▼ $721 M | -0.60%	78	Oracle

So, are these companies trading in reasonable areas? No.

Ferrari is essentially trading at 10 times sales, and 52 times earnings. Ferrari's price-to-sales and price-to-earnings ratios are higher than Tesla’s. Ferrari’s revenue growth is also much below Tesla’s.

Are we going to buy these stocks? No, not at their current prices. We think their respective stock prices will eventually retreat especially as purchases for luxury leather bags and sportscars slow down. Even without recessionary fears, we think they both trade quite expensive at their current prices.

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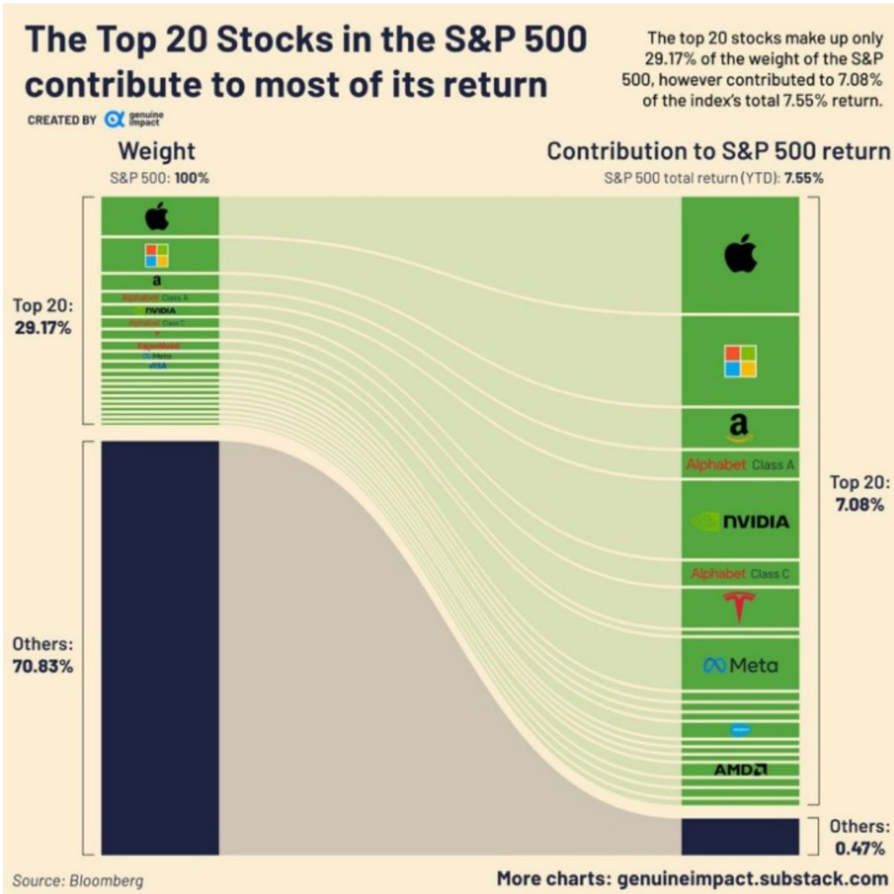
A big boy rally

The S&P 500 has rallied to begin 2023. After a very down year in 2022, the index is up 8.66% (as of April 19, 2023) and its purely due to the largest 20 companies on the index.

The largest 20 companies have contributed almost all the S&P 500's return in 2023:



The same companies only account for 29% of the indices weight.

What does this mean?

The rally that we have seen has been top heavy and been led from the front. Americas largest companies have allowed investors to believe that markets are back in 2023. Without them most markets would be flat on the year.

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