THE WEEKLY BEACON **DECEMBER 8, 2023**

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentaryand 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.

Nubble Light, *Cape Neddick, York, Maine*

The Cape Neddick Light is a lighthouse in Cape Neddick, York, Maine. In 1874 Congress appropriated $15,000 to build a light station at the "Nubble" and in 1879 construction began. The lighthouse opened in 1879 and stands at 12 meters tall. The picture shows the lighthouse decorated with over 8000 Christmas lights, an annual tradition.

Yasat Ali Light, *Abu Dhabi, United Arab Emirates*

This lighthouse has a focal height of 98 feet. The lighthouse was built in 2011 and is located 18 kilometers from Yasat Ali Island at the far western end of the Emirates coast roughly 150 kilometers from Doha, Qatar.

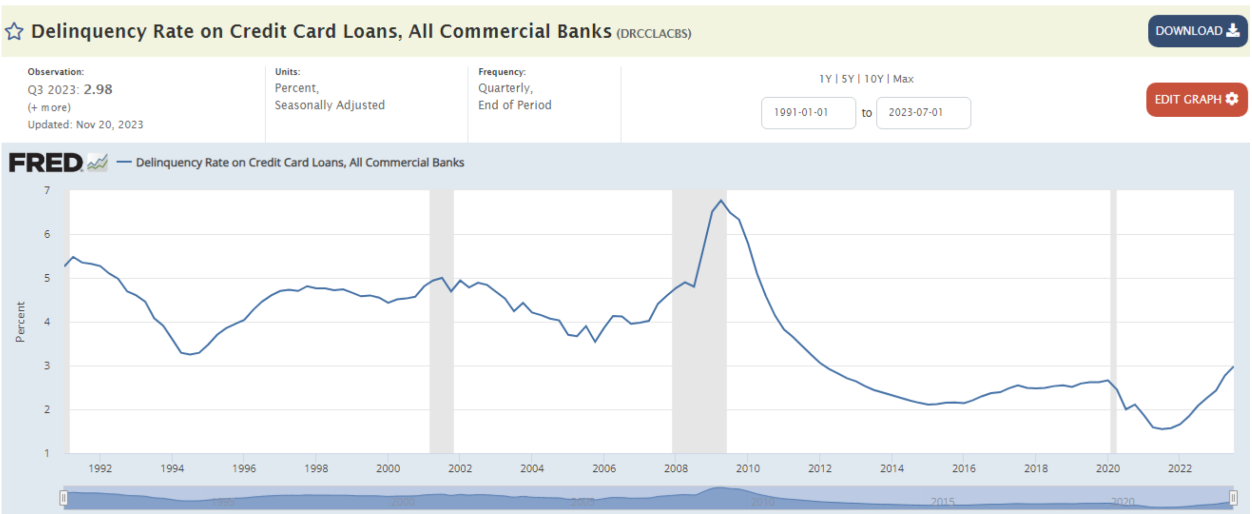
**Feel free to send us your photos of Lighthouses to be featured in our weekly market observations. **

Banking on consumers (bad) habits

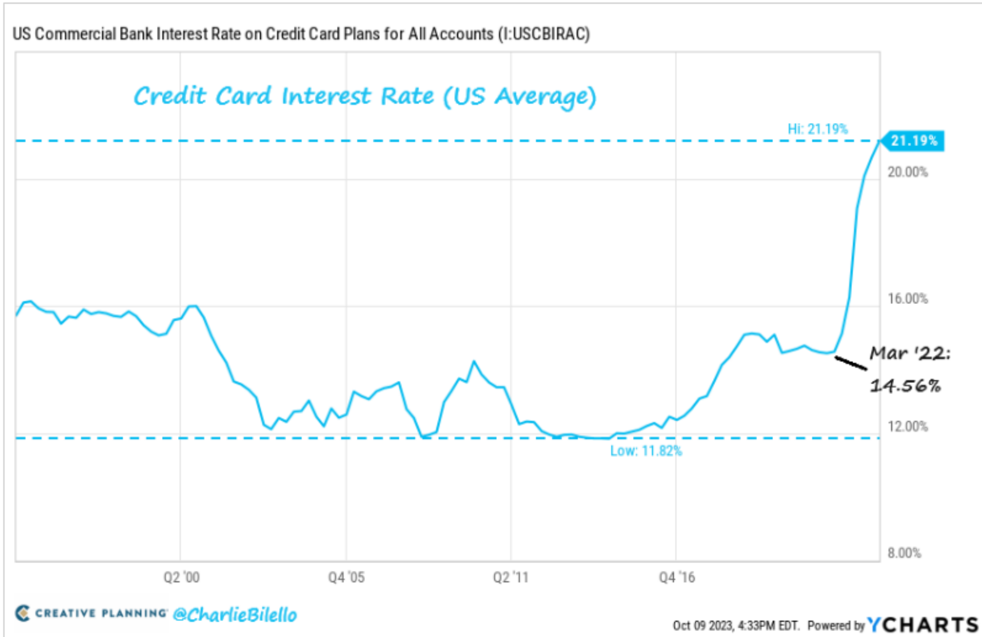
Over the last few months in this publication, we have talked about how consumers continue to spend despite personal balance sheets deteriorating. Excess savings from the pandemic have disappeared, prices have risen, and consumers want to continue to spend especially over the holidays.

This has resulted in elevated credit card delinquencies, higher credit card interest rates, and more consumers choosing to buy now and pay later. Consumers are essentially buying products they cannot afford and worrying about the consequences later.

Credit card delinquencies are at a multi-year high:



For those who are late on their payments or only paying the minimum credit card balance, interest rates have not been kind:



Interest rates on credit card plans have surged to 21.19%, a record high, as consumers continue to add on debt that they cannot afford.

We know we have mentioned the above in past issues and only preface the points to introduce our next topic.

As interest rates increase on credit cards, and consumers look for more personal leverage, credit card issuers and networks are benefiting tremendously. Credit card companies have numerous streams of revenue but most of their revenue stems from interest payments according to the Consumer Financial Protection Bureau. Issuers also earn revenue through annual fees, cash advance fees, late fees, and transaction fees paid by businesses.

As personal balance sheets deteriorate expect credit card networks to continue to benefit. The largest credit card issuers and networks in the world, and the U.S. are shown below:

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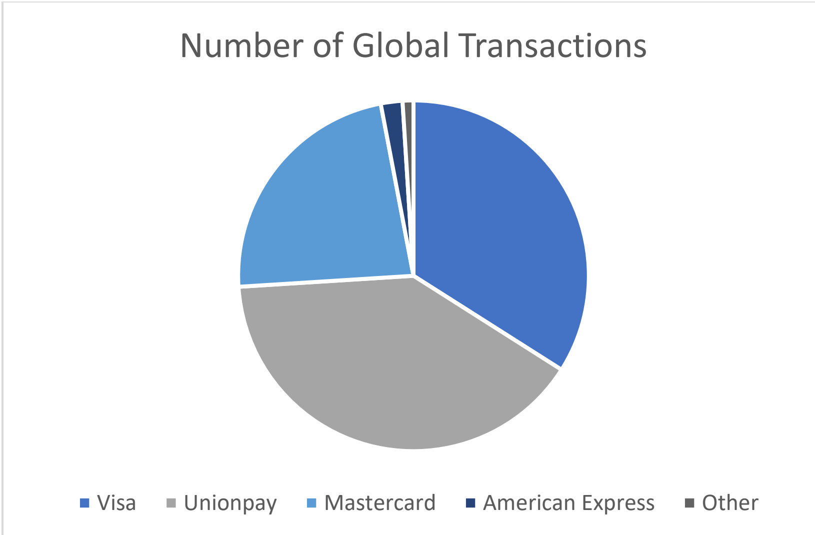
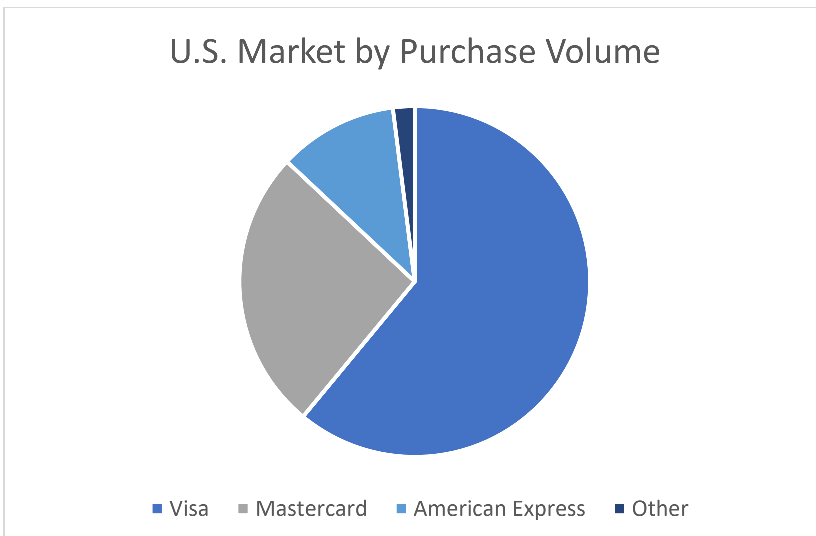




For the most part, Visa and Mastercard dominate the marketplace.

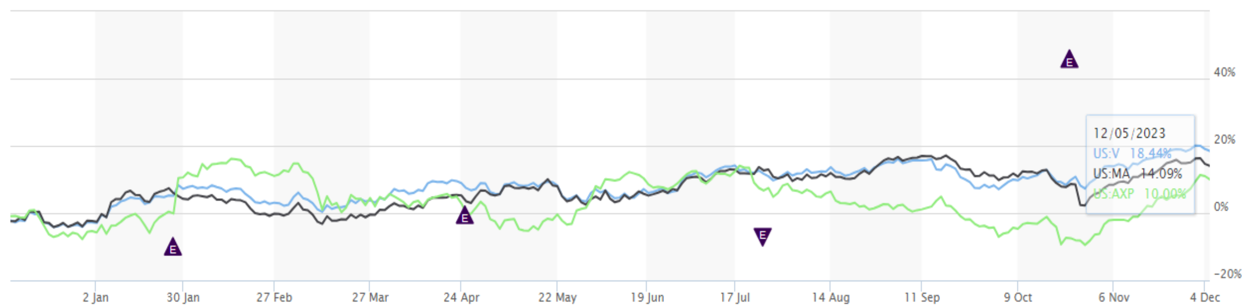
UnionPay is a Chinese credit card provider that has rapidly expanded in recent years and is in use in 171 countries. Many analysts believe Visa and Mastercard purchase volume in dollars is larger than UnionPay despite UnionPay having the most transactions globally. Visa and MasterCard are credit card networks, and American Express and Discover U.S. are networks that also issue their cards. For simplicity and our mandates, we will only look at North American issuers in this analysis.

Looking at Visa, revenue grew 11% over the last year and earnings-per-share grew by 22% (Q4 year-over-year (fiscal year end is 09/30)). On an annual basis, revenue jumped by 11%, and EPS jumped by 18%.

MasterCard revenue jumped by 14% in Q3 YoY, and diluted EPS jumped 31% over the same period. MasterCard cards issued grew by 7% over the last year and the company saw revenue growth in both their credit and debit/prepaid business units.

American Express revenue grew by 13% YoY and diluted EPS grew by 34% (for Q3). The company also decreased shares outstanding by approximately 2% over the last year. Total network volume for providers grew by 6% over the last year. Cardholder loans and receivables jumped by 15% YoY. The company also saw large growth rates in its international markets on a personal and enterprise level.

All three stocks are up year-to-date, Visa +18.44%, MasterCard +14.09%, American Express +10%:



Visa and MasterCard are trading quite close to their all-time and 52-week highs. American Express shares are trading 12% below all-time highs which occurred in January 2022.

We think all three of these companies are well-capitalized and produce strong cash flows, and earnings. We think during the next cycle all three will be strong performers as there are numerous macro catalysts for the credit card industry.

Visa and MasterCard earnings are forecasted to expand over the next 12 months. The companies also cover their dividends substantially with earnings. Both companies also have strong stability ratios and have growing balance sheets. Although both companies trade at elevated valuations, we believe higher interest rates will continue to have higher profitability and results. Fundamentally American Express is in the same situation as Visa, and MasterCard, strong stability ratio, a growing balance sheet, forecasted earnings expected to grow, and a dividend that is covered by earnings. The major leg up that American Express has on its competitors currently is the multiples it trades at. American Express trades at lower multiples in terms of earnings, sales, and book value, the company's price-to-earnings ratio is approximately half the multiple of Visa and MasterCard's.

However, from here we like Visa and American Express as companies for different reasons. We believe both will continue to grow, and both companies are set up for today's economic environment. We think they provide a service that consumers are leaning on as personal balance sheets deteriorate. These companies will see higher-than-expected revenue and earnings numbers and will continue to clean their balance sheets up moving forward. Both companies have also been buying back stock in recent years rewarding shareholders. Both Visa and American Express will also continue to benefit from a cashless society where the use of cash by consumers has almost disappeared.

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We like Visa as it’s the worldwide leading network for credit cards and will relativity be the biggest benefactor from higher interest rates, and increased credit card delinquencies. We like American Express as ittrades below fair market value and is trading in value territory. American Express also offers numerous benefits to cardholders that attract more consumers to the company. Before you question us on our stance on American Express, remember who the largest shareholder of the company is:

That’s right Berkshire Hathaway is American Express’s largest shareholder. The company owns 21% of American Express shares which represents 7.22% of Berkshire’s investment portfolio (the only two holdings that are larger than AXP are Apple, and Bank of America).

So, as you see headlines of personal savings decreasing, and increased credit card interest rates and delinquencies, remember this article and that there is a way to profit from consumers' poor spending habits.

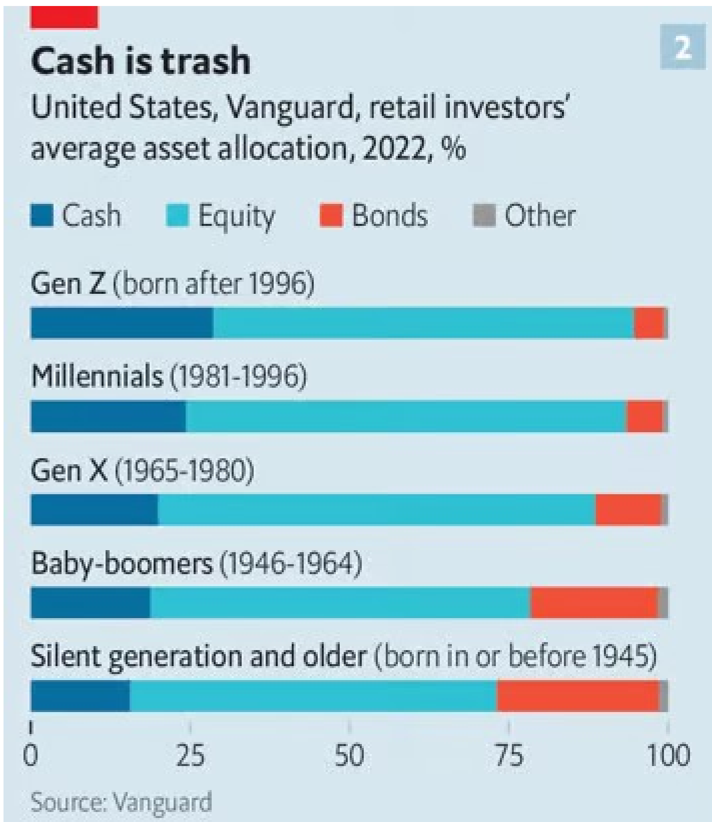
Disclaimer MacNicol & Associates Asset Management clients hold shares of credit card providers Visa and American Express across various types of accounts.

Asset allocation by generation

Each generation is unique in terms of interests, personality traits, preferences, and attitudes. The same can be said for investment style. People are shaped by what they have seen and what they see ahead, different groups of people see financial markets in different ways. For example, individuals in Generation Z and Generation X would view stock market crashes and inflation differently. We preface this because circumstances and experiences shape an investor's mindset and how they go about investing.

The chart below splits investors into generations and how they allocate their capital (by asset class). The results are expected, young investors have the most equity exposure, the smallest fixed-income exposure, and the largest cash exposure. While the silent generation who for the most part is retired has the largest fixed income exposure and smallest cash and equity exposure.

Neither of these statistics is surprising as some young investors might be weary of financial markets due to the crash that they saw in 2020 followed by the brutal year of 2022. Two horrible events in a matter of 24 months may have scared some investors into holding more cash. The other reason young investors hold large cash positions is obviously for major expenses like a down payment or paying for education.



On the other hand, retired investors at the end of their lives have the largest exposure to bonds which are income producing, these investors have almost all their portfolio at work and more than likely are on a systematic withdrawal plan.

We also assume many young investors are holding cash due to some fads that they created. Crypto, NFT, meme stocks, and SPACs were favorites of Gen Z and they paid the price on the way down…….

Always remember that a strong portfolio is diversified amongst asset classes and sectors, or durations. The one asset class that Vanguard did not include in their study is alternative assets which we think belong in every investor's portfolio. MacNicol & Associates Asset Management exposes its investors to alternative assets like real estate, private equity, and hedge funds through the Alternative Asset Trust which has audited results since 2010. Contact us today at **info@macnicolasset.com** if you would like to add exposure in your portfolio to alternative assets or if you would like a complimentary portfolio assessment.

Jim Cramer: wrong on both ends

With all the fraud in crypto over the last year, specifically with the exchanges you can trade on (FTX and Binance), it was tough to consider investing in the space. However, Coinbase shares have skyrocketed off their lows to start this year. The company that is headquartered in the U.S. and is audited by a Big 4 accountancy firm is the crypto exchange that is best set up for success. We also assume they have gained users and trade volume as the scandals at FTX and Binance have unfolded.

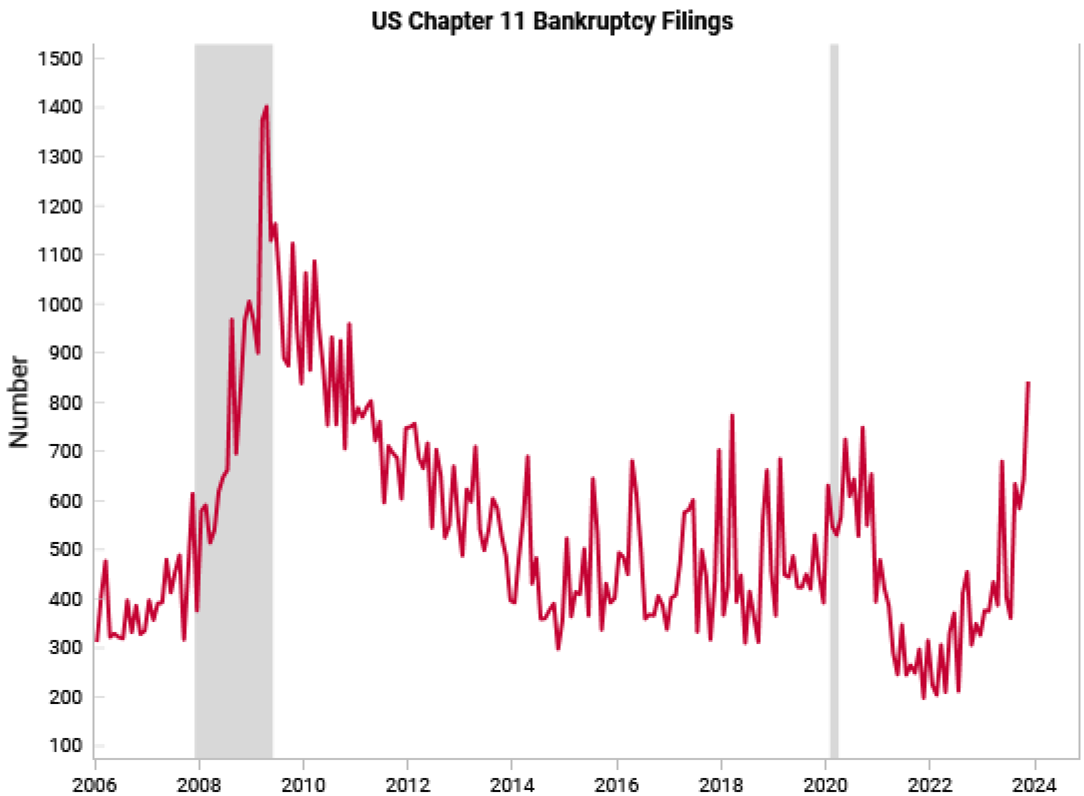
We say all of this after seeing an image online this week:

That's right our "buddy" Jim from CNBC was wrong on the downside and upside for Coinbase. All this guy can do is be wrong and it is quite funny to follow along. We hope Cramer does not give your holdings the kiss of death, better yet we hope that he tells you to avoid them.

Either way, Coinbase will be an interesting one to watch, the company is up 323% this year but is down 60% from its IPO. The company's performance will continue to correlate with crypto markets as they make money on trade volume and investor participation; after all, nobody likes to invest in a bear market, everybody likes a bull market, especially in crypto.

Corporate issues

Companies are rushing to file for Chapter 11 bankruptcy as financial conditions across the world and country worsen. US > Chapter 11 Bankruptcy fillings hit their highest count in over 10 years last month:



It is not only consumers who are feeling the pain of rising interest rates, small and large enterprises are feeling the brunt as well. Many businesses have also seen softer demand which has impacted top and bottom-line numbers. Interest expenses have surged on income statements as rates have risen.

However, even with the surge of bankruptcies this year, the total number is approximately 50% of what it was during the Financial Crisis. Perhaps, that can help you feel better as it can always be worse.

Confirmation

It is no secret that homes have appreciated quite significantly over the last few decades. This has impacted young home buyers the most as they feel priced out of the market. This has resulted in a large increase in the median age of home buyers both overall and for first-time home buyers.

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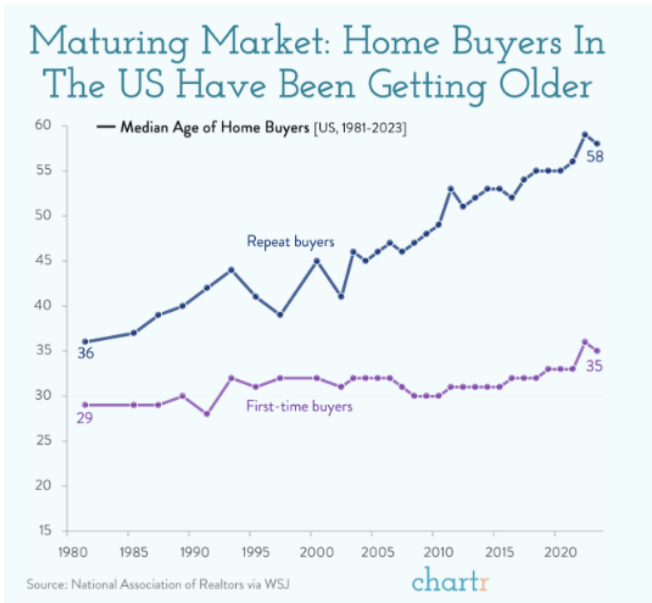
The National Association of Realtors put out a study last month that looked at demographic trends and statistics in the real estate industry. The numbers say that the average age of a first-time home buyer is currently 35, up from 29 just 40 years ago. This is not a massive jump but a noticeable increase.



The median age of a home buyer has substantially increased over the same period from 36 years old to 58. Several factors have driven this shift, senior buyers have begun to sell their homes quite rapidly for high prices in recent years. Home buying for seniors and older people has also increased in recent years as they can provide large down payments on their new home purchases.

First-time home buyers have made up 32% of the property market this year down slightly versus the 40-year average of 38%. This is the result of young buyers pausing their search for a home due to high-interest rates and elevated home prices.

Data also implies that many first-time home buyers may find themselves waiting even longer to make their first home purchase. A housing inventory shortage currently exists in the U.S. making the cost to buy much greater than the cost to rent. Currently, the gap between the cost to buy and the cost to rent in the U.S. is the largest in over 50 years.

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