THE WEEKLY BEACON **APRIL 5, 2024**

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 our observations.

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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.

Point Retreat Light, Admiralty Island, Alaska

This lighthouse was first lit in 1904 and is in southeastern Alaska. The lighthouse provides aid in navigation through the Lynn Canal. The lighthouse was automated in 1973 and stands at 25 feet tall. The lighthouse is operated by the U.S. Coast Guard and is on the National Register of Historic Places.

Harbour Town Light, Hilton Head Island, South Carolina

This lighthouse was constructed in 1969 and stands at 28 meters tall. The lighthouse was privately built and is a private aid to navigation. The lighthouse is a major tourist and wedding destination in the state of South Carolina. The lighthouse currently features a museum and gift shop.

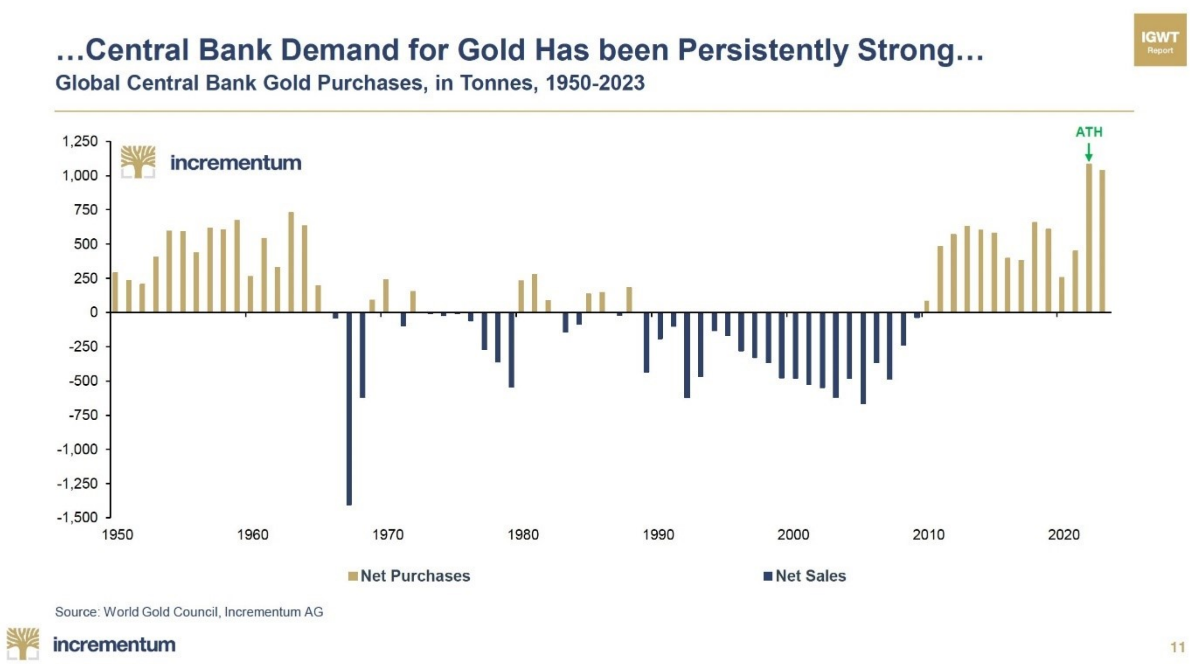
Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

<u>Gold records</u>

On Easter Monday, gold prices advanced further into record territory. Physical gold prices were up another percentage point on Monday, closing in on $2,300 for the first time ever. As of this writing (Monday afternoon), gold prices are up 9.1% year to date, outpacing major indices across the world in recent weeks.

Gold's rally has been supported directly by purchases from Central Banks who have been trimming their U.S. Treasury holdings in recent quarters. Gold demand has also been higher as investors forecast lower yields due to cooling inflation. There has also been increased retail demand for gold in China where investors have reportedly been looking for a hedge against Chinese securities which have been highly volatile over the last 2-3 years.

Here is a chart that tracks global Central Bank purchases and sales for gold since 1950, notice anything?



Numerous precious metals analysts have noted both fundamental and technical factors have supported gains for gold and suggested that forces in play could lift prices even higher.

Remarkably, gold has outperformed the S&P 500 since the start of 2022 when the FED began raising rates. This period of outperformance suggests that demand for gold is real, and investors have begun to hedge their portfolios with non-traditional assets like gold.

This week could be another big week for gold prices as numerous macroeconomic news events could shift interest rate expectations and therefore yields and gold prices. The most closely watched item will be the U.S. jobs report which will be released Friday when this publication is distributed. We will comment on the jobs report next week.

Beyond physical gold prices increasing, this recent rally has lifted gold mining stocks. Shares of numerous miners are trading close to their 52-week highs after underperforming in 2022 and most of 2023 despite gold prices advancing and high inflation.

We are excited to see what happens next in the gold industry and believe miners along with the macroeconomic backdrop across the economy set the industry up quite positively moving forward.

Disclaimer: MacNicol & Associates Asset Management holds physical gold, silver and platinum, precious metal ETFs and funds, and precious metal mining equities across various investor portfolios.

The worst large caps

During the first quarter of 2024, the S&P 500 advanced by more than 10%. The market's best performers were chip manufacturers and companies related to artificial intelligence like Nvidia, Super Micro Computer, and Micron Technology. Other strong components of the S&P 500 during the first quarter included Deckers Outdoor Corp (Footwear and Accessories) which gained 41%, General Electric which gained 38%, Meta Platforms which gained 37%, and several oil and gas producers.

However, in this entry, we will be talking about the worst that the S&P 500 had to offer during the first quarter. Charlie Bilello one of our favourite weekly reads published a table that highlights the worst 20 performing stocks on the S&P 500 through the first quarter. The table is not surprising and includes several names that are quite overvalued.

Worst Performing Stocks in the S&P 500 (2024 YTD)				
Rank	Symbol	Name	Industry	2024 Total Return
500	TSLA	Tesla Inc	Auto Manufacturers	-29.3%
499	BA	Boeing Co	Aerospace & Defense	-26.0%
498	CHTR	Charter Communications Inc	Telecom Services	-25.3%
497	MKTX	MarketAxess Holdings Inc	Capital Markets	-24.9%
496	HUM	Humana Inc	Healthcare Plans	-24.1%
495	LULU	Lululemon Athletica Inc	Apparel Retail	-23.6%
494	WBD	Warner Bros. Discovery Inc	Entertainment	-23.3%
493	PODD	Insulet Corp	Medical Devices	-21.0%
492	PARA	Paramount Global	Entertainment	-20.1%
491	VFC	VF Corp	Apparel Manufacturing	-17.9%
490	BIIB	Biogen Inc	Drug Manufacturers - General	-16.7%
489	WBA	Walgreens Boots Alliance Inc	Pharmaceutical Retailers	-16.0%
488	ADBE	Adobe Inc	Software - Infrastructure	-15.4%
487	ETSY	Etsy Inc	Internet Retail	-15.2%
486	SBAC	SBA Communications Corp	REIT - Specialty	-14.2%
485	ZTS	Zoetis Inc	Drug Manufacturers	-14.1%
484	NKE	Nike Inc	Footwear & Accessories	-13.1%
483	NEM	Newmont Corp	Gold	-12.8%
482	XEL	Xcel Energy Inc	Utilities - Regulated Electric	-12.3%
481	ADM	Archer-Daniels Midland Co	Farm Products	-12.2%
CREATIVE PLANNING	@CharlieBilello		Data Source: YCharts as of 3/31/24	

Tesla has somehow underperformed Boeing so far in 2024. Perhaps showing how much investors have pivoted on Tesla. Boeing dealt with numerous scandals, whistle-blowers, faulty manufacturing, numerous malfunctions (one even in the air), and decreased demand from airlines but Tesla underperformed them, purely due to worsening forecasts and its expensive valuation.

We think in the short-term, Tesla could continue to underperform as consumer demand for electric vehicles pulls back and the electric vehicle producers' margins contract due to price cuts.

Numerous other names on this list caught our attention including Lululemon which has dealt with their major issues over the last quarter. The issues have even led to the company's founder taking shots at the current management team. The founder of Lululemon went as far as to say that not every consumer should wear Lululemon products and that the current management team has lost its way. His comments were quite blunt and went over the line. The founder and former CEO of Lululemon criticized Lululemon's approach in an interview with Forbes, stating, "They're trying to become like the Gap, everything to everybody. And I think the definition of a brand is that you're not everything to everybody... You've got to be clear that you don't want certain customers coming in."

However, the company does seem to have some issues moving forward. In their Q4 earnings report, released just a few weeks ago, the company beat revenue and earnings from the year prior but painted a conservative picture with their 2024 forecast. The company forecasts soft sales in the U.S. and forecasts that growth in North America could become stagnant. During the last quarter, sales rose 9% in the Americas, compared to 29% growth in the year-ago period.

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Lululemon is facing similar issues as the entire retail clothing industry as retailers face uncertain demand. Consumers are foregoing purchases of products like clothing, and electronics for experiences, something that we forecasted over a year ago. The online shopping boom has retreated after accelerating during Covid-19.

The retreat in the stock price of Lululemon is the market forecasting slower growth which does not justify an elevated valuation. Lululemon has grown like crazy over the last 10 years which has justified its high P/E ratio but as sales growth slows in its biggest markets, where will the growth moving forward come from? International markets need to be Lululemon's focus moving forward. The bottom line was that Lululemon traded like a high multiple-tech stock and sold yoga pants and golf polos, and investors woke up to the fact that their high growth rate would eventually slow down. The company still trades at a P/E ratio above 30x which we think is extremely elevated. We think that Lululemon could be due for more of a pullback, and we recommend that you do not catch this falling knife.

The issues that Lululemon faces moving forward are like Nike's issues. Nike warned that Air Jordan will have lower sales in 2024 as it replaces older styles with new sneakers. Nike plans to trim their inventory during 2024. The company has seen lower demand across numerous business channels and forecasts that it will continue to be impacted by this through 2025. Nike has offset some soft revenue numbers by growing their market share in China over the last year.

At least 12 brokerages cut their price targets on Nike following their earnings release last month, pulling down the median target to $116 from $126 in December.

The last company we will report on from this list is pharmaceutical retailer, Walgreens. The company is down 36% year-to-date after losing another 9% on Monday. Walgreens shares are trading at their lowest levels in over 25 years and are down 64% over the last 5 years. Earlier this year it was announced that Amazon would replace Walgreens in the Dow Jones Industrial Average.

Monday's losses for Walgreens stem from their earnings release last Thursday before the holiday weekend. The company beat revenue and earnings estimates for their fiscal year second quarter but announced a $5.8 billion after-tax non-cash impairment related to VillageMD goodwill. Walgreens invested in clinic operator VillageMD under its former CEO. VillageMD, which Walgreens owns a controlling stake in, has seen slower growth and is shutting down 160 clinics. The current CEO has been focused on improving profitability for the pharmaceutical retailer and explained that he is over halfway to reaching his goal of cutting costs by $1 billion this year.

Looking ahead, Walgreens narrowed its fiscal 2024 guidance range for adjusted earnings-per-share.

Buyers beware!

For now, those are the four companies that underperformed during Q1 that we will comment on. We will report back in the coming weeks with some comments on a few of the other underperformers.

Trump stock tanks on more filings

Trump Media, which has soared in recent weeks revealed numerous regulatory filings on Monday that completely contrast the company's valuation. The filings give more clarity to the street and could send the stock spiraling. The company disclosed that it lost $58.2 million in 2023 on revenue of $4.13 million. In 2022, the company lost $50.5 million on $1.47 million in revenue.

Trump Media alone had a $15.9 million operating loss for 2023. Sales derive solely from advertising on Truth Social, Trump's social media platform, the filing shows.

The filings stated that Trump Media & Technology group had historically incurred operating losses and negative cash flow from operating activities and expects to continue to do so for the foreseeable future.

The filings also show just how tied Trump is to the company. The company said that the value of Trump Media could suffer if the popularity of President Trump decreased. Trump maintains a 60% stake in the company. The filings also highlighted a 6-month lockup for stakeholders.

The filings by Trump Media sent shares down 21% on Monday. However, the company that only had revenue of $4 million last year still has a market cap of over $6.5 billion. The numbers purely make no sense and are completely reliant on President Trump and his loyal followers.

Trump Media and Technology Group could have one of the quickest crashes in the market's history. When things start to look bad, look for the selling to accelerate. We think this is an extension of the Meme Stock Era from 2021, Meme Stocks 2.0.

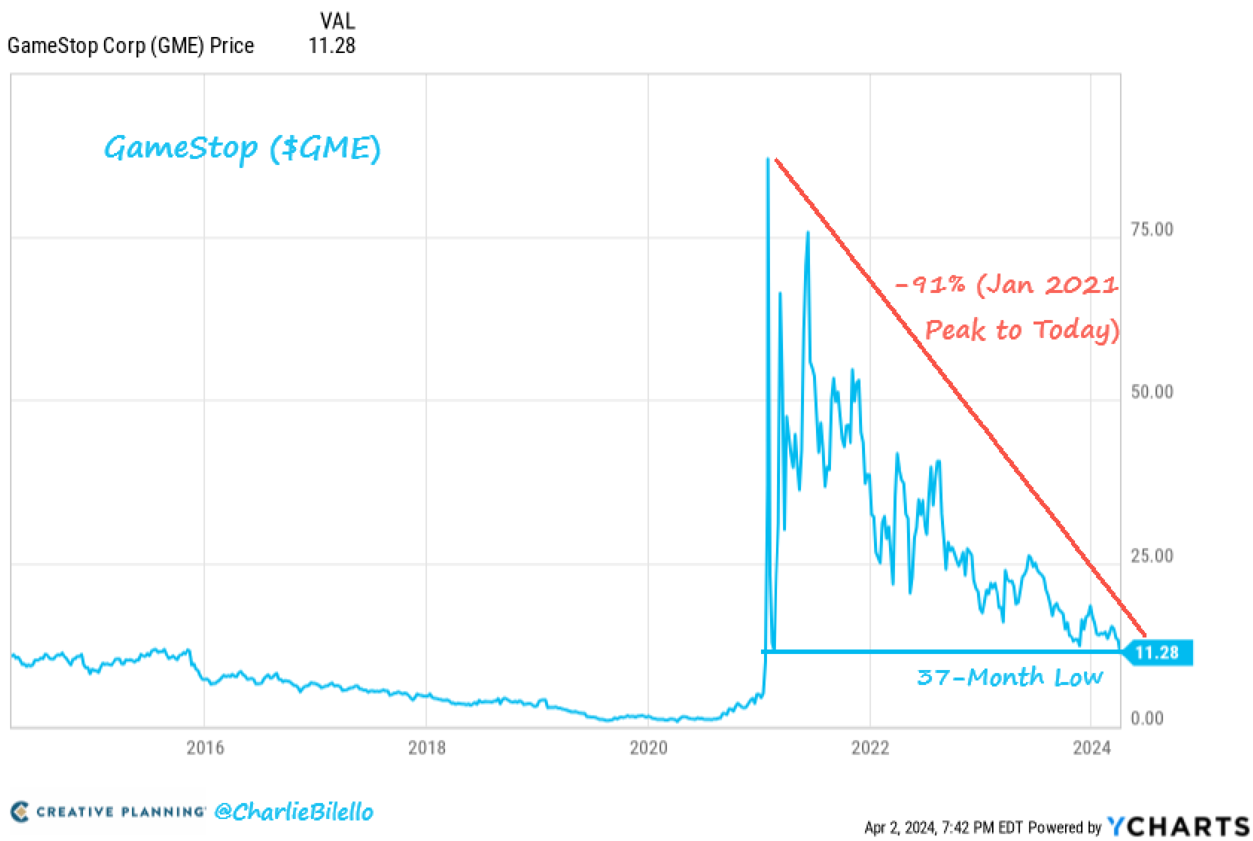
On Tuesday shares rebounded by 6% before slipping by 5% on Wednesday.

Just two days later it was reported that President Donald Trump was suing the Co-Founders of the company, Wesley Moss, and Andrew Litinsky. Trump and his team argue the two Co-Founders should forfeit their stock in the company because they set the company up improperly. The lawsuit was filed in Florida court last week and was filed in response to a complaint filed in February by Litinsky and Moss.

We warn our investors and loyal readers to avoid this security at all costs. The risks are too high and results will be extremely unpredictable.

Bag holders

Speaking of meme stocks, remember the January 2021 craze where meme stocks surged based on Reddit threads? We sure do. We are glad we stayed on the sidelines, look what happened next:



GameStop shares have collapsed 91% since their peak, reached in January 2021 at the height of short squeezes, meme stocks, and Reddit investing.

This chart is a great example of what not to do and why avoiding fad investing is important. Retail investors were successful in the very short term but have been blown out since. Hopefully, you do not know anybody who has been caught holding the GameStop bag.

Here is a movie you should watch if you'd like to understand this space better:

https://en.wikipedia.org/wiki/Dumb_Money

Dumb Money is a 2023 American biographical comedy-drama film directed by Craig Gillespie and written by Lauren Schuker Blum and Rebecca Angelo. It is based on the 2021 book *The Antisocial Network* by Ben Mezrich and chronicles the GameStop short squeeze of January 2021. The film features an ensemble cast that includes Paul Dano, Pete Davidson, Vincent D'Onofrio, America Ferrera, Nick Offerman, Anthony Ramos, Sebastian Stan, Shailene Woodley, and Seth Rogen.

Checking in on the SPAC King

Billionaire investor, former Warriors minority owner, and online personality Chamath Palihapitiya has given his followers unprecedented access to his thoughts in recent years. The early Facebook executive became a billionaire investor and through social media and podcasting, he has shared his thoughts on various topics including politics, economics, investing, and projects he has invested in. This unprecedented access is something we have never seen before. Chamath is a part of the 0.01% and regularly shares his thoughts online. This led him to gain a huge following as the brash billionaire self-described himself as an outsider and somebody retail investors could look up to.

Chamath hit it big on numerous tech investments and Bitcoin. In the early days of Covid-19, he capitalized on the SPAC boom. The boom eventually became a bubble, popped and Chamath's followers were caught holding the bag. From late 2020 to early 2022, Chamath was known as the SPAC King across capital markets and was compared to Warren Buffett by himself and the media. Chamath was not an ordinary SPAC sponsor or investor, he launched 5-6 SPACs as a sponsor sourcing the deals and participated in another 4-6 as an investor in the PIPE component of the SPAC merger / raise. (Private investment in public equity (PIPE) is the buying of shares of publicly traded stock at a price below the current market value (CMV) per share. This buying method is a practice of investment firms, mutual funds, and other large, accredited investors. – Investopedia).

Chamath went as far as creating investment thesis documents on why he chose to make certain investments and posting them on various social media platforms.

He also championed his SPAC mergers and PIPE investments on cable television on channels like Bloomberg and CNBC.

Fast forward over 2 years later and Chamath's SPACs have all TANKED. The average performance for these SPACs since February 5th, 2021, is -77%. The bubble burst and it burst hard for Chamath. We saw this graphic below on X this week and had to share it with our readers. This image spurred us to write about Chamath once again:

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	Inception to Date	Inception through 2/5/21	Retun since 2/5/21
SPCE	(72.3)	443.4	(94.9)
OPEN	(67.5)	166.0	(87.8)
CLOV	(86.7)	29.3	(89.7)
IPOD	-	65.3	(39.5)
IPOE / SOFI	(17.1)	131.0	(64.1)
IPOF	-	55.4	(35.6)
MP	105.7	222.5	(36.2)
DM	(84.8)	212.5	(95.1)
INAQ / LMND	(83.5)	75.5	(90.6)
ACTC / PTRA	(100.0)	149.4	(100.0)
TSIA / LTCH	(93.3)	67.9	(96.0)
SPRQ / SUNL	(98.9)	27.9	(99.1)
Average	**(49.9)**	**137.2**	**(77.4)**

The issue with the SPAC bubble was that there were unlimited sponsors with infinite capital and only a few target companies. This resulted in elevated valuations to attract the companies and companies going public that had no business trading on public exchanges.

We are not sure what Chamath's skin in the game on these deals was and if he sold early but can assume that his net worth has taken a hit since the SPAC bubble popped. In February 2021, he was on the Forbes list of billionaires but in 2022 was removed from the list.

Remember, if it sounds to good to be true, stay far, far away.

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