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Streetlight Confidential

Inside This Issue:

He's Baaaaaaaaaack!

He's Taking Over the Reins at Streetlight Confidential… Meet Tim Collins

-by Tim Collins

This month some of you will notice an old name returning to the Streetlight fold. For others, it may be brand new.

Mine.

For the past two years, you’ve been in the capable hands of Bob Byrne. It may, however, surprise some of you to learn that Streetlight Equity is actually the brainchild of Bob and myself.

We had spent so many years writing for other financial outlets, a dozen years to be exact, and almost as many years working together consulting and analyzing public and private companies, we decided it would be nice to control the direction of what we discussed.

Not long after we kicked off our market analysis and stock coverage, I had to step aside, but now I’m excited to rejoin the mix and take over the lead.

We’ll return to our usual monthly stock and market coverage in this section of your upcoming issues in just a few weeks. Right now I wanted to take this opportunity to tell you a little bit about myself.

I’m Really Not *That* Old

I began my journey into the markets last century. By most standards, that officially makes me “old,” although I don’t feel it. The markets, with their nonstop action and continued evolutions, makes everyday interesting. It’s a new puzzle to solve and I enjoy it.

Shortly before Y2K, I began work as a financial advisor. Over the next decade, I managed portfolios and navigated both the dotcom blow up as well as the financial meltdown. It’s fair to say those early years were a trial by fire.

From there, I moved into the hedge fund world for a few years, working as a portfolio manager.

It was during this time that Bob and I began working together on our own projects. While managing one particular hedge fund, we shifted our strategy from public markets to private markets.

Private markets were much different ten to fifteen years ago. The concept of Crowdfunding and Regulation A+ offerings were just a dream. Back then, we'd buy stock directly from company employees that were offered through a handful of broker-dealers.

My first deal came in the form of buying Facebook shares from a few ex-employees. That led to Twitter shares next. The fund turned down shares of Palantir in order to acquire AirBnB stock the following year.

Don't get me wrong, not every stock bought in the private markets IPO'd to big time media coverage. A few names in that fund haven't found their way to a public listing a decade later.

I sold my ownership stake shortly after Twitter went public and ventured into consulting alongside Bob.

Taking Our Own Clients Public

In 2015, we began working closely with a small biotech company in Austin, TX. At the time, the company owned some intellectual property (IP), solid data from early trials, and about $8 in the bank.

In other words, they were non-operational.

Over the next three years, we worked closely with the management team until the company reached the point it was ready to go public.

On March 29, 2018, the company began trading on the Nasdaq with a market cap of roughly $75 million. That's not bad for a company that was just a footnote on some papers in the CEO's desk drawer five years earlier.

"From the moment we attended the bell ringing ceremony at Nasdaq headquarters in Times Square, New York City until today, I've been hooked on digging deep into private companies."

From the moment we attended the bell ringing ceremony at Nasdaq headquarters in Times Square, New York City until today, I've been hooked on digging deep into private companies.

- Their business plans…
- Their finances…
- Their capital structure…
- Their valuations…

Then, after gathering it all this together, I tie it into the overall macroeconomics picture and what's trending in the world of finance to identify the opportunities I find most appealing.

Over the past five years, I've ghostwritten for several Wall Street gurus and served as analysts for a number of others. Before that contributed to Jim Cramer's work on CNBC's Mad Money television show — which wasn't a huge stretch since I was a regular columnist for TheStreet's *RealMoney Pro* website for more than a decade.

And starting this month, I'll be bringing my decades of hands-on experience to you. (Get my take on the newest addition to our economic vocabulary on the next page…)

I can't wait to get started!

Humbly yours,
-Tim

Bidenomics: The US' Great Leap Forward…

Why "Industrial Policy"-Driven Economics Are Doomed to Fail

-by Tim Collins

There's recently been a new word added to Washington's official lexicon. It's a mashup of our president and his plan to save the economy… Bidenomics.

At a union rally in Philadelphia none other than the POTUS himself joked about it:

> *"…we decided to replace this (trickle down) theory with what the press has now called 'Bidenomics.' I don't know what the hell that is. But it's working."*

At another more recent speech in Chicago, the prez seemed a little more clear on what his eponymous economic plan is. And like all political-economic mumbo-jumbo, it's made to sound really great in its sound bite form:

> *"Bidenomics is about building an economy from the middle out and bottom up, not from the top down."*

Who's not in favor of that?!?!?!?

President Biden even found someone who could post a nice graphic to his Twitter account for him. ⟶

Of course the president doesn't have a clue. Those are simply more words to paint an idyllic picture of a prosperous world that only he and his policies can deliver. Beyond that, they don't say a thing. Namely how this dream becomes reality.

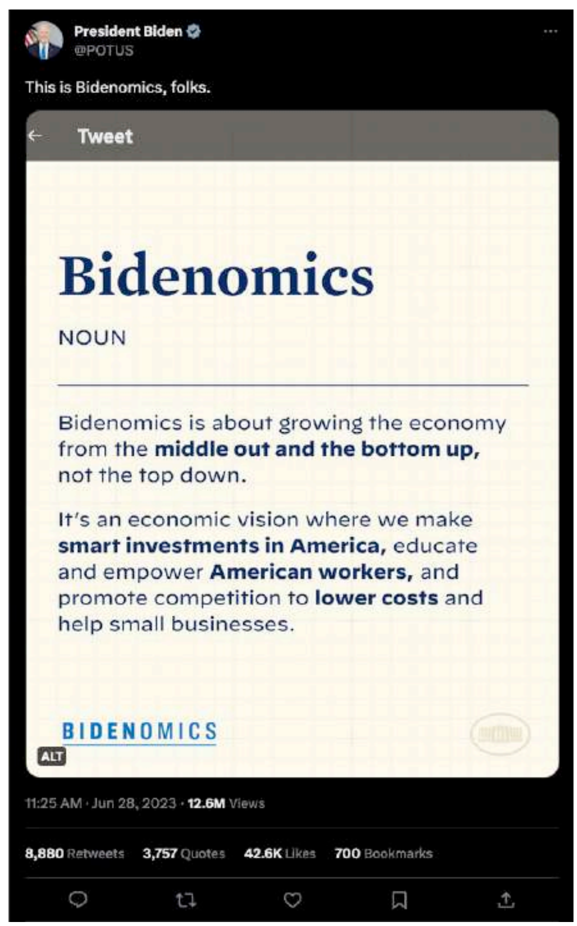
So what exactly *is* "Bidenomics?" And what kind of impact is it likely to have on the economy?

I wanted to take a deeper dive into this fairly recent phenomenon by digging into some of the info from people who do have a clue about Bidenomics (because they're generally the architects of it). And then I'll tell you why it's going to do more harm than good.

It's Not Really Biden's "Nomics"

One of the chief architects of this policy is a man named Jake Sullivan.

He's a 46-year old lawyer from Yale who, after a brief clerkship and law career, headed straight into politics advising both Hillary Clinton and Barack Obama. Today he's President Biden's national security advisor.



Jake Sullivan (WH Photo)

Now you might wonder what qualifies an Ivy League attorney to be in charge of national security matters and construct economic policy. And I'd have to confess to you I have no idea.

But here we are…

Anyway, he recently delivered a speech at the left-leaning Brookings Institute to explain what Bidenomics is. As it turns out, he's been working on this idea for a number of years.

And one of his central complaints that drove the creation of this idea is that markets do not allocate capital "productively and efficiently."

According to an article in the Wall Street Journal (my emphasis):

> *To deal with these problems, Sullivan said, the U.S. needs a new approach, a "modern American industrial strategy" in which* ***a more assertive federal government guides investment, industry and trade*** *to bolster both the middle class and national security.*

Bolster both the middle class and national security? Heck yeah! But it's the first part of that quote that contains the problem. That's the ghost of JM Keynes talking there.

The article went on to distill three distinct pillars of this economic plan:

> *First, the quality of economic growth matters more than the quantity. The old view was that "all growth was good growth," Sullivan said in his speech. It didn't matter if growth came from the financial sector, where the U.S. excelled, or the production of semiconductors, where other countries rose to the top.*

Fasten your seatbelts — I completely agree. If you understand the difference between real and [fake economies]() you understand that the production of value is *way* more important than the production of money and credit.

> *Second, laissez-faire is out, industrial policy is in. Markets allocate capital to achieve the highest return to private investors, but as Bidenomics sees it, they don't take account of* ***issues like climate change, fragile supply chains or geopolitical vulnerability. … To correct these market failures, Bidenomics aims to direct private capital toward favored sectors via regulations, subsidies and other interventions****.*

That's where we'll part ways. Aiming "to direct private capital toward favored sectors" is essentially economic fascism — It's *the state determining priorities and directions*, not the market. And that ***NEVER*** works. (I'll explain in a second.)

> *Third, trade policy should* ***give priority to American workers, not consumers****. … Under*

Bidenomics, by contrast, U.S. foreign policy champions a range of economic interests, from workers' rights to climate policy and tax compliance. Consumers and competition are not primary concerns.

And ***that*** is essentially a version of Marxism.

Implementing Bidenomics

To the extent that Bidenomics has actually been implemented, there have been three major pieces of legislation passed thus far.

Back in November 2021, the president signed something called the *Infrastructure Investment and Jobs Act*. It was a spending bill directing $1.2 trillion to states for investment in infrastructure like roads, bridges, waste water systems, EV charging networks, and high speed internet among other priorities.

If it tells you anything, this legislation was a pared back version of Biden's original Build Back Better plan — a social safety net and green energy bill that would have spent nearly $4 trillion.

In August 2022, Biden signed something called the *Chips and Science Act*. This bill earmarks $252 billion to be spent on investments in semiconductor and scientific research and development.

It was the "sister" legislation to the *Chips for America Act of 2021* which authorized the Departments of Commerce, Defense and State to develop and grow a domestic semiconductor industry. (Notice they tasked *three* governmental departments with basically *developing a market!*)

Finally we get to the *Inflation Reduction Act*. A four-pronged effort to fund energy production and manufacturing, reduce carbon emissions, lower prescription prices and extend affordable healthcare coverage, and enforce the collection of everyone's "fair share" (whatever that is) by giving $80 billion to the IRS over the next 10 years. Any reduction of inflation is purely speculative.

This, like the infrastructure bill, was a piecemeal implementation of Biden's larger BBB plan.

Now on its face, none of this sounds the least bit bad. The US needs much of what this money is supposedly being spent on. We need a resilient power grid, we need safe roads and bridges, we need a robust domestic supply chain — especially where technology goes.

The only problem is we'll never get that by government decree and a helicopter full of money.

Another Great Leap Forward

Now the intention of this type of government funding of the economy is not bad in and of itself. Supply chain security really *is* national security. Whether it be for semiconductors, prescription drugs, rare earth metals or anything else.

The problem with it is that the government has no way of efficiently spending its money. Every time in history there has been a centrally planned economy, it has failed terribly. Take for example one of the most spectacular failures…

China's Great Leap Forward.

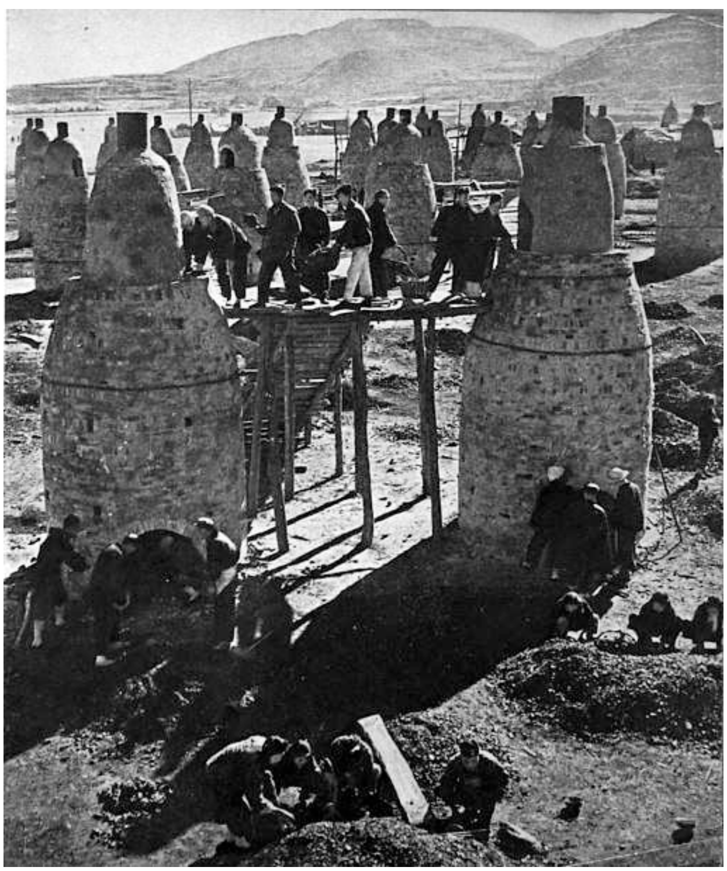
In 1958 Mao Zedong, Chairman and founder of the Chinese Communist Party, implemented the GLF with the intention of transforming China from a largely agrarian economy to an industrial one that would compete with western nations.

Noble goal. The execution left something to be desired.

On the agricultural side, private farming was abolished and farmers were forced into collectives that were run by the central government. Along with implementing untested agricultural innovations and defective irrigation infrastructure, the government set production quotas. So as not to run afoul of these quotas, many collectives *over-reported harvests* sending all their grain to the central government leaving the farmers doing the actual work to starve.

From the industrial perspective, Mao felt the key to success would come from manufacturing steel.

Carrying scrap to the steel furnaces



China's "backyard" steel furnaces

To accomplish this, the government ordered the construction of "backyard steel furnaces" where men, usually taken from the farming collective, were charged with making steel out of scrap metal. Again, quotas were assigned by the government with steel production to double in the first year.

Mao believed Chinese industrial output could exceed Britain's within 15 years. Unfortunately without the proper facilities (or any steel-making knowledge for that matter) all anyone was able to produce was pig iron — a brittle metal useless for just about anything.

The Great Leap Forward was intended to be a five-year plan. But it was a massive failure after only three. The Chinese economy had crashed and somewhere between 30 and 45 million Chinese had died from starvation, torture, execution or suicide.

It has been called "the largest single, non-wartime campaign of mass killing in human history."

It's also one of the most pointed examples of a failed centrally planned economy.

Now I'm not suggesting that Bidenomics would have the same extreme results here. I cite this because it's one of the most egregious examples of failed central planning. I can cite Cuba, Venezuela or any number of other failed experiments.

Whatever degree of failure that Bidenomics will eventually face will have to be seen. But your should understand the reason these centralized plans don't succeed.

Why Any "Industrial Policy" is Doomed to Fail

In an actual market environment, capital is a finite resource and despite the occasional market failure, it is most effectively allocated through a loop of spending feedback. *Revenue* guides a business' decisions regarding what to spend its capital on.

A recent assessment of the Chips Act by the Carnegie Endowment for International Peace inadvertently laid out the defective logic on which government programs like these are based…

> *With data in hand,* ***the U.S. government needs to set clear targets for the U.S. semiconductor industry****.*

Meeting or exceeding "targets" assumes some level of acceptance by the market. You can only get that feedback by participating IN the market.

> *Industrial policy is often a large optimization problem. Governments must invest enough to achieve their goals, but not so much as to be duplicative or inefficient.* ***However, without some targets for which to optimize, it is difficult to make prudent decisions about which CHIPS projects are most worth funding and which new investments are unnecessary****. Without targets, it is also difficult for U.S. negotiators to know what to keep and what they can give away when negotiating to avoid subsidy races with allies and partners.*

Government-directed projects don't plug into that market feedback loop…Because to them, unlike your average business, deficits mean little and capital is infinite.

Again, the government can't optimize based on any *arbitrary targets* it sets. You can only optimize based on what the market tells you.

> ***U.S. policymakers must clearly identify what types of semiconductors they think are most important*** *and factor these targets into their plans for distributing CHIPS Act money*.

The market doesn't care what semiconductors US policymakers *think* are most important.

Government-directed projects don't plug into that market feedback loop. They are set up to just spend more. Because to them, unlike your average business, deficits mean little and capital is infinite.

All they know is "throw more money at the problem."

Another example of this kind of mismanagement on display in the Bidenomics playbook is the $42 billion to subsidize the Broadband Equity, Access, and Deployment (BEAD) plan in its infrastructure bill.

A recent article in *Reason Magazine* summed it up…

> *The stated goal of BEAD is to "connect everyone in America to reliable, affordable high-speed internet by the end of the decade."*

Again, not a bad-sounding goal on its face. The problem with that is the government is creating standards and targets.

> *BEAD defines high-speed internet service as a download speed of at least 25 megabits per second and an upload speed of 3 megabits per second (25/3 Mbps). ... BEAD defines "underserved" areas as those lacking access to 100/20 Mbps.*

And the problem they've defined is not that much of a problem at all (very likely one not worth throwing $42 billion at) according to market reports.

In 2015, the FCC reported that 90% of the country had internet access with speeds of 25/3Mbps. By 2019 that rose to 97%.

In 2022 America's Communication Association reported that 85% of Americans lived where at least one service provider offers 100/20Mbps. Even more recently, a Q1 2023 report by tech consultants OpenVault noted that over 90% of American homes are already signed up for 100Mbps internet.

And private companies are on the case. The US Telecom Association has indicated that internet service providers had invested $21 billion in 2021 to expand their networks.

The status quo certainly doesn't sound like one that needs the government to throw $42 billion at it.

> *"As usual, the politicians who wrote the rules for the BEAD and other federal grants are far behind the real-life curve," observes Doug Dawson, the president of communications consultancy CCG.* ***"Grants that allow somebody to build a network that can deliver only 100 Mbps are investing in obsolete technology****. By the time those grant networks are constructed, any new networks that deliver only 100 Mbps will be years behind the rest of the broadband in the country."*

But who wouldn't like a piece of the $42 billion pie?

When the Money's Free...

The whole idea of an "industrial policy" is flawed on two grounds.

In this case, Bidenomics operates on a flawed thesis that markets are not efficient allocators of capital. Companies are in business to make money — but they don't always.

Yes markets do fail. That's a fact. But those failures are far more the exception than the rule of government blunders where infinite deficit spending goes. When the money's free… results are optional.

And a company getting rich doesn't make people poor.

What makes people poor are mis-managed economies addicted to deficit spending and debt and the financial moral hazard that rises from them.

Here's the ***observable*** bottom line of government funding programs like Bidenomics — If government spending really could deliver the results they want, we'd all be living in paradise.

God knows, they've spent enough…

You Can't Make This $#!% Up!
Picking Up the Gas Tab

Well they're trying to get ahead of the impending disaster on this one…

The push to electrify America's roads continues. Sizable "investments" are being made for EV charging stations. On top of that, the government is still funding rebates and tax credits thanks to the Inflation Reduction Act for anyone who will upgrade to an EV (except customers of Elon Musk).

They're all-in to eliminate internal combustion engines by 2035.

Well it would appear that someone finally took a step back and noticed the obvious…

Gas Cars Actually *Make* the Government Money

If the government actually is able to accomplish their goal of putting an EV in every garage, they're going to take hit on the revenue side of the ledger.

Since 1993, the federal government has been charging you 18.4 cents per gallon of gas. If you buy diesel it's collected 24.4 cents.

On top of that, you also pay the state you're driving in. That amount, of course, varies by state but the average tax as of February 2023 was 31.6 cents. (The average for diesel is 33.9 cents.)

So the total you're forking over to one legislative group or another comes to roughly $0.50 per gallon.

According to the Urban Institute, state and local governments collected a whopping $53 billion in 2020. In 2021 the federal government collected about $38 billion. Not exactly chump change.
But if the administration succeeds in eliminating gas powered cars from the roads, they'll be losing all that revenue.

So what's a government to do?

A Tax Plan Only the Government Could Love

Why they're going to tax you by the mile! They've included $125 million in the *Infrastructure Investment and Jobs Act* for state and local governments to test out pilot "VMT" (Vehicle Miles Traveled) programs.

And that's the challenge. According to *Issues & Insights*:

> *The gas tax is simple. A relatively small number of large fuel suppliers pay the tax, the costs of which are then passed on to retailers. But by definition, a VMT means collecting money* ***directly from hundreds of millions of owners of hundreds of million cars****.*

All kinds of ideas have been kicked around; from odometer checks, to toll-style collection systems, to government-connected GPS tracking systems to transmit how much you drive.

According the GAO:

> *"Launching and operating a system to collect fees from 230 million U.S. passenger vehicles is expected to greatly exceed the current costs of collecting federal fuel taxes."*

And the CBO calculated:

> *Installing an electronic-toll-type system would cost $56 billion — just to cover the interstates, which account for about 2% of the country's more than 4 million miles of roads.*

The Feds only collected $38 billion in 2021. You don't have to be a genius to know that when your costs exceed your revenues, you've got a problem.

Still that's never stopped the federal government.

The Streetlight Portfolio…

Things Are Looking Up

How time flies…

The first six months of 2023 are in the books — and the good news continues.

We noted back in June that the market had entered a technical bull market (if you go by technical definitions) rallying 20% from its October low.

The bad news where the rally goes is that it has largely been driven by the TBTF Tech sector (all seven of them) leveraging the AI dream. They've driven both the S&P 500 (+18% YTD) as well as the Nasdaq (+36% YTD) higher this year.

These mega-stocks have gotten so big that Nasdaq just announced they're going to stick a pin in them and lower their weighting in their Nasdaq 100.

This won't do any real damage to the bull market. It only means that the other 93 stocks in the average, which represent less than half of the index's weighting, will have to pick up the slack a little bit more.

And a lot of mid- to smaller-cap companies have been doing just that.

We started building the portfolio back in the fall of 2021. Many of its constituents are smaller to mid-cap companies that represent what we believe to be great value combined with explosive upside potential. Unfortunately during bear markets — like 2022 — a lot of those same kinds of stocks take it on the chin.

Our picks were no exception. But now that looks like it's starting to change.

On the whole, the portfolio is up 19% since last month and 23% YTD.

And there have been a couple noteworthy holdings that have well outperformed both the SP and Nasdaq.

Let's take a look in no particular order…

The Big Winners (So Far)

DigitalOcean Holdings (DOCN) has been one of the big performers. We added it to the portfolio back in June of 2022 writing:

> *DigitalOcean was founded with one goal in mind: To simplify cloud computing for entrepreneurs, individuals, and small and medium-sized businesses (SMBs).*
>
> *Entrepreneurs and SMBs need their developers focused on innovating. They don't have the time or financial resources to waste time trying to decipher complicated cloud computing offerings.*

Since then it's had its share of ups and downs (as we warned) but these days it's booming.

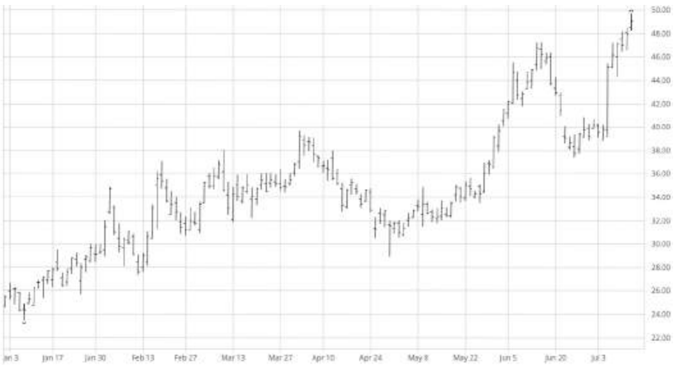
The company remains FCF positive which was one of its big attractions in the first place.

On the growth side, they recently acquired Paperspace — a cloud computing infrastructure company — for $111 million boosting their ability to offer more horsepower for clients' AI tools.

They currently anticipate an addressable market of $98 billion in 2023 expanding to $195 billion by 2026.

They're up 24% over the past month and 92% YTD. Another boomer has been **Genius Sports Group (GENI)**.

DigitalOcean Holding (DOCN)



Source: Barchart.com

GENI is a "picks and shovels" company in the fast expanding gaming industry. We wrote this stock up all the way back in October 2021. Rather than make money on actual gambling, GENI *"develops and sells technology-led products and services to the sports, sports betting, and sports media industries."*

They've been on a steady rise all year long but recently got a huge boost in the beginning of July thanks to inking a multi-year extension of their partnership with the NFL.

They're up 36% over the past month and 124% YTD.

Genius Sports Ltd. (GENI)

Source: Barchart.com

Finally we can cheer on **Unity Software (U)**. We wrote up Unity in February 2022:

> *Unity is the leading platform for creating and operating interactive, real-time 3D (RT3D) content. Its platform is also equipped with software solutions to develop and monetize interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles, and augmented and virtual reality devices (AR/VR).*

While we liked the company, we warned that the company was still pricey:

> *While Unity's stock price has been cut by more than half over the past 2-plus months, the stock remains expensive.*

But the decline has made their price-to-sales valuation much more attractive. And recent developments have strengthened their overall market position

In the wake of the introduction of their Vision Pro headset, Apple has partnered with Unity creating a software development kit (SDK) so that Unity developers can adapt their products (mainly video games) for Apple's headset.

In addition to that, they just launched an AI marketplace offering developer tools that will *"accelerate AI-driven game development and gameplay enhancements."*

U up 56% this month and 74% YTD.

Unity Software (U)

Source: Barchart.com

And the rest for your perusal…

Symbol	Name	Comments	Entry Date	Entry Price	Current Price	Annual Dividend	Percent Gain
FPI	Farmland Partners, Inc	Buy shares of Farmland Partners (FPI) up to $18 per share	9/2/2022	$14.22	$12.44	1.68%	-12.5%
VOO	The Vanguard S&P 500 ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$351.06	$413.10	1.60%	17.7%
IJR	iShares Core S&P Small-Cap ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$93.35	$102.27	1.89%	9.6%
VTV	The Vanguard Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$131.74	$143.29	2.48%	8.8%
IJS	iShares S&P Small-Cap 600 Value ETF	Bear market portfolio: 20% position per the July 2022 Issue	7/5/2022	$89.52	$97.75	1.79%	9.2%
SCZ	iShares MSCI EAFE Small-Cap Index ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$53.43	$61.47	4.72%	15.0%
VEA	The Vanguard FTSE Developed Markets ETF	Bear market portfolio: 10% position per the July 2022 Issue	7/5/2022	$40.01	$47.49	3.89%	18.7%
DOCN	DigitalOcean Holdings Inc.	Buy a half position up to $60, reserving capital to purchase the remainder of your position on a dip.	6/2/2022	$49.31	$49.02	N/A	-0.6%
ONDS	Ondas Holdings Inc.	Buy a full position up to $8.75	6/2/2022	$7.55	$1.39	N/A	-81.6%
WONDF	Wonderfi Technologies Inc.	Buy a half position up to $0.60, reserving capital to add to the position on a pullback.	6/2/2022	$0.45	$0.20	N/A	-55.6%
VMAR	Vision Marine Technologies Inc.	Buy shares of VMAR up to $5.45 as a speculative investment in the growth of electric powertrains in the boating industry. UPDATE August 2022: Buy up to price was raised to $6.50.	5/2/2022	$4.27	$3.56	N/A	-16.6%
U	Unity Software	Buy a 25% starter position between $95 and $99. Then scale into the remainder of the position adding another 25% every 15% to 20% down. †	2/3/2022	$77.27	$46.84	N/A	-39.4%
EPD	Enterprise Products Partners, L.P.	Buy shares of EPD up to $23.00 as an income-generating investment.	12/1/2021	$21.20	$26.82	$1.86	26.5%
ARKX	ARK Space Exploration & Innovation ETF	Buy shares of ARKX up to $22.00	11/1/2021	$20.48	$15.52	N/A	-24.2%
MSOS	AdvisorShares Pure US Cannabis ETF	Buy shares of MSOS at market up to $33. Be prepared to add to your position on a dip to $27 ††	10/5/2021	$28.95	$6.17	N/A	-78.7%
GENI	Genius Sports Group	Buy shares of GENI up to $22.50	10/5/2021	$16.99	$7.60	N/A	-55.3%
JD	JD.Com	Buy shares of JD.com (JD) up to $80 per share	8/30/2021	$76.69	$39.36	N/A	-48.7%
CZR	Cesars Entertainment	Buy shares of CZR up to $101.75	8/6/2021	$90.50	$54.07	N/A	-40.3%
	Current Prices as of 7/13/2023	**Price Notes:**					
		Entry prices are closing prices the day the issue is published.					
		† Per our entry instructions a 25% position was initially purchased at $96.99 on 2/3, then another on 3/7 at $82.45, another on 4/27 at $71.10, and a final on 5/6 at $59.55 giving us an average entry price of $77.27.					
		†† Adding an equal weight positon at $27 on 10/27 gives us an average engtry price of $28.95					