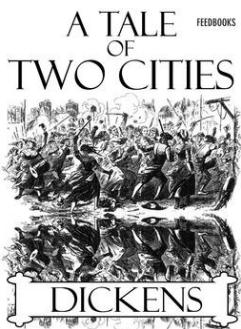


May 2014

## MAAM: Monthly Note



Charles Dickens wrote the following in his 1859 book A Tale of Two Cities:

*"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way - in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."*

I find it incredibly eerie and revealing how Mr. Dickens' words from 1859 still ring true in 2014.

*"History doesn't repeat itself, but it rhymes." – Mark Twain*

With this inaugural commentary, we plan to communicate with you every month with our thoughts on the markets, some snapshots of results, a section on behavioural investing and finally an update on some of the personnel at MacNicol & Associates Asset Management Inc. (MAAM). I hope you enjoy this information and it allows you to better understand what we see going on in the market place.

<b>Index:</b>	<b>Year-to-Date</b>
S&P/TSX Composite:	+7.43%
NASDAQ Composite:	-1.99%
Dow Jones Industrial Average:	0.21%
S&P 500:	2.02%

### Interest Rates:

90-Day T-Bill:	0.93%
5-year Bond	1.65%
10-year Bond	2.38%
30-year Bond	2.90%

### Economic Data:

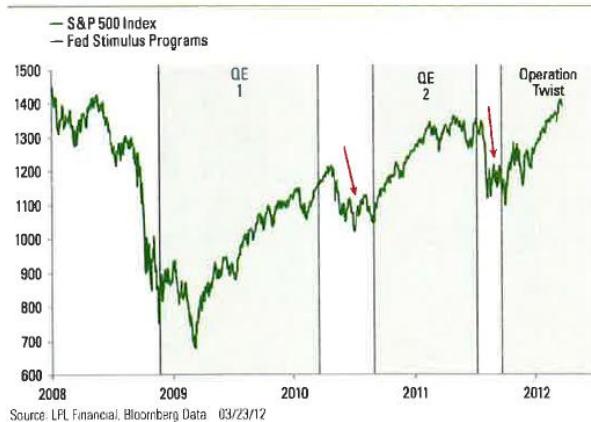
- Canadian GDP was up 0.2% in February.
- The Canadian CPI was up 0.6% month-over-month in March.
- U.S. Annualized GDP was reported at 0.1% for Q1.
- The U.S. unemployment rate dropped to 6.3% over the month.
- The U.S. participation rate fell to 62.8% in April to match a 35 year low from 1978.
- U.S. wage growth was stagnant in month-over-month terms.
- The unemployment rate in the Eurozone dropped slightly to 11.8%.
- Chinese GDP grew at 7.4% in year-over-year terms for the first quarter.
- Indian GDP grew by 4.7% on an annualized rate in Q4 2013, but is poised to rebound to 5% in 2014.

### Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
<b>P/E</b> <i>Price to Earnings</i>	17.9x	13.7x
<b>P/B</b> <i>Price to Book</i>	2.5x	2.3x
<b>P/CF</b> <i>Price to Cash Flow</i>	10.6x	9.4x
<b>P/S</b> <i>Price to Sales</i>	1.6x	1.4x
<b>PEG</b> <i>P/E to Growth</i>	1.7x	1.5x
<b>Div. Yield</b> <i>Dividend Yield</i>	2.1%	2.2%

## Market Commentary: A Change in Pace

Perhaps the largest development of the year, and one which is emblematic of the current investing environment as a whole, is the Federal Reserve Bank's pursuit of its 'tapering' process, and the ensuing reaction from investors. Over the past few years, it has been additional easing – not the tapering of it – that has been the headline story of the U.S. and global financial markets. The Fed has poured trillions of dollars of easing into the market, and stock indices have ridden its wake. Fred Hickey, an analyst whom we follow closely, summarized this development in a chart contained in his recent commentary. This chart can be found below.



The immediately noticeable relationship is the fact that each initiation of Quantitative Easing has been followed by a strong rally by the S&P 500. As such, it should come as no surprise that the Fed's announcement of their tapering and planned exit of the program resulted in a certain level of ambiguity concerning how market participants would react. It is becoming increasingly clear that the near-term result has been in the form of a rotation towards value stocks and real assets, and away from high-flying momentum names. Social Media, cloud-computing, 3-D printing and other high-priced tech stocks started to break down in February, and many have continued that trend and trimmed their value significantly over the last few months. Amazon's recent earnings results were indicative of this trend, and serve as an example for the trend as a whole. During 2013, despite earnings shortfalls and high expenses, the company's stock performed well following earnings announcements, and rode its intriguing story to a 62% gain on the year; this time was different. Despite beating earnings estimates, investors could not look past the company's rising costs, and the stock fell 10% the following day. The stock still trades on extremely high metrics; however, it is an example of the changing mind set of the market, and a welcomed return of focus to fundamental value.

As mentioned in our Quarterly Commentary, we continue to believe that this is a stock picker's market, and that this recent development is beneficially congruent with this stand-point. Our focus remains on companies who exhibit strong fundamentals, trade at attractive valuations, and can offer real benefits besides simply an interesting story. We proceed through 2014 with cautious optimism; remaining vigilant of potential threats, while capitalizing on investments which we have high conviction for.

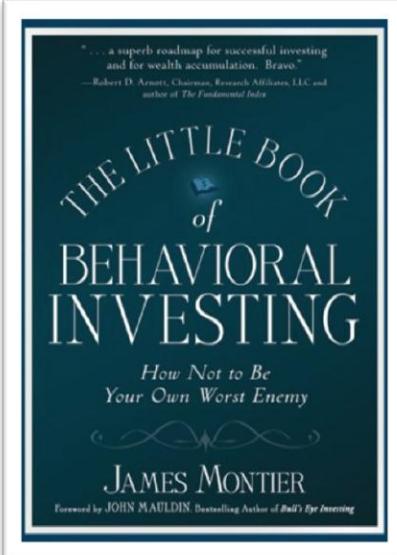
## Behavioural Investing:

For this inaugural Monthly Commentary, I would like to extend a recommendation from my reading list: **The Little Book of Behavioral Investing, by James Montier**. The book serves as an important reminder of the often-neglected mental aspect of investing, and provides important lessons on how to avoid the psychological pitfall of investor bias, learning from mistakes, and focusing on investing with a level head.

Some key lessons that Montier puts forth, which also play an important role at MacNicol & Associates, are the following:

- The primary reason for low returns are: biases, emotion and over-confidence.
- Always keep a ‘wish list’ of good companies which are trading above where you’d like to buy them, and buy them when they are attractively valued.
- Don’t try to predict the future; analyze current market valuations and determine what that implies concerning future growth.

The effects of failing to control emotion bias can best be explained using the chart below:



“The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell” – Sir John Templeton.

This chart effectively portrays how emotional investors tend to break the cardinal rule of “buy low and sell high”, and allow themselves to invest too much into their winners, at unfavourable prices, and hold on to their losers for a prolonged period of time. By focusing on fundamental values, MAAM seeks opportune times to invest, and likewise, opportune times to exit a position.

## Personal:

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Each month we would like to give you some insight into the people who take care of your investments at MAAM. This month, I will start with myself.

I have been married for 25 years to Diane (nee King) and we have three children - David, Sarah and Ben. David has just graduated from Western's Ivey Business School and will be starting a full time job soon - potentially with a competitor. Sarah is going into her final year (also at Western's Ivey Business School) and Ben just finished his first year at Western University. Guess where Di and I went to University?

I am very fond of dogs and recently added another [Vizsla puppy](#) – Barley, to keep our 11 year old Maple company. I have definitely forgotten what it was like raising a puppy!

When I'm not at the office, I like to volunteer for a variety of charities. In the past, I helped found the [Yellow Bus Foundation](#), a charity that enables children living with chronic illnesses and disadvantaged youth to enrich their lives. Currently, I volunteer my time with [Sigma Chi Fraternity](#), the Anglican Church and [the Hibiscus Fund for Hope](#) at The Princess Margaret Hospital. Although this work takes up a considerable amount of time, I really enjoy it and it helps to keep life in perspective. I am also passionate about traveling and enjoy seeing different parts of the world.

Finally, I admit it - I play a lot of golf in the warmer months and I keep in touch with my friends by playing hockey a few times a week.

In our upcoming commentaries, we will be telling you about some of the other Associates at MAAM. We think it is important for you to know a bit about our personal lives so that you have an understanding of what makes MAAM a unique organization.

David MacNicol



**MacNicol & Associates Asset Management Inc.**  
**May, 2014**