MacNicol & Associates Asset Management Inc., 145 Adelaide Street West, Third Floor, Toronto, Ontario, M5H 4E5

March 2019

The Monthly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snap-shots of metrics, a section on behavioural investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the market place.

"Hope is not a strategy."

- Origins unknown

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		11.70%
NASDAQ:		13.85%
Dow Jones:		11.39%
S&P500:		11.39%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	1.66%	2.47%
5-Year Bond:	1.77%	2.55%
10-Year Bond:	1.98%	2.74%
30-Year Bond:	2.18%	3.10%

Economic Data:

- Global equity rebound continues in February
- Central Bankers global pivot to a more balanced stance on monetary policy
- Gold approaches $1,350 in late February before stalling out in early March
- Sales of existing US homes fell in January however lower mortgage rates could stimulate activity towards Spring
- Brent Crude Oil outperformed WTI fivefold in February though the movement in West Texas Intermediate was less than 1%
- US 10-year range bound in the 2.65-2.75% area

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	21.42	23.82
P/B: Price-to-Book	3.31	3.16
P/S: Price-to-Sales	2.09	1.98
Yield: Dividend Yield	1.92%	1.84%

Year-to-date Performance, by Sector: As at Feb 28th, 2019

U.S. Markets	Close	Net	1 Day % Chg	YTD %
Dow Jones	25985.16	-72.82	-0.28%	11.39
Dow Jones Transports	10,491.91	-54.56	-0.52%	14.41
Dow Jones Utilities	754.71	1.42	0.19%	5.86
S&P 500	2792.38	-1.52	-0.05%	11.39
NASDAQ	7554.51	5.21	0.07%	13.85
Russell 2000 (Smallcaps)	1581.05	3.57	0.23%	17.24
BKX (Banking)	100.45	0.75	0.75%	17.09
BTK (Biotech)	5141.60	120.00	2.39%	21.81
XOI (Oil Index)	1304.56	3.13	0.24%	12.55
SOXX (Semiconductor)	1349.87	-16.71	-1.22%	16.85

Source: Jeff Saut, Raymond James

Foreign Exchange - FX

We continue to survey all the Banks and some Custodians to compare Foreign Exchange Rates charged. As you can see in the chart below some of these Institutions are charging considerably more than previous months when we did our first comparison. We tried to include some other firms, but they do not post public rates online or require a membership fee. Let us know if we have left any organization off here and we will try to include in future publications.

As of March 13th, 2019	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			???
Interactive Brokers	1.3326	$ 3,752	$ 15	0.4%
Laurentian Bank	No Public Rate Posted Online			???
National Bank	1.3429	$ 3,723	$ (14)	-0.4%
Raymond James	1.3505	$ 3,702	$ (35)	-0.9%
Royal Bank	1.3600	$ 3,676	$ (61)	-1.7%
Scotia	1.3652	$ 3,662	$ (75)	-2.0%
TD	1.3655	$ 3,662	$ (76)	-2.1%
Spot Rate	1.3378	$ 3,737		

The Great Pivot

At one point this week meeting minutes from four of the worlds major central banks were on my desk. Though much *digital* ink was spent disentangling what went wrong with preordained interest rate hikes and balance sheet reductions nothing quite satisfies a craving like the real thing. Besides scribbling notes on physical paper affords me not only the luxury of a gaining a deeper understanding of the key issues at hand, it allows me to judge those tasked with stewarding our economy…well that and the fact that today's computer monitors are far too bright. Judging by my scribbles though, Philip Lowe, the Reserve Bank of Australia Governor, took top prize for most aggressive policy pivot. Lowe not only caught me personally off guard with his comments, he also caught a good number of Aussie dollar currency traders a sleep at the switches too. Lowe delivered a speech to the National Press Club of Australia on February 6th, 2019 that kyboshed hopes of there being upside risks to growth and rates. Game changer to be sure.

I wonder what went wrong.

"Looking forward, there are scenarios where the next move in the cash rate is up and other scenarios where it is down. Over the past year, the next-move-is-up scenarios were more likely than the next-move-is-down scenarios. Today, the probabilities appear to be more evenly balanced". - Philip Lowe, Reserve Bank of Australia Governor

China…a high growth, low quality GDP story…or a low growth, high quality GDP story…now a days…it seems even the Chinese aren't quite sure which it is.

The "pivot", in case you missed it, is sentence three in Lowe's speech. Central Bankers tend to avoid speaking in clear, normal English because their words are usually sliced and diced by pundits for clues on where the economy and interest rates will go next…so you have to look at their musings very closely. Lowe, like fellow Central Bank chiefs in the United States and Europe is of course quickly distancing himself from the idea that interest rate hikes and balance sheet reductions are a foregone conclusion a narrative that played out through much of 2018…and 2017…and 2016. I suppose this is mostly good because in an age where computer algorithms scrutinize every punctation mark in a Central Bank news release, monetary policy leaders can deflect some of the attention investors place on them by being as vague as possible. Unfortunately, the use of the term "balanced" by a major central banker is pretty conspicuous especially when one considers all the previous news release sorts like yours truly have obsessed over for the past two years. "Balanced" also suggests economic data is turning over. So, the question becomes: either the economy was strong and suddenly became weak due to a change or the economy was never really that strong to begin with and the itsy-bitsy rise in rates we have had recently have done damage. Which is it? Well the MAAM Investment Team thinks that we are at some sort of an informational precipice where not only changes in the data but in the way the data gets communicated to investors will drive portfolio positioning. We do not see this plummeting markets into the abyss in and of itself but it is really hard to envision a world where markets go materially higher from here especially if economic data continues to be muted and monetary policy and the way it gets communicated continue to be sheepish.

As an example, take our base case for China, which is currently under review. Sharp changes in Chinese financial conditions have done wonders for commodities such as copper and iron ore, and Chinese stock markets (which spent most of 2018 falling) are soaring early on in 2019. Large, principally state-run, Chinese Banks have been a bit more uninhibited when it comes to lending with a 3.57 trillion-yuan ($572 Billion) bump in January credit. Chinese loan growth has some seasonality bias ahead of the Chinese New Year, but this year's moves are still about 40% higher than in 2016, 2017 and 2018. Stimulation is supportive sure, but also fraught with risk when distributed in large quantities.

Readers may recall that China tried a bit of a pivot of their own when they attempted to strike a better balance between speculative investments of questionable value in the name of a more consumer driven economy. The idea was that you would get a better quality GPD figure albeit one that isn't as sizzling as Chinese GDPs of yore. January's tsunami of stimulus suggests a relapse by the Chinese towards the former, more unsustainable, path.

Speaking of sustainability…have you heard the one about the Indian President and Central Bank Chief?

Back in Mumbai, Reserve Bank of India (RBI) Governor Urjit Patel who resigned late last year obviously felt his campaign with the RBI was under fire and on shaky ground. Patel came under pressure by the Modi Government to be less Hawkish though the official RBI tag line is that he left for "personal" reasons. Of course, no one likes a party pooper however taken together, we now believe that there very well may-be downside risks to growth in a variety of jurisdictions across Asia and the South Pacific. But hey that's okay…things are just fine in Europe…aren't they? We would say they were, but honesty prevents us.

Now (former) Reserve Bank of India Governor Urjit Patel claims to have resigned for personal reasons but his relationship with Indian Prime Minister Narendra Modi was apathetic at best. The move reminds us of the days when President Donald Trump would turn to TWITTER to tweet his disappoint with US Fed Chair Jerome Powell. We once included a picture of Trump hovering over Powell with a disapproving look, along with the caption "Whose side are you on anyway". The point was well taken but resignations at the Reserve Bank of India are rare.

In Europe economic data has been trending lower for some time…

German manufacturing data has been trending lower for over a year and now falls inline with levels last seen during the sovereign debt crisis…is it just our imagination or was the "window" of opportunity for rate hikes and balance sheet shrinkage somewhere between H2, 2016 and H2, 2017?

Intesa Sanpaol is one of Italy's largest banking groups. Sure they have expanded internationally, mainly because they have had to…but the bank is still home to the deposits of roughly 14 million Italians. Intesa's stock price has made some movement early in 2019 but it still has a long way to go.

ECB Chair Mario Draghi, who spoke March 7th, will have to balance his obligation to be proactive about Europe's economic slowdown against pressure from ECB governing council hawks who want him to move more swiftly on the issue of rates and balance sheet unwinds. Draghi's term as ECB boss expires in 7 months but we feel that like many of his compatriots, Draghi will opine that forecasts for growth and inflation are to be revised lower, and there is the possibility of a new round of targeted long-term refinancing operations or TLTROs for short.

Mario Draghi probably does not want to admit that Europe is bracing for what could potentially be its 3rd recession in a decade yet TLTROs or any other fancy central bank name for cheap liquidity amount to short-term gain for long-term pain.

Speaking to our earlier question: did something happen which caused economic growth to suddenly become weak or was the economy fragile all along? As with most things: the MAAM Investment Team believes that the real answer is somewhere in the middle. The populist movement generally and President Trump's actions in particular, have destabilized much in the way of world order.

But we also feel that central bankers probably did not look closely enough at the signs of a nascent economic recovery or otherwise tried to perpetuate a market cycle well past its "best before" data. China's new silk road and offers for infrastructure investments are one way around a Chinese reliance on America. However, as Europe and parts of central Asia teeter on the brink of recession we believe the new silk road might be one truly less traveled as those nations that are not ostensibly broke question China's true motives.

Did Central Banks miss their window of opportunity?

Basketball players can pivot and central bankers can too. In the case of the former, the intention is to protect your team's possession of the ball. In the case of the later, the intention is to protect your country's possession of economic growth.

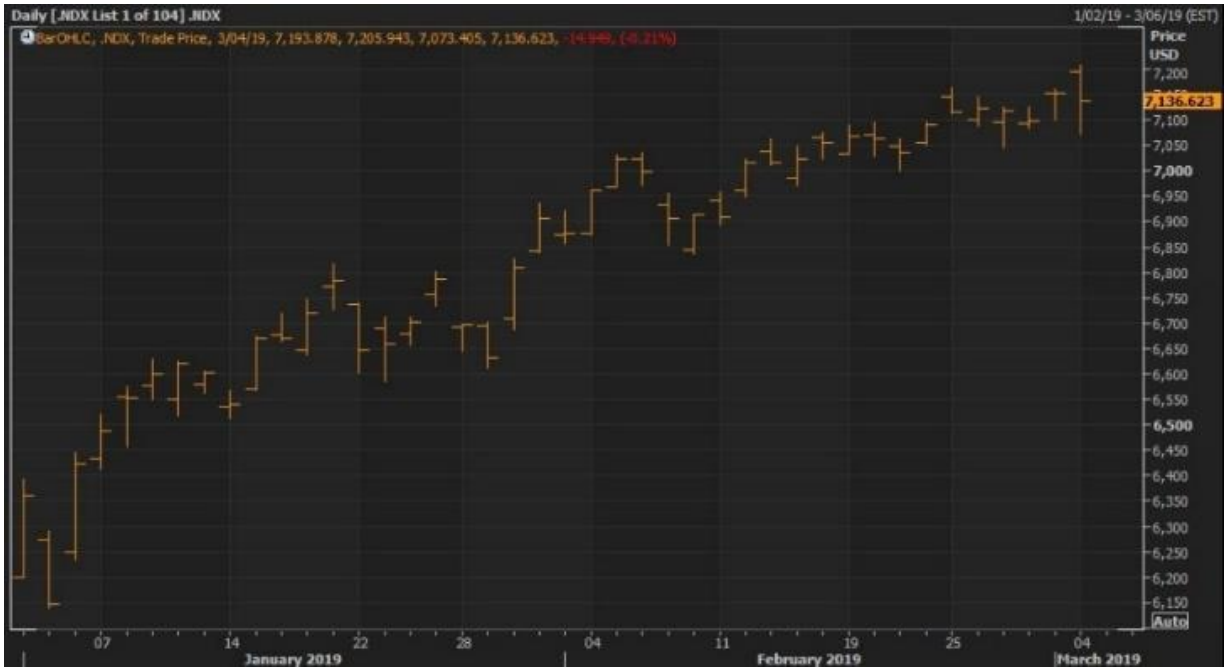
The question now is not so much whether central banks have the necessary ammunition to disentangle a world economy that suddenly appears flat footed: they do. Rather, will yet another, round of cheap money do anything to achieve the type of growth and inflation target that investors want or will it simply serve to elevate moral hazard and exacerbate malinvestment?

Time will tell…but for now we're not taking any chances.

The MAAM Investment Team

Goldilocks Recovery?

I have two wonderful little girls. My girls are great students, wonderful daughters and close sisters. One of my girls' favorite stories is *Goldilocks and the Three bears*. On top of that, my girls happen to be die-hard porridge fans, so I thought the metaphor was entirely appropriate. Over the past few weeks investors have probably been left feeling a titch nondescript when it comes to their portfolios. The strong run early in 2019 has put the Christmas Eve implosion of 2018 in most investors' rear-view mirrors but the fact remains many are probably trying to distill the conflicting narratives over whether the YTD surge in risk assets has legs or is simply a knee jerk recovery to grotesquely oversold levels of late last year. Technically, the markets look okay but far from cutting edge. The largest names in the NASDAQ have had their best run in about 5-years with 10 consecutive weekly gains. I guess you might say big cap tech is back to being big.



The NDX Index measures some of the biggest names in tech. Since Christmas Eve 2018 high-tech gadgets are on a +20% run…will the rally continue or get hit with a short circuit?

While we single out technological gizmos in the chart above, its not just about tech. Nor it is just about equities. You will need to look pretty hard to find an asset class that has not performed well in 2019 bonds included. Remember in previous editions of *The Monthly* when we said that the average "balanced" portfolio had lost its touch? Well it sure doesn't appear that way now. Thanks to the simultaneous rally in stocks and bonds, balanced mandates are doing quite well in early 2019. Credit looks a lot better too: spreads have dialed back a bit following serious concerns in the market for BBB rated notes. Triple B is the minimum credit category for an issue to be considered "investment grade". Fall below Triple B and many institutions will not be allowed to invest in your company's paper. The serious concern was never in history has there been so many investment grade issuers rated at the important triple B cut off (and thus never before in history had there been so many companies whose credit worthiness was a single downtick shy of "junk" bond status in the event of an economic rollover).

So where do we go from here?

Well let's put it this way: we love porridge too, but we would not risk a bear attack to get some. Our first article in *The Monthly* discussed the great pivot in central bank guidance, which to us signals that either central banks have either: a) lost the window of opportunity needed to affect rates hikes and balance sheet reductions without materials risk to the economy and thus potentially we're not aware of a window being open or b) that governments are applying coercion to central bankers for "quick fixes" that work in the near term yet ultimately undermine the whole point about central bank independence. Frankly, we are not sure which is worse! The MAAM Investment Team views things as follows: after a torrid recovery, something's got to give. Like us, if you believe that something might be a pick up in inflation later this year which could drive higher yields or a rebuilding of term premiums in bonds, you'll want an alternative approach. Thankfully our MacNicol Alternative Debt fund is ready to lend a hand. With stocks, we view they answer a play on the Law of Diminishing returns. Yes, investors have been piling into stocks from the December lows. But without something more we feel equities could stall out. Recently, pullbacks have been met with fewer and fewer new investors jumping in. To us, this is a signal that perhaps not all of the worlds concerns (be they misguided or otherwise) have been addressed just because the Fed and other central banks are now all of the sudden dovish. In other words, investors should think about consider leasing the rally in equities rather than owning it. At some point and we reckon that point will be soon, a lot of very big investors will be asking whether central banks look through temporary blips in inflation data or the relentless pursuit of incremental trade information and more closely at the fundamental underpinnings of the economy. We leave you then with this: as *The Monthly* hits your inbox, renewed stories about a trade deal are being recycled across much of the internet. The MAAM Investment Team is not confirming that tariffs on Chinese goods are being lifted but we suppose that one thing is certainly worth noting: given all the uncertainty around tariffs, would the average investor not expect some sort of (significant) lift in equity valuations on such news? Perhaps another famous quote whose origins are unknown is worth noting at this juncture: "The average overnight success took ten years".

Large, sharp talons make this Eagle a bird of *prey* with an "e".

Praying or preying?

Former NY City Major, Rudy Giuliani, once said "*change is not a destination, just as hope is not a strategy*" at a 2008 Republican National Convention. Though many politicians have used the phrase "*hope is not a strategy*" in speeches and essays, the origins of the

expression are unknown. When it comes to investing for your future, hope is definitely not a strategy and it can actually be quite bad for you.

To a certain extent all investors make investments on the hope or expectation that the said investment will appreciate in value. This is after all the central reason for investing: you invest your money in a manner that compensates you for the time value of your money (i.e. the fact that you are without your money for a certain period) plus a premium for inflation.

The trouble with praying about your investments is that it can lead to one thing many investors, even aspiring Portfolio Managers can find extremely difficult to do: cutting your losses. Admittedly it is very difficult to part ways with an investment one makes with good intentions. The trouble is you have to think about investing as a business, not a personal relationship or something you can get psychologically involved with. Many great investors attribute their success to timing tops (not bottoms). Finding "blood in the streets" is comparatively easy: CNBCs broadcasts are draped in a bright red outline, the shoe shine boy laments the drop in business from typically reliable "regulars" and central bankers (as we saw earlier in *The Monthly*) seem to go from taking a very stern view on monetary policy to a very loose one.

American Financier Bernard Baruch once said, "*If you have made a mistake, cut your losses as quickly as possible*". It is easy to say sure but working with us can help. Take Baruch's word for it: after all the man owned nearly 69 kilometers of land in 1907.

Investors should be forgiven for not being able to make sense of it all.

That's where working with a dedicated Portfolio Manager can help.

At MacNicol & Associates Asset Management we've been taking the religion out of investment for nearly 20 years. Our time-tested investment process and unsurpassed attention to customer services are the reasons why over time, our investors are able to reach their financial goals more consistently. Sure, the stock markets will invariably throw all of us for a loop here and again. But having a robust investment process stewarded by dedicated investment professionals can mean the difference between hoping your investments work as hard as you have and actually seeing them take your financial game to the next level. Have a question or a comment?

We would love to hear from you: dial 1-866-367-3040 or check out our website at www.macnicolasset.com

Safe harbour investing…it's fun being safe.

Behavioural Investing – credit Stock Trader's Almanac 2019

PRE–PRESIDENTIAL ELECTION YEARS ONLY ONE LOSER IN 80 YEARS

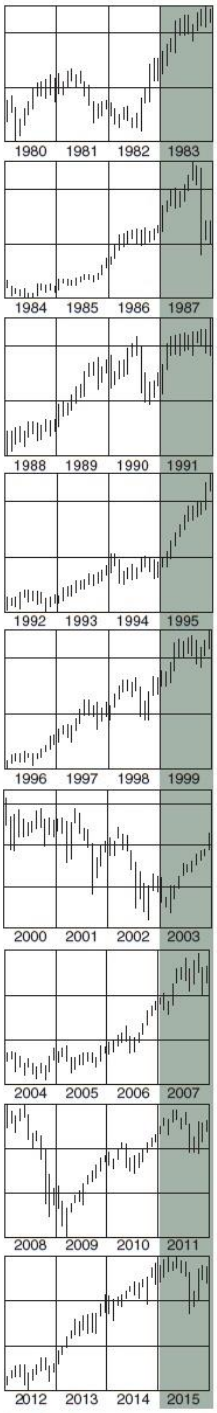
Investors should feel somewhat secure going into 2019. There has only been one down year in the third year of a presidential term since war-torn 1939, Dow off 2.9%. That one loss occurred in 2015, Dow off 2.2%. The only severe loss in a pre–presidential election year going back 100 years occurred in 1931 during the Depression.

Electing a president every four years has set in motion a 4-year political stock market cycle. Most bear markets take place in the first or second years after elections (see pages 130–131). Then, the market improves. Typically, each administration usually does everything in its power to juice up the economy so that voters are in a positive mood at election time.

Quite an impressive record. Chances are the winning streak will continue and that the market in pre–presidential election year 2019 will gain ground. Prospects improve considerably if the market takes a breather in 2018 following the robust run of 2017.

THE RECORD SINCE 1915

1915	Wilson (D)	World War I in Europe, but Dow up 81.7%.
1919	Wilson (D)	Post-Armistice 45.5% gain through Nov 3 top. Dow +30.5%
1923	Harding/ Coolidge (R)	Teapot Dome scandal a depressant. Dow loses 3.3%.
1927	Coolidge (R)	Bull market rolls on, up 28.8%.
1931	Hoover (R)	Depression, stocks slashed in half. Dow –52.7%, S&P –47.1%
1935	Roosevelt (D)	Almost straight up year, S&P 500 up 41.2%, Dow 38.5%.
1939	Roosevelt (D)	War clouds, Dow –2.9% but 23.7% Apr–Dec gain. S&P –5.5%.
1943	Roosevelt (D)	U.S. at war, prospects brighter, S&P +19.4%, Dow +13.8%.
1947	Truman (D)	S&P unchanged, Dow up 2.2%.
1951	Truman (D)	Dow +14.4%, S&P +16.5%.
1955	Eisenhower (R)	Dow +20.8%, S&P +26.4%.
1959	Eisenhower (R)	Dow +16.4%, S&P +8.5%.
1963	Kennedy/ Johnson (D)	Dow +17.0%, S&P +18.9%.
1967	Johnson (D)	Dow +15.2%, S&P +20.1%.
1971	Nixon (R)	Dow +6.1%, S&P +10.8%, NASDAQ +27.4%.
1975	Ford (R)	Dow +38.3%, S&P +31.5%, NASDAQ +29.8%.
1979	Carter (D)	Dow +4.2%, S&P +12.3%, NASDAQ +28.1%.
1983	Reagan (R)	Dow +20.3%, S&P +17.3%, NASDAQ +19.9%.
1987	Reagan (R)	Dow +2.3%, S&P +2.0% despite Oct meltdown. NASDAQ –5.4%.
1991	G.H.W. Bush (R)	Dow +20.3%, S&P +26.3%, NASDAQ +56.8%.
1995	Clinton (D)	Dow +33.5%, S&P +34.1%, NASDAQ +39.9%.
1999	Clinton (D)	Millennial fever crescendo: Dow +25.2%, S&P +19.5%, NASDAQ +85.6%.
2003	G.W. Bush (R)	Straight up after fall of Saddam Hussein: Dow +25.3%, S&P +26.4%, NASDAQ +50.0%.
2007	G.W. Bush (R)	Credit bubble fuels all-time market highs before bear starts & Great Recession: Dow +6.4%, S&P +3.5%, NASDAQ 9.8%.
2011	Obama (D)	Debt Ceiling Debacle & U.S. credit rating downgrade: Dow +5.5%, S&P –0.003%, NASDAQ –1.8%.
2015	Obama (D)	Tepid growth: mild bear market ending February 2016: Dow –2.2%, S&P –0.7%, NASDAQ +5.7%.



Graph shows Pre-Election years screened.
Based on Dow Jones Industial Average monthly ranges.

Firm News

We're moving! Please note, as of April 1st, 2019 our new address will be:
130 Bloor Street West
Suite 905
Toronto ON M5S 1N5

MacNicol & Associates Asset Management started in September 2001 in downtown Toronto and has moved four times constantly improving upon our working environment.
We have noticed over the years that our clients have become less interested in battling traffic, finding parking and meeting with us at our office. Actually, finding your car after the meeting was also a challenge!
Technology has allowed us to meet via screen sharing so that our personalized presentations can help replace this declining face-to-face interaction.
Another important consideration is the fact that our rent has almost doubled in five years due to the short supply of space in downtown Toronto. Is this market sustainable? Only time will tell.
In the meanwhile, we are moving North into the Yorkville area where rents are a little more reasonable, travel time a little better (when will Eglinton Avenue clear up?) and we hope our clients will want to come and visit us in person!
We know it will be easier to find your car afterwards.

MacNicol & Associates Asset Management Inc.