July 2019

The Quarterly

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.

"The desire of Gold is not for Gold".
"It is for the means of freedom and benefit"

- Ralph Waldo Emerson

"When the facts change, I change my mind".
"What do you do sir"?

- John Maynard Keynes

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		15.4%
NASDAQ:		21.0%
Dow Jones:		14.5%
S&P500:		17.7%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	1.66%	2.10%
5-Year Bond:	1.39%	1.76%
10-Year Bond:	1.46%	2.00%
30-Year Bond:	1.69%	2.53%

Economic Data:

- World Leaders gather for a crucial G-20 meeting
- Stocks higher in June as investors pile back in following May's sell off
- Central Banks pivot hard and fast causing alternative assets like Gold to rise
- Gold achieves, and maintains $1,400 per ounce
- Crude oil recovers but looses steam below $60/bbl
- US Q1, GDP checks in at 3.1% however Q2, GDP appears to show signs of slowing

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	21.30	22.49
P/B: Price-to-Book	3.31	3.19
P/S: Price-to-Sales	2.10	2.09
Yield: Dividend Yield	1.95%	1.89%

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

S&P/TSX Composite	15.4%
NASDAQ	21.0%
Dow Jones Industrials	14.5%
S&P 500	17.7%
Russel 2000 (Small Caps)	14.9%
MSCI EAFE	11.1%
Crude Oil Spot (WTI)	27.0%
Gold Buillion ($US/Troy Ounce)	8.8%
SOX Semi-conductor Index	14.8%
VIX Volatility Index	-22.5%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

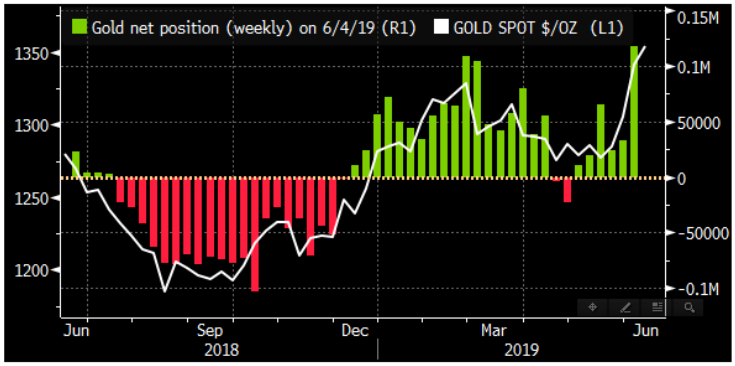
We continue to survey all the Banks and some Custodians to compare Foreign Exchange Rates charged. As you can see in the chart below some of these Institutions are charging considerably more than previous months when we did our first comparison. We tried to include some other firms, but they do not post 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 Jul 4, 2019 11:00 AM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3063	$3,828	$(2)	-0.1%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3188	$3,791	$(38)	-1.0%
Raymond James	1.3215	$3,784	$(46)	-1.2%
Royal Bank	1.3341	$3,748	$(82)	-2.2%
Scotia	1.3411	$3,728	$(101)	-2.7%
TD	1.3391	$3,734	$(96)	-2.6%
Spot Rate	1.3056	$3,830		

Stall

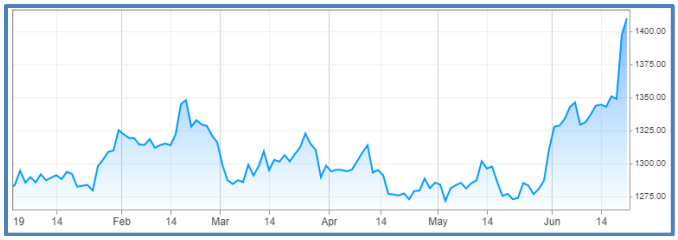
I don't know about you but the recent rally in stocks has me feeling a bit cold, which is surprising. Afterall stocks are up quite a bit from the May lows and - after what felt like eons - the weather up here in Toronto beginning to heat up too. All of this is great news, don't get us wrong, but we think that over the next few months, investors should double down on not only the sunscreen but the common sense as well. More on that in a moment…

Earlier in the month we spent time carefully reviewing the state of the Gold market. Our findings (and our hunch) are detailed below. We hope you will enjoy reading this edition of The Quarterly as much as we enjoyed preparing it.



[Fool's Gold? Hardly. Yet, for a little while, Gold was a tough metal to love. Shortly before 2019 began however futures traders started piling into Gold and that has built a strong base for gold to stand on. The question is, does Gold shine even more brightly in H2, 2019 and beyond?]

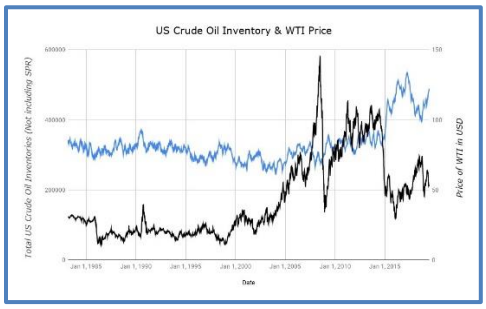
In our view the most comprehensive way to explain gold's recent run up boils down to a global economy is performing below expectation. Stoking added interest in gold is the idea that the vagaries of the global trade situation are now not merely elevating the level of economic uncertainty out there, but in fact beginning to take a palpable "bite" out of the economic moment. That the world's major central banks took turns seeing who could pivot their stance on monetary policy most abruptly also made Gold's lustre that much more radiant in June. But the MacNicol Investment Team observed economic and market-based barometers of economic activity stalling out nearly a year ago. Global ISM surveys, particularly those in Europe, were already slowing back then and have continued to slow until today. That sluggishness in manufacturing is now spreading into North America seems to support the "stall" thesis and falling yields (and collapsing yield curves) confirm that market-based barometers aren't buying what politicians are selling. We believe that until several peripheral risk factors (let's call them minor irritants) along with one really big risk factor (let's call it the one that can really move the Richter Scale) the global economy will continue to stall out making one's allocation to gold and other real assets a key strategic priority in client portfolios.



[Gold has performed well in 2019 and crossing the $1,350 level with bravado is certainly supportive of solid foundation for gold to stand on. In the near term though we feel the "jury is out" when it comes to just how much more "oomph" Gold has]

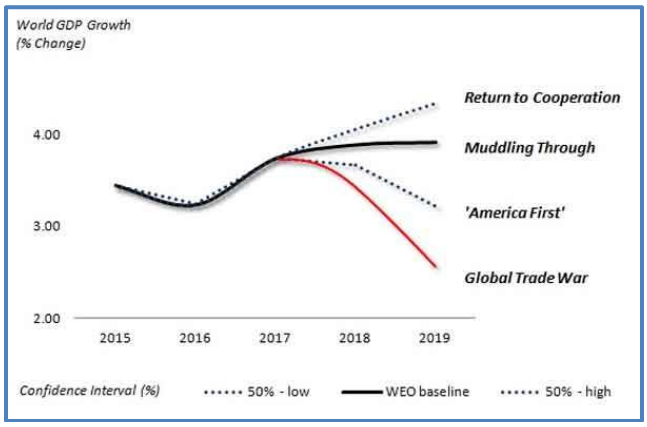
The minor irritants…

(A) The conflict with Iran has certainly helped crude oil prices, which sit just a teaspoon below $60 as *The Quarterly* hits the printing presses. A good recovery sure but we honestly don't see crude trading much high for much longer. Despite the fact that oil prices spent the later part of April and all of May hemorrhaging nearly down $17 a barrel – but have since recovered roughly half of those losses – there remains an awful lot of supply out there. Moreover, higher oil prices simply add costs to corporate and consumer budgets. Because we feel oil goes back to $50 before it goes to $70 we would encourage investors to use the "Iranian Put" as an opportunity to reduce risk by trading in more speculative names in the exploration and production area for more reliable plays on the services side.



[Oil inventories are up in the United States and around the world. Sluggish economic prospects suggest the glut will take some time to digest]

(B) A failure on the part of SINO/US trade talks to produce a more market friendly outcome is as ubiquitous at this point as it is dangerous, and it has put pressure on the global economic outlook. The International Monetary Fund (IMF) *now* models their 2019 World Economic Outlook as a function of future US/Chinese relations.



[The IMF predicts in their *World Economic Outlook 2019* that the SINO/US trade spat can move the entire world economy by several percentage points depending on the outcome. MacNicol's view is that President Trump, foolishly, continues to fight fire with fire. This sort of misplaced geopolitical backdrop is not good news for several industries, but great news for Gold]

Summary of current interest rates of a large number of central banks

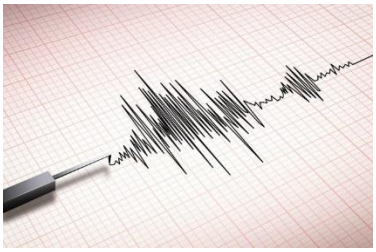
Name of interest rate	country/region	current rate	direction	previous rate	change
American interest rate FED	United States	2.500 %	↑	2.250 %	12-19-2018
Australian interest rate RBA	Australia	1.250 %	↓	1.500 %	06-04-2019
Banco Central interest rate	Chile	2.500 %	↓	3.000 %	06-07-2019
Bank of Korea interest rate	South Korea	1.750 %	↑	1.500 %	11-30-2018
Brazilian interest rate BACEN	Brazil	6.500 %	↓	6.750 %	03-22-2018
British interest rate BoE	Great Britain	0.750 %	↑	0.500 %	08-02-2018
Canadian interest rate BOC	Canada	1.750 %	↑	1.500 %	10-24-2018
Chinese interest rate PBC	China	4.350 %	↓	4.600 %	10-23-2015
Czech interest rate CNB	Czech Republic	2.000 %	↑	1.750 %	05-02-2019
Danish interest rate Nationalbanken	Denmark	0.050 %	↓	0.200 %	01-19-2015
European interest rate ECB	Europe	0.000 %	↓	0.050 %	03-10-2016
Hungarian interest rate	Hungary	0.900 %	↓	1.050 %	05-24-2016
Indian interest rate RBI	India	5.750 %	↓	6.000 %	06-06-2019
Indonesian interest rate BI	Indonesia	6.500 %	↓	6.750 %	06-16-2016
Israeli interest rate BOI	Israel	0.250 %	↑	0.100 %	11-26-2018
Japanese interest rate BoJ	Japan	-0.100 %	↓	0.000 %	02-01-2016
Mexican interest rate Banxico	Mexico	8.250 %	↑	8.000 %	12-20-2018
New Zealand interest rate	New Zealand	1.500 %	↓	1.750 %	05-08-2019
Norwegian interest rate	Norway	1.250 %	↑	1.000 %	06-20-2019
Polish interest rate	Poland	1.500 %	↓	2.000 %	03-04-2015
Russian interest rate CBR	Russia	7.500 %	↓	7.750 %	06-14-2019
Saudi Ariabian interest rate	Saudi Arabia	3.000 %	↑	2.750 %	12-20-2018
South African interest rate SARB	South Africa	6.750 %	↑	6.500 %	11-22-2018
Swedish interest rate Riksbank	Sweden	-0.250 %	↑	-0.500 %	12-20-2018
Swiss interest rate SNB	Switzerland	-0.750 %	↓	-0.500 %	01-15-2015
Turkish interest rate CBRT	Turkey	24.000 %	↑	17.750 %	09-13-2018

[The www.global-rates.com website has to be one of our favourites though we disagree with the direction of the American interest rate. The MacNicol Investment Team strongly believes US Fed Chair Powell is on hold because he lacks evidence of an emergency yet clearly sees the economy cooling underneath him]

(C) Pivoting central bank policy is something we have written about before. Philip Lowe, Reserve Bank of Australia Governor was in our view the most abrupt in his policy pivot, but other major central bankers weren't far behind. And so

a "race to the bottom" is on. But why pivoting central bankers are captured under our minor irritant category is not because they are unimportant, but because we think there is something bigger in play.

The one that can move the Richter Scale…



Beyond geopolitical turmoil, trade talks or a growing army of dovish central bankers…we believe the real problem investors should come to terms with is that the present economic expansion has simply **run its course**. A stall scenario is good for gold and a natural sort of evolution of the economic cycle. As we have said currencies are the stock of nations, and with fewer and fewer nations firing on all economic cylinders, capital is starting to flow into the one currency that is no one's liability: Gold.

On sunscreen and common sense…

Those of you who know the MacNicol Investment Team know that we do not need to invest a heck of a lot of money in brushes or combs. Sunscreen on the other hand is something of a staple both at home and around the office. But what about common sense? Well for now, we think that investors with existing positions in Gold or Gold stocks (such as ourselves) should probably stay put. It's been a great place to be in the short run. With that said, we cannot help but feeling that investors may just be reading a bit too much into economic reports and central bank press conferences. Remember, we christened this article "*Stall*" not "*Collapse*" or "*Run for the hills*". So as you are stocking up on sunscreen this summer, know that there will likely be other opportunities to take a position in gold or gold stocks. We simply think that in the short-term investors have pumped up the price of gold a bit much. Interest rates cuts and the return of quantitative easing are plausible and may-be even a bit probable…just not right now.

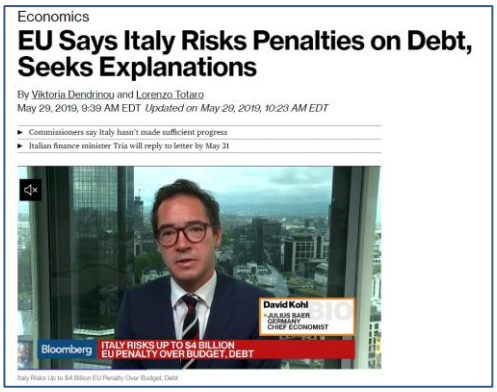
The MacNicol Investment Team

Il capo provocatorio and the metal that backs him…

Dissolutezza is the Italian word for **profligacy**. Think of it as the hip, fashionable way of saying *"My government is bad with money and hopes central banks and EU regulators will allow the party to continue"*. But no matter how beautiful the Italian language or its people are, dissolutezza is not exactly the best word to drop at a meeting with European Union

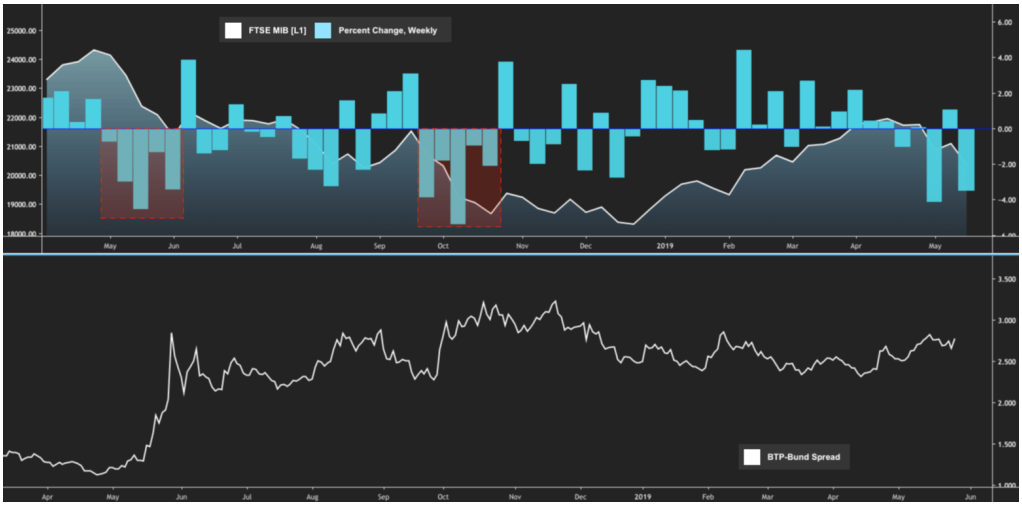
bureaucrats to showcase your knowledge of the Italian language. The bevy of barristers in Brussels is basically the compliance department for all of Europe. They point out the dark lining in any silver cloud and threaten to levy fines against those defiant enough to disobey then. Unfortunately, for Italy, it looks like they mean business this time.

Shortly after Matteo Salvini, the "Don" of Eurozone populist leaders, triumphed in the European parliamentary elections, EU leaders advised that they would conduct an investigation into Italy's finances and impose fines for breeching debt rules. Sound familiar?



[Shortly after Matteo Salvini dawned a new designer suit for his victory speech the EU threatened legal action relating to Italy's finances. Predictably Bloomberg began running stories like the ones shown here. Do you think Salvini watches Bloomberg much? We don't]

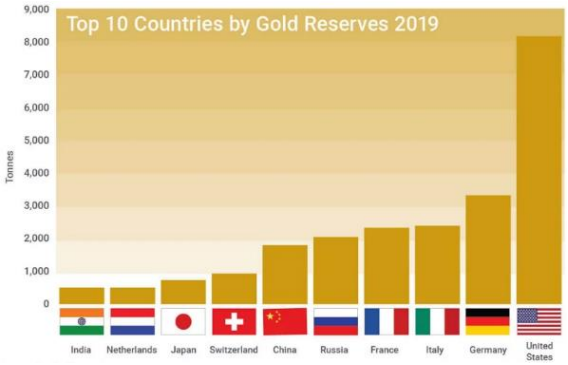
While Salvini probably does not spend nearly as much time glued to a Bloomberg terminal as we do, the man's political career would suggest he knows a thing or two about stocks: like the fact that generally speaking investors hate uncertainty.



["Caro signore"…said investors in Italian stocks. Caro signore is Italian for "Dear Lord". The baby blue bars in the above chart of the FTSE MIB (i.e. the index that tracks Italian stocks) show that more than anything else, investors in Italian stocks should have strong stomachs]

But one thing is certain when it comes to Italy and we somewhat eluded to it in our first article…

Italy's shinning example of (wealth/power?)



[The Gold vault on the left is not Italy's only gold vault…it is one of several. The MacNicol Investment Team likes to refer to Italy as "No. 6" internally. That's because in the G7 group of economic titans, Italy ranks 6th. However, when it comes to gold reserves Italy dwarfs other G7 members like Japan and Canada, and even holds more gold than fellow G7 counterpart France]

Italian stocks, much like most stocks recovered in early June. Dovish global central bankers pledging to do "whatever it takes" probably helped and a more patient EU pledging to give more time for Italy to fix its fiscal problems probably helped even more. But to us, the re-emergence of populism in one of Europe's largest member states, which also happens to own mountains of gold bullion is a recipe for ongoing volatility in Italian stocks and bonds. Matteo Salvini knows that he does not have to bow to EU regulators. At the same time, maybe the EU does have a point: after all when has solving debt with more debt ever ended well for anyone?

The MacNicol Investment Team

OBITs and Op-eds…

The past year has been challenging for those that have had to say good bye to loved ones. Death can come quickly, unexpectedly or at the end of a lengthy illness. Regardless of how much forewarning we receive about our loved one's passing death is never an easy thing to cope with. Having said good bye to several of my close loved ones recently, as well as, having observed both friends and colleagues do the same, two things are worth noting. First, always keep good financial records. Many people mistakenly believe that unless you hire Canada's Top estate planning Lawyer the Canada Revenue Agency will completely disregard your loved one's wishes and attempt to extract every last penny from their estate. Don't get me wrong, if your family situation is unimaginably complicated, then the cost of retaining Canada's top estate planning Lawyer is probably money well spent. However, in my experience what the majority of Canadians really need is a basic and a medium sized filing cabinet. Canadian Tire sells several types of storage solutions and the $59.99 one I purchased nearly 10 years ago still serves me well to this day. Maintaining an effective paper trail is a chore so getting into the habit of filing your documents on a regular basis can reduce the monotony of having to file a "mountain"

of documents in one afternoon. The good news about having all of your documents organized and readily accessible is that in the event of audit, you stand much more well prepared to answer questions from the Government, and this can go a long way towards alleviating your stress. Passing a CRA audit also grants you a checkmark in *your* column and for the rest of eternity you'll be able to take comfort in knowing that when CRA called you out, you were able to answer that call. The second thing that the unfortunate string of deaths I mentioned earlier caused me to note is the share prices of companies involved in the funeral business.

Familiarity Bias

Investors may have a familiarity bias, where they prefer stocks in companies that they buy products from, that they work for, or where they have a family connection. Because of familiarity bias, investors may misread past or future market fluctuations thinking that they're predictable, resulting in overconfidence.

We would like to congratulate the Toronto Raptors Basketball team on their 1st ever NBA Championship.

MacNicol & Associates Asset Management Inc.