

October 2019

The Quarterly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots 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.

“Stay focused”

- T. Boone Pickens

The Numbers:

<u>Index:</u>	<u>Year-to-Date:</u>	
S&P/TSX:	16.3%	
NASDAQ:	20.6%	
Dow Jones:	15.4%	
S&P500:	18.7%	

<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	1.62%	1.73%
5-Year Bond:	1.28%	1.36%
10-Year Bond:	1.26%	1.54%
30-Year Bond:	1.45%	2.03%

Economic Data:

- US ISM survey for September materially lower
- Gold maintains \$1,500 for 2 full months
- WTI at \$55 per barrel for much of the past 60 days while Brent crude enters month 3 just shy of \$60 per barrel
- Large caps dominate small caps in the quarter
- The ECB returned to quantitative easing at their latest policy meeting
- Japanese stocks were the best performers in September with the Nikkei 225 up over 5.0%

Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	21.9	21.3
P/B: Price-to-Book	3.40	3.44
P/S: Price-to-Sales	2.17	2.21
Yield: Dividend Yield	1.94%	1.90%

Year-to-date Performance, by Sector: September 30th, 2019

S&P/TSX Composite	16.3%
NASDAQ	20.6%
Dow Jones Industrials	15.4%
S&P 500	18.7%
Russel 2000 (Small Caps)	13.0%
MSCI EAFE	9.9%
Crude Oil Spot (WTI)	19.6%
Gold Bullion (\$US/Troy Ounce)	15.0%
SOX Semi-conductor Index	36.4%
VIX Volatility Index	-32.7%

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 Oct 8, 2019	11:45 AM	\$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate	
CIBC	No Public Rate Posted Online				
Interactive Brokers	1.3333	\$3,750	\$-	0.0%	
Laurentian Bank	No Public Rate Posted Online				
National Bank	1.3462	\$3,714	\$(36)	-1.0%	
Raymond James	1.3463	\$3,714	\$(36)	-1.0%	
Royal Bank	1.3584	\$3,681	\$(69)	-1.9%	
Scotia	1.3640	\$3,666	\$(84)	-2.3%	
TD	1.3668	\$3,658	\$(92)	-2.5%	
Spot Rate	1.3333	\$3,750			

Artificial Intelligence, real economy...



Sometimes it really pays to be open minded. For example, this summer I vacationed in beautiful Boston Bar, BC where I was presented with can of beer from someone with the Dead Frog brewery in Aldergrove (a suburb of Langley for all you Torontonians). *Dead Frog*...I thought to myself...how good could such a macbre sounding beer possibly be? Well as it turned out...pretty darn amazing. Dead Frog's Green Magic IPA is a sensational, sophisticated and irreverent ale that easily earned a spot on my list of all-time favourite craft beers. Should business or pleasure ever take you anywhere near Langley you owe it to yourself to visit Dead Frog's tasting room where you too can get mesmerized by the Green Magic or seduced by any one of Dead Frog's other delectable brews. I will provide details on how you can get in touch with the kind folks at Dead Frog at end of this edition of *The Quarterly* but for now I hope you will appreciate how allowing myself to try different things paid off for me in a big, big way. A beer doesn't have to be haughty to be fantastic...

The late T. Boone Pickens was a famous advocate for staying focused. Focus is a recipe that has clearly worked well for Dead Frog brewing but also, for millions of workers who fall outside of the 9-to-5 norm of the “mainstream” economy. As wages for people employed in more conventional jobs grow less quickly and as the demands of life become more heterogeneous, more and more of us are choosing to enter the “gig” economy. The “gig” economy is where temporary positions are common, and organizations contract with independent workers for short-term engagements. The “gig” economy is not new and has existed in varying degrees for decades depending on how strong or weak the mainstream economy happens to be. One thing that is new is the surprisingly high level of skill today’s “gigsters” offer prospective employers. Sure, stereotypes like the pimply faced teenager, the blue-haired snowboarder and that fellow that always calls you “dude” still apply, but more and more “gigsters” are looking to compete for important job opportunities and they are bringing their “A” game to your smart phone or tablet along with an impressive list of professional accoutrements.



[“Gigsters” are surprisingly bright and surprisingly easy to connect with]

The *right* “gigster” can help your business grow but finding one is easier said than done but it isn’t because these people are difficult to connect with. A new study by Intuit predicts that by 2020 roughly 40% of North American workers will be *independent* contractors. That’s a lot of coffee shop interviews and meetings conducted via tablet so hiring managers will have to be more clever when it comes to scrutinizing these people and conventional financial institutions like banks will have to be more clever in how they service these people. Independent workers have traditionally found it more difficult to access traditional banking services. But given the potential for growth of the “gig” economy can traditional banks really afford to lose site of the importance of potential future customers? Traditional banks have in the past attempted to focus on groups they felt may have unique banking needs: services targeting women, various ethnic groups, the far right, the far left but have for the most part missed their intended mark.



[Traditional banks like their boardrooms are nice but a bit closed off to the rest of the world.]

Providing services to clients you feel have unique or specialized needs is never a bad idea. It's just that members of a certain demographic segment do not actually have unique banking needs. Instead they have unique needs relating to how banking services are presented. Members of the “gig” economy have unique needs that distinguish them from other customers such as: a) more specialized tax needs b) life and health insurance requirements c) credit needs and d) more volatile income patterns. Have traditional banks been blind sided by the “gig” economy? Bank executives probably will not admit to viewing the “gig” economy as a threat but a lot of that has to do with the fact that “gig” economy workers are harder for banks to see.

The algorithms are artificial...the results are not...

Artificial Intelligence (AI) is a huge enabler of the “gig” economy. Think of the smart phone you have in your pocket right now. That little portal to the digital world along with its myriad of applications can allow you to quickly and easily apply for freelance opportunities, suggest positions that may drive businesses ahead in the future and even set up your own digital marketplace for freelancers and freelancers?

Hyperwallet.com recently noted that 40% of “gig” economy employers and employees opted to link up through digital market places. The most often cited reason for the popularity of this hiring architecture was efficiency. “Gigsters” are serious professionals who value time, shouldn't you? As the “gig” economy grows, so too will the role of AI in this space. Next year 43% of the US workforce is expected to call the “gig” economy their *permanent* career home.



[Welcome aboard you really impressed our algorithms during the interview process]

Digital marketplaces will therefore need to be more sophisticated to match up sources and uses of labour: an artificial approach will drive real results. AI will assist with the talent search by using algorithms that gauge market supply and suggest the optimal match for a given job. “Gigsters” in turn will have to provide more comprehensive professional data about themselves to stay relevant such as social media profiles, educational credentials and complete resumes to assist the algorithms with the selection process. Allowing the algorithms to sift through the bewildering array of online profiles not only drives efficiency and thus profitability but it also enhances equity. Machines are less likely to be influenced by race, religion or political beliefs, and they really shine in areas like cross-boarder payments. Money remittance fees can be high and the variety of payment options narrow in some markets where “Gigsters” provide both domestic and foreign clients with services. We think that because machines lack the intrinsic desire to be rich and will not let personal feelings get in the

way of flagging a transaction as suspicious, “Gigsters” themselves will value the security (and fidelity) that a more digitized process provides.

Adding a layer of added protection against non-paying clients may earn platforms even more stars. The machines can also take away many of the more mundane aspects of being self reliant like prospecting for new clients and managing active files of existing one. The MacNicol Emergence Fund prioritizes data analytics and artificial intelligence because we believe that rather than investing in pricey "FAANG" stocks investors are better served by buying the firms that the behemoths are buying themselves. Through the 9-years to September 2019, Amazon, Facebook, Microsoft, Google and Apple have acquired over 60 AI start ups and we believe that trend will continue. We also feel this trend will encourage curmudgeonly Canadian banks into thinking more strategically about their virtual offerings for the virtually employed. As it turns out, we might even be able to make some introductions for them. Recently, Temenos, a Swiss banking software firm, acquired Kony a top ranked digital banking firm the Emergence Fund owns through a limited partnership and we feel that more deals like this are on the way.

Whether its making great beer or safe guarding client capital for future generations focus and hard work will never become old fashioned. However, in a modern world, going from “gig” to great also requires help from the gargantuan gigabytes of our virtual friends.

The MacNicol Investment Team

Retailers...under siege

Three weeks ago, I drove out to meet a partner of mine whose Etobicoke, Ontario based firm provides professional financial planning services to clients in Ontario and three other Provinces. My partner's office can be found directly across the street from Sherway Gardens, the shopping mall I have visited more times than any other. My meeting went really but led to a hankering for some coffee and a stroll...I figured...what the heck...



[I watched *Under Siege* at the Sherway Cinemas back in the early 1990s. Not everyone knows this but Seagal is a real-life Aikido Master]



[Sherway Gardens, a beautiful shopping mall with not a heck of a lot going on inside]

Things sure have changed...

Sherway Gardens itself has never looked better. Unfortunately, the mall was dead as a door knob and nearly whisper quiet. I was worried about what this meant for the broader retail sector but was it fair to assign much value to one completely random shopping mall visit? Obviously not. That is why I pulled the latest report from Coresight Research, a global research firm who tracks – among other great things – the number of stores opening compared to the number of stores closing. I found it great that someone actually takes the time to track such an important economic indicator even if I found the indicator itself a little scary. So far this year, publicly traded retailers have announced that 8,558 stores will close while only 3,446 new ones will open. I suppose I kind of suspected that things were bad in the retail space, I guess I just didn't realize that the badness was accelerating. In 2018 retailers shut down 5,844 stores versus opening 3,258 stores. With one full quarter of data yet to be produced planned store closures (today) outnumber planned store openings by 2-to-1.



[Forever 21 imploded because of its inability to secure the important Generation “Z” demographic. People born between 1996 and 2010 enjoy value but they also value sustainability. Forever 21 had trouble communicating these values to the Gen-Z crowd and paid a steep price]

The retail siege is homogenous across borders but some chains, like Toys“R”Us are continuing to operate locations in Canada despite the closure of US and British counterparts. Retail is always a dicey, cut-throat business with consumer tastes dictating where the money goes and the economy dictating how much of it goes there. But retail's traditional bricks and mortar travails have suffered great pains from the digitization of the economy. In my own neighborhood Amazonian delivery drivers (now) outnumber any other users of the roadways. I myself now even order auto parts, excluding critical engine components, online. The 1992 movie Under Siege ended up in Steven Seagal's Character Casey Ryback doing what he does best: winning a knife fight and saving the world. The MacNicol Investment Team is always confident in Steven Seagal, we just aren't quite sure about the broader retailing sector.

Economic aboulomania: it's a coin toss...

Don't worry, we had no clue that aboulomania is the official medical term for pathological indecisiveness either. But rather than be feared aboulomania needs to be understood. The unfortunate condition can cause patients to experience severe anxiety and stress when posed with a decision. It sure seems like investors are experiencing a case of aboulomania these days. Deciding on whether the latest batch of economic numbers are a good news story, or a bad news story seems agonizing. At the same time frenetic market actions suggests that investors are flipping a coin to decide: heads bad news is good news since it supports more accommodation from central banks, tails bad news is bad news since it supports more education by central banks who have potentially lost control of the economy.



[Aboulomania originates in the pre-frontal cortex and while we cannot treat you for it, we can help make sense of investments for you.]

The MacNicol team feels that in order to gain insight into what the future has in store for investors, they must first take a step back and look at the past. On deck for all to see are meeting minutes from the September US Federal Reserve and ECB meetings. Policy makers at both organizations are beginning to express more diverging views on the proper path forward for monetary policy at this most critical juncture for the world economy. Whether US Fed Chair Jerome Powell or ECB President Mario Draghi faced more internal rebellion is a difficult question to answer. Powell's more parsimonious approach is what resulted in a wider range of both Dovish and Hawkish views in the United States (Eric Rosengren and Ester George argued against a rate cut while Jim Bullard was in favor of more stimulus). Draghi on the other hand is facing some more harsher criticism not only because of the eurozone's inability to achieve long standing economy targets.



[Eurozone core inflation which excludes the impact of more volatile components such as food and fuel has not achieved the ECB's 2% target during Mario Draghi's leadership, which began at the location of the red arrow. What's more is that recent Eurozone composite PMI data (which is sharply lower) augers poorly for the region snapping out of its economic "funk" anytime soon]

Rather than struggle with the emotional pain of not knowing what to do or banking your savings on a coin toss, why not come and speak with us to see what we think? At MacNicol & Associates Asset Management we have spent years helping investors de-stress with our independent views and time-tested safe harbour approach to investing.

Call us today at 1-866-367-3040 for a no obligation review.

Firm News

MacNicol & Associates Asset Management turns 18!!!



In September David MacNicol participated in the 23rd Annual Yellow Bus Foundation 100 Hole Golf Marathon. The small group of about 30 golfers raised over \$500,000 in the one-day event which sponsors children's charities that support children with chronic illnesses or those organizations that help to enrich disadvantaged youth. This event helps thousands of children each year. His son Ben participated for the first time this year. The weather was gorgeous which always helps as the participants played from sunrise to sunset.

As promised, craft beer fans can check out Dead Frog brewery by dialing 604-856-1055 for their Langley BC location and tasting room hours or you can click deadfrog.ca for more.

Fabi has visited Portugal in September. Here is what she has to say:



My family and I visited many places in Portugal for the first time this past month. Fifteen days was - and it definitely is - not enough to discover all of the Portuguese beauty and tastes. We visited many castles, palaces, historical landmarks, museums and churches. We enjoyed every flavour of the local desserts and seafood, not to mention countless wine tastings along the way.

The ninety-five degrees felt a lot different when visiting Portugal on a road-trip. It is not hot enough to warm the cold seawater of the beaches around Lisbon and laying on the hot sand feels almost impossible. In Faro, Albufeira or Tavira (in the South of Portugal), the temperature feels perfect. However, when you get to Coimbra, Porto, Braga or Guimaraes (in the North of the Country), it is chilly enough to use a cardigan in the morning.

We were all pleased with the experience. People are amazing and, the fact that we speak the same language - I am Brazilian by the way - made them open up even more for us. It was a marvellous and unforgettable experience. I am already planning my return.

MacNicol & Associates Asset Management Inc.