MacNicol & Associates Asset Management Inc., 130 Bloor Street West, Suite 905, Toronto, Ontario, M5S 1N5

November 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.

"The main purpose of the stock market is to make fools of as many as possible"

- Bernard Baruch

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		15.9%
NASDAQ:		26.4%
Dow Jones:		17.2%
S&P500:		22.3%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	1.68%	1.53%
5-Year Bond:	1.47%	1.55%
10-Year Bond:	1.49%	1.72%
30-Year Bond:	1.61%	2.20%

Economic Data:

- Bank of Canada holds key rate at 1.75%
- US Federal Reserve cuts a quarter point
- S&P500 Index closes at 3,066 on November 1st
- WTI Crude at $56.07 per barrel
- Copper at 2-year cycle low now below $2.60
- Gold at $1515 per ounce
- US October ISM Index lower
- US Initial jobless claims rise by 5,000 to 218,000
- Soft prices in Canada's oil patch see Encana rebrand and move to the United States

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	22.8	20.7
P/B: Price-to-Book	3.5	3.3
P/S: Price-to-Sales	2.3	2.1
Yield: Dividend Yield	1.87%	1.90%

Year-to-date Performance, by Sector: November 1st, 2019

S&P/TSX Composite	15.9%
NASDAQ	26.4%
Dow Jones Industrials	17.2%
S&P 500	22.3%
Russel 2000 (Small Caps)	17.9%
MSCI EAFE	14.4%
Crude Oil Spot (WTI)	23.9%
Gold Buillion ($US/Troy Ounce)	17.9%
SOX Semi-conductor Index	46%
VIX Volatility Index	-48.6%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

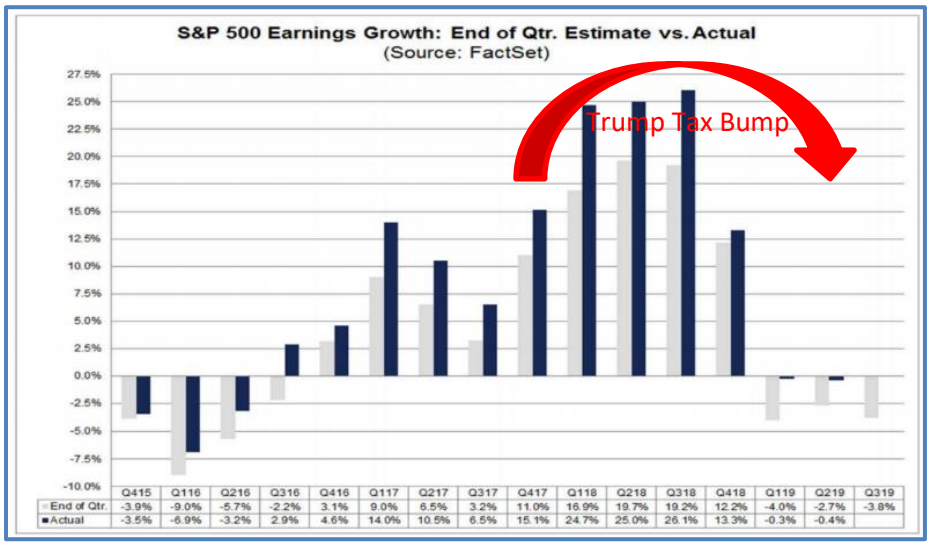
Foreign Exchange - FX

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 Nov 11, 2019 3:00 PM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3182	$3,793	$0	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3311	$3,756	$(36)	-1.0%
Raymond James	1.3315	$3,755	$(38)	-1.0%
Royal Bank	1.3444	$3,719	$(74)	-2.0%
Scotia	1.3504	$3,703	$(90)	-2.4%
TD	1.3519	$3,698	$(94)	-2.5%
Spot Rate	1.3183	$3,793		

Don't look down…

The MacNicol investment team would like to congratulate the Standard and Poors 500 (S&P500) index on its newest all-time high. By the time *The Monthly* hits your inbox the S&P500 index should be somewhere around 3,060 points. Of course, the exact level of the index really isn't the issue. The point is that index levels last contested in July and September have been surpassed and that is causing us to surmise that something might be dislocated.

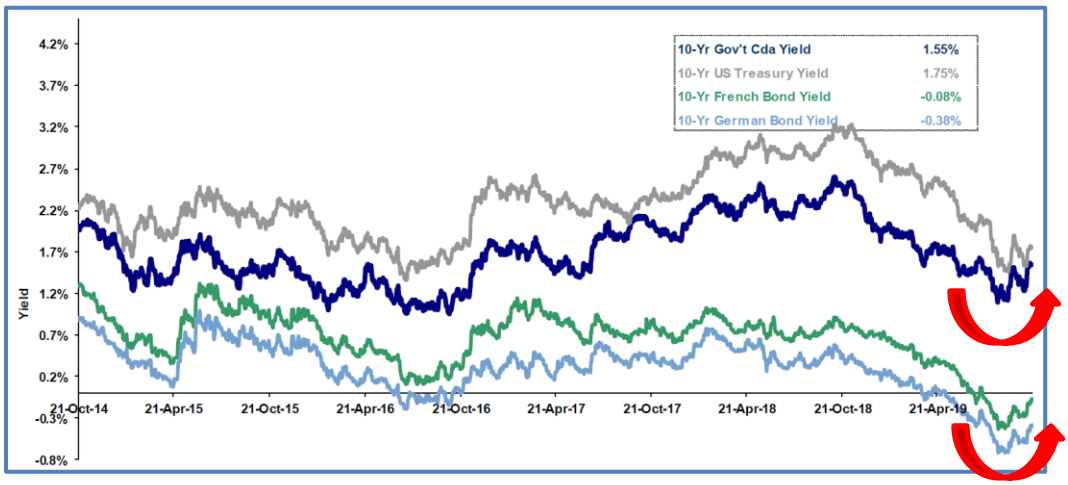


	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319
End of Qtr.	-3.9%	-9.0%	-5.7%	-2.2%	3.1%	9.0%	6.5%	3.2%	11.0%	16.9%	19.7%	19.2%	12.2%	-4.0%	-2.7%	-3.8%
Actual	-3.5%	-6.9%	-3.2%	2.9%	4.6%	14.0%	10.5%	6.5%	15.1%	24.7%	25.0%	26.1%	13.3%	-0.3%	-0.4%	

[The table above from FactSet shows that the pace of corporate profit growth is beginning to decline.]

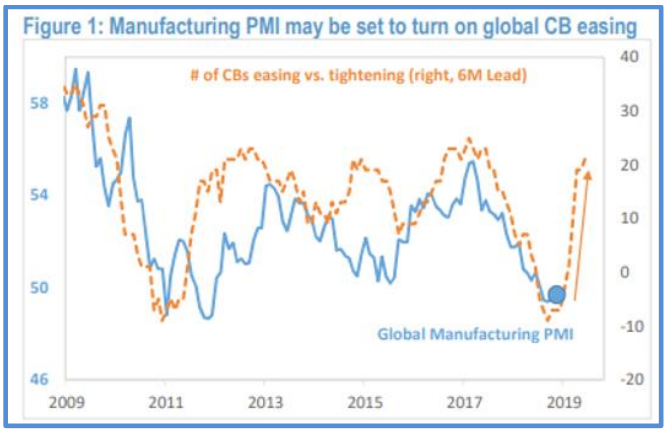
If you assume that everything is still firmly intact, then you'd have to assume that much of the market's recent ebullience boils down to trade and BREXIT…and that's just fine. But are more conciliatory trade terms or a rosier BREXIT going to power all 500 stocks in the S&P higher as the boost from the Trump Tax Bump becomes harder and harder to find in corporate earnings reports? But we know what you are thinking…

"*Aren't yields globally on the up-and-up*"?



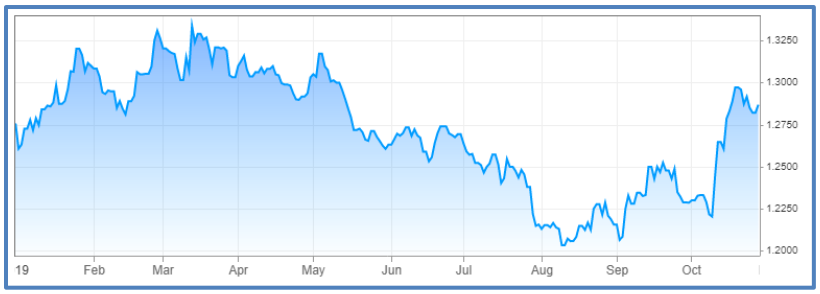
[After torpedoing lower for a year global bond yields pulled a sharp "u-turn". We certainly get that many investors view the reversal as a counter trend rally in what was a grotesquely overbought bond market…but given the lack of <u>convincing</u> evidence of an improvement in the global economy we view bond market action thus far in Q4 as suspect.]

Now assuming you believe in the power of central banks you still have to plan on a solid 6-to-12 months for signs of life to emerge. But you also have to factor in a variation of the law of diminishing returns: a decrease in the marginal output of the economy as the amount of a single factor of production is incrementally increased (in this case access to cheaper money).



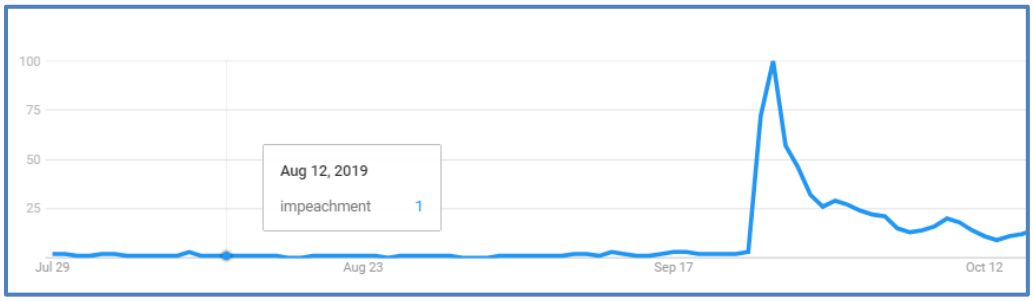
[In their latest study of Manufacturing PMIs JP Morgan and the Bank of International settlements demonstrated a roughly 6 months long lag between more accommodative monetary stimulus and manufacturing activity. However, it doesn't *always* worked like that - just take a look at 2015/2016. The S&P500 index is placing an awful lot of stock (sorry couldn't resist) in this relationship maintaining its status quo.]

Another thing com**pound**ing the dislocation in US stocks is the dwindling risk of a "no dice" Brexit deal, which has supported investor sentiment. A weaker US dollar over the past 30 days encourages us to feel that parts of the European economy are improving and driving investors to price-in better global growth outside of the United States.



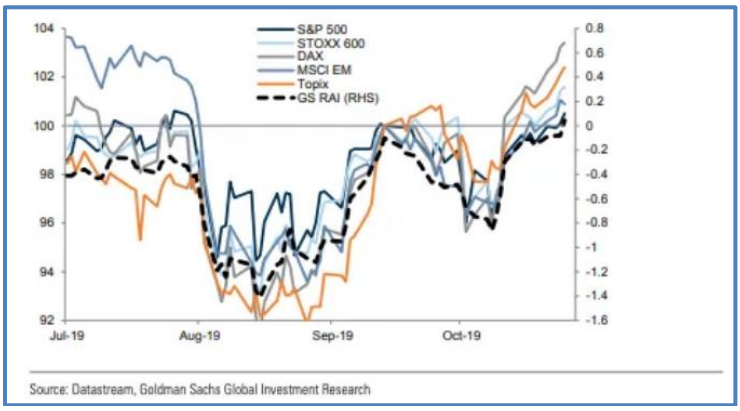
[A stronger pound more has signaled an "all clear" to investors shopping for risk assets. We are shopping for risk assets too, just more selectively.]

Donald Trump's recent, and extremely vague, comments about Chinese trade talks being "*probably a lot ahead of schedule*" likely added to equity valuations in the sense that they eliminated a major risk overhanging stocks yet not changing the fact that US corporate profit growth has slowed, sort of. And then there's impeachment…



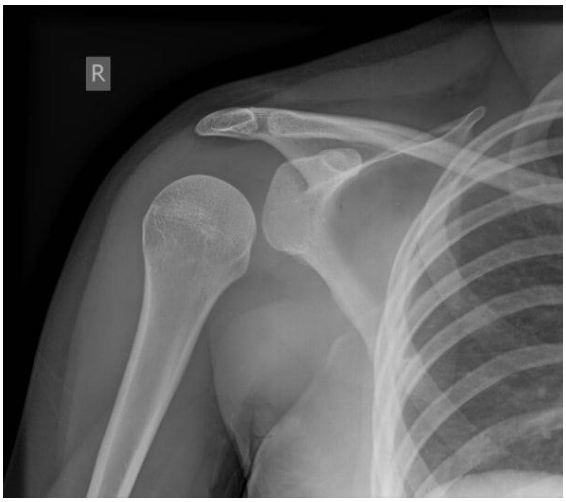
[Google Trends can help you determine the frequency that a particular search term (like impeachment) is used.]

The Germans in particular liked this love-concurs-all sentiment infecting markets…



[The German DAX stock market index probably had a lot of BMWs and Porsches impounded by: trade talks, the uncertainty of Brexit and ubiquitous global growth concerns. Today, the DAX is whipping up the charts like a German sports car whips down the autobahn. Let's hope investors (and drivers) have both hands on the wheel and their eyes open.]

Any time euphoria returns to the markets so quickly (newspaper clippings touting worst-case scenarios still lie in plain view on our desks) you have to ask whether anything has really changed. The MacNicol investment team believes the rally in certain stocks is sustainable but fall far short of signaling our acceptance of a broad-based market rally. Risk-assets fell hard during late September and early October and corrected that oversold condition but then took things a bit too far. Without a sustained improvement in economic data we worry this dislocation could result in a break.



[Posterior right shoulder dislocation…ouch. Let's hope investor expectations are firmly connected into their sockets.]

A synchronized global easing campaign, impeachment-fuel change of hearts and huge wave of British nationalistic pride may very well signal a turning of the tide. It's just that we don't dare venture out into the deep end with our shoulder continuing to plague us.

The MacNicol Investment Team

A *Buffett* of Liquidity

US Securities and Exchange Commission form 10-Q is a comprehensive report of a company's financial performance that must be submitted quarterly by all public companies. In the 10-Q, firms are required to disclose relevant information regarding their financial position, like say for example the amount of cash and short-term cash equivalents they have on their books. We will admit that form 10-Q is probably not something that you think about first thing in the morning, but occasionally reading through a company's 10-Q can give you some insight into what many top corporations are doing and validate what your portfolio manager is doing.

[I have over $1.24 Billion in cash that's as much as the GDP of Hawaii.]

One truly great 10-Q to read is that of a little company based in Omaha Nebraska and run by investment guru Warren Buffett. Having visited hundreds of investment websites over the past 18 years I personally find Berkshire Hathaway's a little blasé, but I was certainly able to access the information I needed quickly and effectively, which is a heck of a lot more than I can say about other sites. The information I was after is found below, and you can follow along on your own computer if you'd like to.

BERKSHIRE HATHAWAY INC.

Berkshire Hathaway is re-engineering small business insurance.

Click here to find out more.

	Reports			
Year	1st Quarter	2nd Quarter	3rd Quarter	Annual*
2019	1st	2nd	3rd	N/A
2018	1st	2nd	3rd	Year
2017	1st	2nd	3rd	Year
2016	1st	2nd	3rd	Year
2015	1st	2nd	3rd	Year
2014	1st	2nd	3rd	Year
2013	1st	2nd	3rd	Year
2012	1st	2nd	3rd	Year
2011	1st	2nd	3rd	Year
2010	1st	2nd	3rd	Year

[Berkshire's reporting may lack the bells and whistles of fancier investment sites but getting what you need is as simply as point-click-and-observe.]

As you can verify yourself, the "Oracle" of Omaha is sitting on a pile of cash, but then again, he always has been. Thus, the real value in sifting through a Berkshire 10-Q is comparing the size of the cash pile in front of you today with how it has changed over time. Relative to the 3rd quarter of 2018 (when Buffett held "only" $960 million worth of cash and short-term treasury bills) the "Oracle" more recently has felt the need to take Berkshire's cash weighting up to a beefier $1.24 billion.

Part I Financial Information
Item 1. Financial Statements
BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	September 30, 2019 (Unaudited)
ASSETS	
Insurance and Other:	
Cash and cash equivalents*	$ 71,064
Short-term investments in U.S. Treasury Bills	53,378
Investments in fixed maturity securities	19,172
Investments in equity securities	220,051
Equity method investments	17,535
Loans and finance receivables	17,135
Other receivables	34,511
Inventories	19,951
Property, plant and equipment	21,230
Equipment held for lease	14,934
Goodwill	56,478
Other intangible assets	30,788
Deferred charges under retroactive reinsurance contracts	13,359
Other	13,430
	603,016
Railroad, Utilities and Energy:	
Cash and cash equivalents*	3,712
Receivables	3,756
Property, plant and equipment	135,326
Goodwill	24,750
Regulatory assets	3,007
Other	14,915
	185,466
	$ 788,482

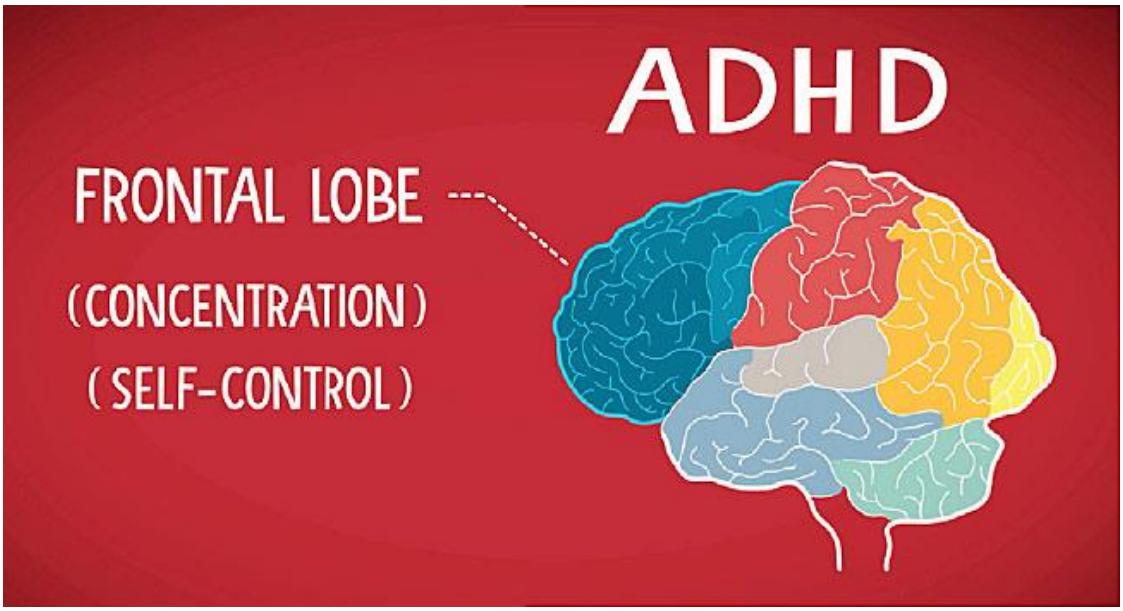
[What would I do with $1.24 Billion? Easy: I would donate the majority of it to health sciences research and ensure my family was well taken care of…well that plus my own personal lane of the Don Valley Parkway.]

Who knows, perhaps Buffett is thinking of buying the state of Hawaii…and who can blame him. But the point is this: if great long-term investors like Warren Buffett are clinging to cash, shouldn't your money manager? At MacNicol & Associates our mandate is to safeguard your family's capital and that can mean deploying new cash slowly, really slowly. It's not that we aren't scouring the market for opportunities, I can assure you we spend an awful lot of time doing that. It's just that opportunities are "slapping us" in the face as often as they did 3 or 4 years ago. Our process hasn't changed, it is more than market conditions (i.e. valuations) have changed. Before we put your family's hard-earned capital to work, we want to be certain that we are doing so with a healthy margin of safety around it.

Yes, sitting on a large cash position can be frustrating and yes, we fully appreciate that between insurance premiums and dividend payments alone a firm like Berkshire takes in tens of millions of dollars every quarter. But remember this, Warren Buffett didn't become one of the world's richest people by "rolling the dice" too many times in his career. Remember Buffett Rules number 1 and 2. Rule number 1 is don't lose money and rule number 2 is don't forget about rule number 1.

The MacNicol Investment Team

Investment ADHD



One of the things that working with the MacNicol team can do is help you avoid investment myopia, the natural tendency to focus on the short-term. Apart from helping investors avoid "bubbles" partnering with us can allow your overall cost of investments to fall. In James Montier's little book [it is literally the size of 2 smart phones glued together] *"The Little Book of Behavioral Investing",* Montier notes that the average holding period for a stock today is about 6-months. Back in the 1950s and 1960s investors use to hold stocks for 7 to 8 years. That is quite a difference and certainly one that can be explained by the general computerization of pretty much everything. But constantly buying and selling stocks does not actually make any sense. Such a myopic focus does not jive especially well with a more fundamental, and not to mention safe, view of investing.

We are not suggesting that investors are missing the forest for the trees after all the long-term *is* a series of short-terms. But what we are saying is that those who track stocks by the nanosecond often end up having to scrutinize an awful lot of trees and often loose site of the bigger picture. Montier goes on to share that in situations where a stock is held for less than 365 days, the majority of your return come from random fluctuations in share price. On the other hand, at 5-year intervals, 80% of the total return you achieve on any given stock are created by the price you pay – in other words your yield at cost – and growth in the company's underlying cash flow. This aspect of investing is something that all investors, especially those prone to the never-ending question of "*Is now the right time to buy or sell*", should understand. The MacNicol team feels that as investment time horizons have shrunk from years in the 1950s and 1960s to nano-seconds in today's digitally hyperactive world, a Keynesian quote is entirely appropriate:

"Human nature desires quick results, there is a peculiar zest in making money quickly…compared to their predecessors, modern investors concentrate too much on annual, quarterly and even monthly valuations of what they hold, and on capital appreciation".

- John Maynard Keynes

[Keynes was a visionary. Yet, when it comes to the amount of time investors take to stick with an investment, we feel the future is buried in the past.]

Unconvinced?

Perhaps a sporting metaphor will help. Suppose you are a goalkeeper in soccer. Your sole task is to keep the opposing team's ball out of your team's net. Next, consider that the average soccer match sees roughly 2.5 goals and a good number of penalty shots. Then, consider that a penalty shot has an 80% probability of resulting in a goal…and finally ponder this. Researchers from the department of Business Administration at the School of Management, Ben-Gurion University of the Negev studied more than 311 penalty shots from past professional soccer matches. The team found that penalty kicks were distributed (i.e. kicked by the opposing team's player) roughly evenly: one third of the kicks were to the right, one third of the kicks were to the left and the remainder were dead one. Even by simply standing exactly where they were (i.e. not making a move) the defending goalkeeper was already in a good position to stop 1/3rd of the shots they were likely to face.

Food for though because sometimes no action is the action that takes the most courage to enact.

The MacNicol Investment Team

Firm News

MacNicol & Associates Asset Management hosted renowned economist H. Woody Brock this month. Dr. Brock discussed a variety of topics but focused more acutely on monetary policy transmission mechanisms.

MacNicol President and Portfolio Manager David MacNicol was in Florida conducting a final examination of a real estate opportunity that we will more formally write up in our Alternative Asset Trust's Q4'2019 commentary.

The MacNicol team is pleased to announce that we are adding additional lighthouse images to our site. If you or someone you know has pictures of lighthouses and want them featured in a subsequent edition of *The Monthly* then please feel free to write us, we would be glad to include them.

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