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

January 2020

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 Inc. (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

"Of the maxims of orthodox finance none, surely, is more anti-social that the fetish of liquidity, the Doctrine of that it is a positive virtue on the part of investment institutions to concentrate their resources upon the holding of liquid securities". "It forgets that there is no such thing as liquidity of investment for the community as a whole."

- John Maynard Keynes

The Numbers:

Index:	**2019 Calendar Year:**	
S&P/TSX:	19.2%	
NASDAQ:	36.0%	
Dow Jones:	22.8%	
S&P500:	29.0%	
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	1.65%	1.57%
5-Year Bond:	1.60%	1.63%
10-Year Bond:	1.59%	1.82%
30-Year Bond:	1.70%	2.28%

Economic Data:

- US economy adds 145,000 jobs in December while unemployment rate steady at 3.5%
- S&P500 has 5th best year since 1975
- Loblaws closes distribution centres affecting 800
- TD and CIBC announce possible 2020 lay offs
- Commodities global stronger in forth quarter of 2019
- Energy Commodities volatile on tensions in Iran
- Canadian household debt to disposable income remains elevated at just over 175%
- Higher near-term Copper prices more a function of seasonality and inventory rebuilds than demand

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	24.6	20.4
P/B: Price-to-Book	3.7	3.1
P/S: Price-to-Sales	2.4	2.0
Yield: Dividend Yield	1.74%	2.08%

2019 Calendar Year Performance as at: December 31st, 2019

S&P/TSX Composite	19.2%
NASDAQ	36.0%
Dow Jones Industrials	22.8%
S&P 500	29.0%
Russel 2000 (Small Caps)	23.2%
MSCI EAFE	18.8%
Crude Oil Spot (WTI)	35.4%
Gold Buillion ($US/Troy Ounce)	20.8%
SOX Semi-conductor Index	52.4%
VIX Volatility Index	- 52.7%

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 Jan 14, 2019 1:20 PM	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	**No Public Rate Posted Online**			
Interactive Brokers	**1.305**	**$3,831**	**$-**	**0.0%**
Laurentian Bank	**No Public Rate Posted Online**			
National Bank	**1.3177**	**$3,794**	**$(37)**	**-1.0%**
Raymond James	**1.3229**	**$3,780**	**$(52)**	**-1.4%**
Royal Bank	**1.3323**	**$3,753**	**$(79)**	**-2.1%**
Scotia	**1.3402**	**$3,731**	**$(101)**	**-2.7%**
TD	**1.3395**	**$3,733**	**$(99)**	**-2.6%**
Spot Rate	**1.3050**	**$3,831**		

Year-end investment reviews *that come in early December*

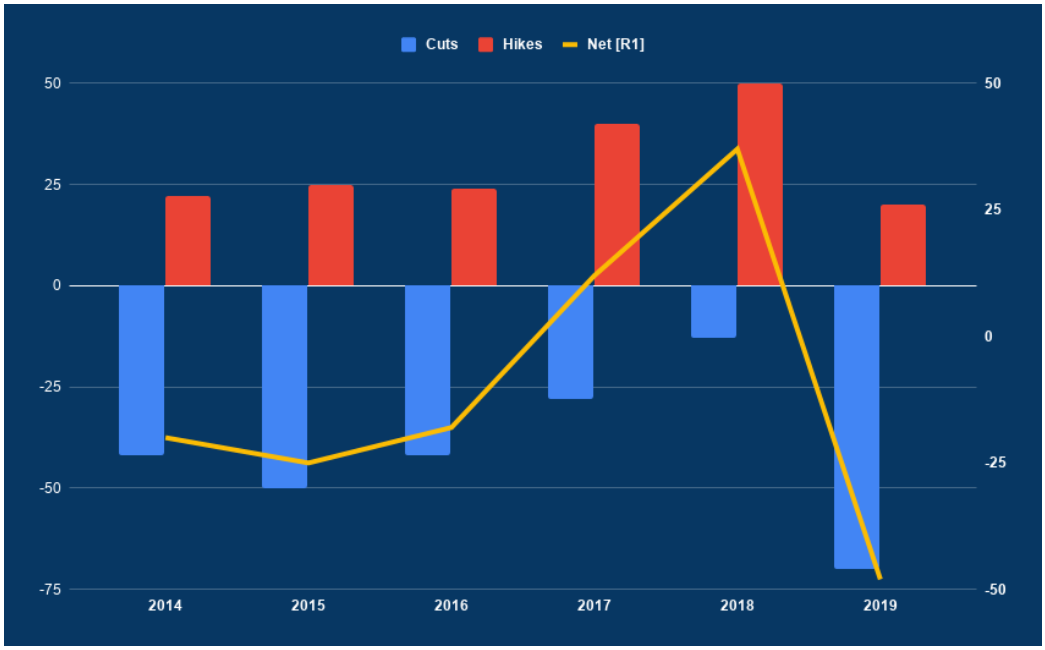
One of the things that amazes me is the number of research houses and investment newsletters that publish their "year-end" investment reviews in *early* December. A lot can happen in a short period of time, so I wait until after New Year's to begin writing my own year-end investment review to clients. 2018 was a perfect, albeit jarring, example of just how quickly markets can render the strategy of "*Why don't we just park a bunch of money into some random ETFs and hope for the best*" obsolete pretty quickly. On December 3rd, 2018 the S&P500 closed at 2,790 points. On December 23rd, 2018 no more that 13 trading sessions later the S&P500 was at 2,416 points. In three weeks nearly 400 points was loped off one of the largest and most liquid stock indexes in the world. Had you invested in early December of 2018, and then pre-occupied yourself with Christmas shopping the rest of the month, you would have likely experienced some form of holiday nausea.

[December 17th, 2018 was not a good day on the stock market. Charts like this were big, red and common as "Bah humbug" went the Bears.]

Fortunately, the 2019 Holiday season was a lot brighter for investors. A moderation in trade rhetoric and clarity around BREXIT caused stocks to rocket higher even as earnings were a bit of a mixed bag. We raised the issue of S&P500 earnings rolling over before, so our team viewed 2019 from a broader perspective seeing it as more of a recovery and less of a case of all out euphoria. Still 2019 was a strong year for stock prices so we enter 2020 wondering whether to welcome the 3rd leg of the secular bull run in equities with blind faith or keep our guard up. Many investors will ask us for our thoughts on the market and while a selection of musings for our primarily Canadian client base is described below, our general bias is to shoot first and ask questions later: valuations coupled with our preference for safety make us edgy.

Where do we go from here?

Despite the recent elevation of geopolitical tensions between the United States and Iran, the bigger quagmire between the United States and China seems to be moderating. Unemployment remains at generational lows; fiscal stimulus is accommodative and monetary policy globally is loose. Against this sort of backdrop, a constructive view on risk assets is probably the right one to have and make no mistake, we are constructive on risk assets, it is just that we feel we have to be more selective in order to provide our investors with the right mix of upside return potential and downside risk protection.



[2019 saw interest rates cut 70 times around the world and a constructive view on risk assets is a feeling that is hard to shake. As somewhat of a Fed obsessed market observer myself, I must tell you I found 2019's tally of 70 surprising and would have guessed no more than 50 if randomly asked.]

As mentioned, we primarily manage money for Canadian clients and although we always encourage a global perspective some areas matter more than most, like financials. The Canadian Banks are something of a motley crew to customers and investors a like. Not in the business of losing money very often or for very long, the Canadian Banks have been under pressure lately and it is unlikely to get materially better any time soon. Following a few years of yield curve flattening and threats from disruptive "Fintech" challenges, many of the traditional titans of finance are looking tired to us and some (like BMO) have mentioned that achieving previously unveiled 2020 earnings guidance will be "challenging". Not terrible, but far from a glowing endorsement and so we have deprioritized the traditional Canadian Banks by investing in Alternatives that allow us to benefit from Partners who target traditional consumers of financial services and those engaged

in the "gig" economy. As an alternative to these banks we have picked up shares in Mississauga, Ontario-based goeasy. goeasy is the name we felt more Canadians will want to know about and not just for their portfolios but potentially for their own banking needs as well. "I am also a client" is always a very good thing to hear…

[goeasy stock has outperformed the other Canadian banks, earns more than enough money to pay a dividend and has a market capitalization of less than $2 Billion. Do we feel goeasy shares can go even higher? The answer to that is yes.]

Another theme we see occurring in 2020 is the vindication of Gold as a barrier of protection in balanced portfolios.

["Super sized" deficit spending and modern monetary policy obligate investors to take a shinning to gold. At MacNicol we are not Gold "bugs", but we clearly see the need to hold names like Barrick Gold and Wesdome Gold Mines as a compliment to our positions in physical bullion.]

As governments around the world push deficits further the risk of holding fiat currencies must be balanced by the attractiveness of holding physical bullion and gold equities. At MacNicol we do like gold though we stop short of being framed as Gold "bugs". We simply believe that in order to achieve effective diversification, a component of portfolios should be allocated to precious metals and we believe we have an elegant approach to the space.

[We have been materially underweight the energy sector for several years but valuations are prompting us to examine certain energy companies that we would not have considered 3-years ago as potential investment candidates.]

The enterprise values of companies in the energy sector have caught our attention over the past year or so. We have resisted the temptation of investing in exploration and production companies (E&P companies) choosing instead to take the safer route offered by servicers and pipelines (such as TC Energy – the company formerly known as Trans Canada Corporation, and Inter Pipeline). But appealing valuations are encouraging us to develop a short list of E&P companies for a future date. Lower commodity prices have of course hurt the sector very badly since 2014 but large depreciation charges, write downs, dividend cuts and even job losses have resulted in energy companies operating much leaner. As future write downs due to weaker commodity prices seem less likely, our Investment Team is in the process of assessing not only the broader commodity picture, but which producers we would choose to join our existing toehold in the services space.

[New BCE CEO Mirko Bibic seems like good natured chap. Bibic is tasked with taking the leap to 5G from outgoing CEO George Cope. We hope Bibic continues smiling in 2020 and beyond.]

Significant discounts and subsidies from competitors contributed to slower wireless subscriber growth in the telco space, and save for a small position in Rogers, our exposure in this area is mainly through privately held firms that are: nimble, less likely to face regulatory challenges and often the acquisition targets of the Canadian triumvirate. BCE's new CEO Mirko Bibic was on BNN television earlier and though he projects a likeable persona on air and is very well credentialed we wonder if he can take BCE into the future given the domestic and global challenges that lie in front of him.

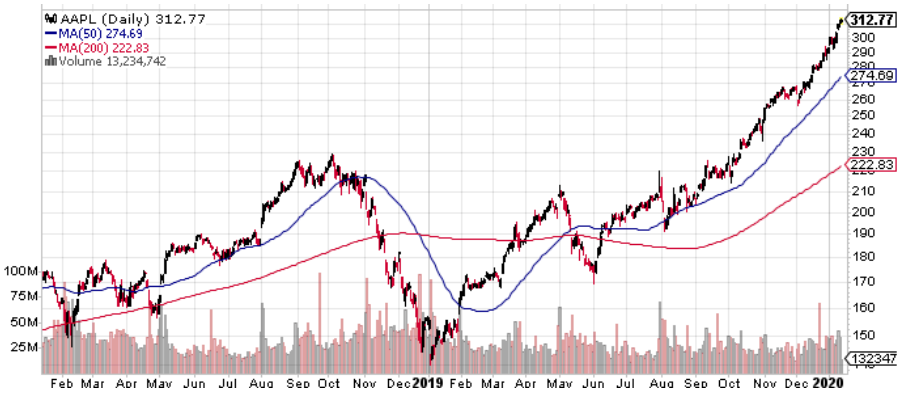
Trudeau pledges to cut Canadians' cellphone bills by 25% within four years

Also promises to raise basic personal income tax deduction, saving average family $585 a year

The Liberals say that Canadians pay up to twice as much for wireless services than people in other G7 countries. *Peter J Thompson/National Post*

[Executives at Rogers, BCE and Telus alike face domestic threats at home and from unconventional US challengers like Netflix and Disney. Is the profit pumping Oligopoly over? Well let's put it this way: we certainly are not planning to add to any of these Canadian names in the near future.]

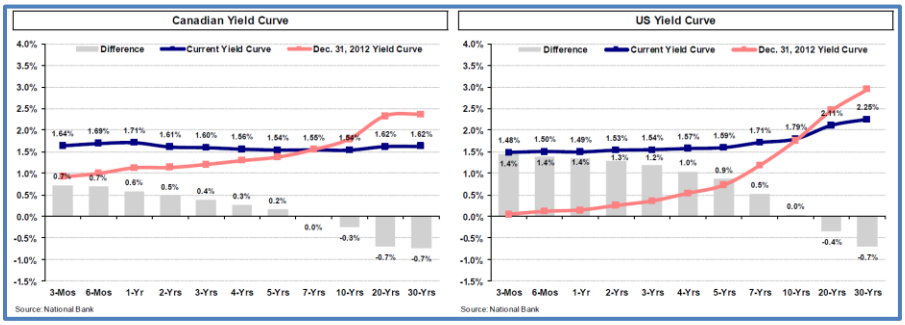
Technology and innovation are the key growth engines of any well diversified portfolio (and economy). But be weary of the pitfalls that come with piling into yesterday's winners. Apple stock has done remarkably well especially in the fourth quarter of 2019, but does the world really needs more smart phones (or trillion-dollar companies)?



[Apple's iPhone 10 started out as a flop but Analysts expect 3 million units to be delivered in the 1st quarter of 2020. Still we know that Apple is not all about just iPhones anymore. A focus on services is a step in the right direction but we believe Microsoft's cloud platform has too far of a lead on the business side with Amazon similarly ahead on the consumer side.]

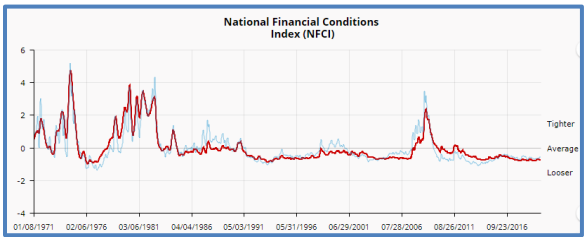
An ease in trade tensions and a focus on services have helped Apple achieve trillion-dollar status but we prefer to blend privately held, data-driven companies engaged in the Artificial Intelligence space with our lone listed position in Microsoft. Despite regulations, we see optimism about Microsoft's cloud business rising more consistently than Apple's.

Rising rates have been a risk factor to many in the bond world, they have been a risk that simply has not come to fruition. With a variety of global ISM surveys signaling the potential for lower global growth, the MacNicol Investment Team views the bond market as a pricey, place to invest, but one that might ultimately view rate hikes as off the table for the foreseeable future.



[Flat as a pancake and likely to remain that way: the case for buying isn't a great one, but it isn't a bad one either.]

Beyond individual areas of the market, one facet of investing we believe will take on renewed importance in 2020 and beyond is liquidity. The National Financial Conditions Index (NFCI) is a liquidity measurement tool we recently began tracking to study broader, economic liquidity. Positive values of the NFCI have been historically associated with tighter-than-average financial conditions, while negative values have been historically associated with looser-than-average financial conditions. The NFCI is published by the Federal Reserve Bank of Chicago and is comprised of over 100 unique indicators of things like money flows, debt and equity markets and even the shadow banking system. Since the NFCI is an inverse index, readings above zero in the below chart signal tightening monetary conditions rather than loosening ones. Though the NFCI does not speak directly to the liquidity of individual stocks or bonds, its utility lies in its ability to communicate aggregate liquidity across the economy, which we in turn use to telegraphy volatility in financial markets, and thus our own portfolio specific allocations to cash and other holdings.



[Despite concerns that rates might be on the rise, the NFCI remains below zero and thus fairly loose.]

Corporations remain flush with cash thanks to the Trump tax cuts and Banks still have billions of dollars worth of reserves on hand from the Fed's years of quantitative easing. But the NFCI – like the John Maynard Keynes quote at the beginning – both remind us that liquidity can be an illusion, so speak to us if you have any questions and happy new decade.

The MacNicol Investment Team

The Bull Market: ***In Pink Slips***

2019 was a very good year for the stock market. In fact, 2019 was the best year for the S&P500 since 2013 and the 5th best since 1975. For perspective, 30% is four times the annual average return for the S&P500 and for several reasons but chiefly that one, it is extremely unlikely that 2020 offers investors a repeat of 2019's performance. Dovetailing the performance in stocks was a similarily excellent report on the status of the labour market. At 3.5% the US unemployment rate supposedly reached a 50-year low. You would have to go all the way back to 1969 to find a year when the US job market looked so "good" (as a whole) so we are perplexed by the one bull market that we fear might actually be gaining steam: the bull market in termination notices.

[Saying good-bye to people is never easy but the numbers reveal that some companies probably were not that beat up over it.]

Most Ontario residents know the challenges that faced and continue to face domestic automakers. The group has struggled both domestically and abroad. Not as well known is the scope of the carnage. In May of 2019 Ford announced that they would be letting 7,000 salaried employees go in an effort to focus on fleet modernization and overseas sales [but have *you* driven a Ford lately?]. Not even 2-months later, Ford announced that 12,000 more workers in the Eurozone would be phased out through the end of 2020. Cross-town rival General Motors was at it too and let's recall that this is the same GM that went bankrupt a number of years ago. In February 2019 GM announced 4,000 job cuts over-and-above original plans (in 2018) to cut a total of 14,000 workers in North America. Like Ford, GM had to cut costs to compete with rivals while at the same time staving off the threats posed by ride share services like Uber and Lyft.

[You may not choose to have your Uber driver pick you up in an "Uber" exotic, but the option is there. And using someone else's Lamborghini takes the sting out of trying to buy one yourself even if finding one for sale is surprisingly easy. We found the sporty blue Huracan shown above very quickly but are still working on the four-hundred grand needed to buy it.]

Nissan has been in the news for a number of wrong reasons lately, including the alleged escape of ex Chair Carlos Ghosn from Japan to Lebanon via Istanbul in – are you ready for this…a box. We have owned Nissan's before and they are great cars with comfortable seats that would have come in handy during that 8-hour flight from Osaka to Istanbul. But the ride for Nissan workers has been anything but smooth and quiet: the company announced plans to put the brakes on 12,500 works by the end of 2022. Telsa's struggles have received ceiling-to-floor coverage from most media outlets and it was too easy for observers to plug into that company's struggles, which culminated in CEO Musk sending 3,000 of his works home simply to conserve cash.

[The sky really is falling at Deutsche Bank, in July the firm announced an $8.3 Billion restructuring charge. Want a career with "banker's hours"? Try reading our past edition of *The Monthly* where we discussed the "gig" economy.]

But automakers are not alone when it comes to gaining traction. The world of financial services is contracting at an alarming pace. Deutsche Bank announced that it was disposing of 18,000 by 2022, effectively closing its equity sales and trading division and culling its struggling investment banking arm to just a small handful of Managing Partners. German counterpart Commerzbank also got leaner as it slashed nearly 4,300 jobs in retail banking and consumer credit but did manage to offset some of the bleeding with new hires in operations, technology and compliance.

[This is where I bank. Its quiet…eerily quiet and I have not seen a teller in years. The machines do not wish me a good trip whenever I exchange money even thought I secretly suspect they know that I am going somewhere.]

HSBC Bank began printing pink slips in August with the first wave of 4,000 employees sent home, and then another round of cutbacks announced in October in which 10,000 more staff were relieved of their duties. Low interest rates, and lower profits were to blame and…painful as it might be…cost cutting was their only hope. At Wells Fargo, termination notices were more of a rule and less of an exception to the rule. The San Francisco based lender began slashing jobs in 2018 with plans to sack between 5-10% of its work force [which stood at 265,000] over a 36-month period. As 2019 was a relatively tamer period for Wells Fargo - look for 2020 to be ugly.

Our friends in the entertainment world did little to cheer us up. MGM Resorts fired 1,000 people in April and May. Video game maker Activision "ctrl+alt+deleted" 9,600 workers in late February. And entertainment powerhouse Disney even had to let go of 4,000 of its cute and cuddly characters following its $70 billion takeover of 21st Century Fox in March. Overlapping positions and a shift in priorities has made travel, tourism and leisure a tough sell.

[Disney's $70 Billion buyout of 21st Century Fox was a big deal, with big cuts in film and distribution. We hope the sequel is a happier one.]

With elevated economic uncertainly you might think that more people would become do-it-yourselfers…except you would be wrong: Lowe's announced in 2019 that it would let go "thousands" of maintenance and assembly line jobs, with the idea being to focus on selling more products to customers that they in-turn can assemble at home themselves.

Unfortunately, I could go on for several pages but stop here to address the core issue: how can the unemployment rate be so low while so many workers are simultaneously being let go. The reality is that the unemployment rate does not act as an accurate measure of the true health of the labour market because it fails to count everyone who does not have a job. And as to the conundrum of a health stock market? Well think of it this way: companies lay off workers as a result of a recession not in anticipation of a recession. So is the recession already here? Well, the stock market doesn't seem to think so. Hopefully fewer workers lose their jobs in the future and companies can drive shares prices with something other than share buybacks. For our part the MacNicol Investment Team will continue to safeguard your family's capital with prudent investment strategies and meticulously researched investments.

The MacNicol Investment Team

Guilt: the psychology of New Year's Resolutions

Happy New Decade.

This time of year, the thought of more Turkey smothered in gravy or another baked good just do not appeal to me. And the love affair I thought I had with fine wines from around the world turns out to be more of a cheap fling. It seems the dividends one's taste buds receive from gastronomic wonders and libations over the holiday season come at the expense of steep withholdings taxes. Prior to the start of this year, I ordered a few custom-made shirts. I do not have many clothes, but I do like to look presentable especially if we are meeting with clients. That investment came with its own fee but also its own dividend that I feel will help me stay true to my own New Year's resolution of staying in shape. So what is your New Year's resolution? Well if it includes getting serious about your investments, then we certainly feel we can help. Admittedly we will not constrain you as much as a girdle-esque, custom-made shirt will following a holiday eating binge but we will always be there to support you. Investing is a lot like working out and maintaining a good diet: both take discipline to apply consistently. At MacNicol and Associates Asset Management we have consistently applied our tried and true practice of combining thoughtfully considered conventional investments with innovative ones from the world of Alternatives. But perhaps our biggest asset is our ability to make you think differently about your investments today so you can always afford your lifestyle tomorrow. It's what we call Safe Habour, Safe Future and it is the art and science of Asset Management. Working with MacNicol can help you break the monotony that can be the lack of variety or tedious repetition of looking at the same old statements you get from the Bank. We understand that nobody likes change but you do not have to resign yourself to captivity. Our complimentary portfolio assessments are unbiased, objective and strictly obligation free. As a fully independent Asset Manager we recognize the importance of serving not just our investors but all investors.

The MacNicol Investment Team

Firm News

This year's RRSP contribution deadline falls on March 2nd and the maximum deduction limit is $26,500 if you earned over $147,222 in income.

Incorporated clients and Medical Doctors may choose to optimize the value of contributions made back into their companies in order to achieve greater flexibility in the amount (and timing) of retirement income withdrawals over RRSP's. Call us today if you would like more information about how to optimize Registered Plans and Corporations for maximum effectiveness.

With the beginning of a new calendar year comes the ability to add an additional $6,000 to your Tax-Free Savings Account, plus any withdrawals you might have made in a previous year. If you have Tax-Free Savings Account questions or concerns or would like to know how to set up a Tax-Free Savings Account for yourself or someone you love, please contact us today at 1-866-367-3040.

The MacNicol Investment team wishes to alert investors to the rising number of frauds centered around investments in new or unproven industries especially the recreational and medical cannabis space. With a new year comes a new wave of arms length and affinity scams designed to separate you from your capital. The robber barons are often the same but the unscrupulous "get rich quick" scams do change so be on the look out and speak to us or contact the Ontario Securities Commission.

We are thrilled to have Naima Egal back from her Maternity leave. She shares her thoughts here:

After welcoming my third baby in June, I am excited to be back. Having Layla has brought us so much joy. She certainly completes our family - I always say that she is the calm after the storm with already having two boys.
Three kids certainly changes the dynamics of things in my house but my husband Latif and I are really enjoying Layla. Maternity leave has allowed me to spend some precious moments with my little girl but at the same time, I miss interacting with adults. It feels great to connect with our clients and partners again and talk about my journey as a mother. Moreover, I can now help provide exceptional client services again. I am excited to be back and pick up where I left off.

Dave and Diane and their three children enjoyed a quiet holiday over the Christmas break. Their oldest son was home from school down south, so it was good to have the entire family together again. They spent a lot of time celebrating with both sides of the family and visiting relatives. It was a very restful and much needed break!

Fabiane Gaion flew away from the Canadian cold weather to be with family in the warmth of Brazil. She writes:

Every year I go back home for the Holidays. This year, the plan was to stay in Canada because I had a fantastic trip with my family throughout Portugal in September. When you live on your own and are far away from your parents, going back home for the Holidays is priceless. I spent ten days in my hometown (Londrina, State of Parana) and another five days with my sister in Rio de Janeiro. For the first time in nine years, I saw long-time friends and the whole family, including my grandmother, aunts, uncles and cousins. It was a great Holiday for me. Thanks to Dave and Diane who gave me this opportunity.

MacNicol & Associates Asset Management Inc.