May 2020

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.

"Two things are infinite: the universe and human stupidity; and I'm not quite sure about the universe".

- Albert Einstein

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		- 14.3%
NASDAQ:		- 4.2%
Dow Jones:		- 16.9%
S&P500:		- 12.4%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.21%	0.12%
5-Year Bond:	0.44%	0.38%
10-Year Bond:	0.61%	0.71%
30-Year Bond:	1.16%	1.42%

Economic Data:

- A wide array of fiscal and monetary support measures global help stabilize financial markets during COVID 19
- Stocks markets well off the March low but now facing a tough uphill battle
- Global labour markets sustain job losses in the millions
- Several firms flirting with bankruptcy
- Gold holding its own in the $1,700 range

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	21	21
P/B: Price-to-Book	3.1	2.8
P/S: Price-to-Sales	2.0	2.1
Yield: Dividend Yield	2.08%	2.16%

Year-to-date Performance, by Sector: May 1st, 2020

S&P/TSX Composite	-14.3%
NASDAQ	-4.2%
Dow Jones Industrials	-16.9%
S&P 500	-12.4%
Russel 2000 (Small Caps)	-24.5%
MSCI EAFE	-19.7%
Crude Oil Spot (WTI)	-69.2%
Gold Bullion ($US/Troy Ounce)	11.3%
SOX Semi-conductor Index	-24.0%
VIX Volatility Index	78.6%

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 May 7, 2019 9:00 AM	**$5,000**	**Cdn**		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.4077	$3,552	$(6)	-0.2%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4204	$3,520	$(38)	-1.1%
Raymond James	1.4230	$3,514	$(44)	-1.3%
Royal Bank	1.4356	$3,483	$(75)	-2.2%
Scotia	1.4484	$3,452	$(106)	-3.1%
TD	1.4397	$3,473	$(85)	-2.4%
Spot Rate	1.4053	$3,558	$-	0.0%

Whistling past the graveyard...

Though a large contingent of lawmakers, central bankers and health care experts continue to deal with the enormous economic and human impact of COVID 19, attention is beginning to shift towards what life *may* look like once the crisis has passed. The MacNicol Investment Team is cautiously optimistic about financial markets but not in a manner that conjures up images of whistling past a graveyard. The debate currently making its way around economic circles is whether the recovery will be “V” shaped, “U” shaped, “W” shaped, “L” shaped or (take your pick of the remaining 22 letters in the alphabet) shaped. It is a debate we are interested in following, but for the most part don’t really have an opinion on.

In reading dozens of such reports each week, I can tell you that we certainly feel the prospect for a "V" shaped recovery (which is the kind where the economy immediately leaps back to full capacity) is ambitious. But we believe that investors should focus their attention elsewhere. Attempting to decipher the shape of the economic recovery is an exercise in predicting the future, which we know is murky. Numerous industries face a challenging road ahead with some having sustained permanent economic damage. Still, the simple fact that the economy as we once knew has been badly bruised by COVID 19, but opportunities do exist – even if alternating "lockdowns" are part of the new economic reality for *years* to come. So, in this edition of *The Monthly*, I thought I would share with you some of the industries we believe may do well in a world defined by the constant looming threat of COVID 19. Certain industries will rebound strongly as social distancing measures are eased with others experiencing less robust resurgence. Thus, rather that deciphering the shape of the economic recovery, we offer that a better activity might be to realize is that COVID 19 could and likely will act as a catalyst for trends that were already well underway.

With millions of workers forced to work remotely to help flatten the rise in new COVID 19 cases many businesses have enhanced their connectivity and remote working capabilities. I view this as a positive. In my own case, I have learned 3 new applications just this past month alone: ZOOM, FaceTime and VirBELA Open Campus. Learning a new application can be frustrating, much like starting a new diet or exercise regime. But just like a new diet or exercise regime many companies may conclude that it is less expensive to keep larger percentages of their workforces at home especially when technology mitigates losses in productivity. Added savings from foregone offices spaces, parking spots, travel and meals and other overhead items will compound savings and the reduction of people "racing" to their desks each morning will reduce the strain placed on our crumbling roadways and congested transit systems.

Global Workplace Analytics, a research-based consultancy that helps firms deal with issues in workplace flexibility calculates that a third of *all* employees can work remotely for at least "some" period of time. But when singling out workers in professional, technical or financial services fields the number spikes to three-quarters. Perhaps this is why remote working is (and has) been on the up-and-up in the United States for a decade. Global Workplace calculates a 10% annualized growth rate for the decade ending in 2019. And policy makers have taken note of the trend also. The US Federal Reserve has estimated that the share of the remote labour force has tripled in the past 15 years. But how does this trend impact company bottom lines? Once again citing Global Workplace, the "average" business saves about $11,000 for each employee that works remotely, and its not just the businesses that are saving money. Workers themselves save on average about $3,000 from food and commuting expenses. From personal experience, the numbers make sense. I drive a relatively efficient car but am preposterously addicted to coffee. Frequent trips to Starbucks (when I could still go to Starbucks) quickly add up and formed a visible line item on my banking statements. Sure its nice to have someone present you with a coffee and the overall experience of going to a coffee shop can be fun, but the reality is I can make equally delicious "java" at home for pennies a cup. At the same time, workers with very young children, poorly behaved pets or a home frequently targeted by solicitations might miss the more controlled and dynamic environment that life in an actual office offers. Still COVID 19 has forced employers to completely rethink the way they approach not just employees who can work remotely with ease but those who can work remotely in general. And this has created a boom for business that you might not have even thought about, as well as, those that immediately come to mind.

Demand for greater bandwidth and VOIP (Voice-Over Internet Protocol) has hugely benefitted companies like Durham, Ontario based telMAX which we purchased late last year. TelMAX is involved in retrofitting traditional copper wired tunnels under most of Durham Region with better performing fibre optical cables. Huge increases in group web conferences have pushed traditional copper wired networks to their absolute limit and companies like telMax are helping maximize performance while at the same time maximizing their bottom lines.

But demand for specialized offices chairs, desks, printers and laptops is also booming as more and more kitchens, dinning room tables and basements transform into makeshift offices. And if you think the need for fibre optic cables and laptops is up wait until I tell you about what is going on in the world of artificial intelligence (AI) and robotics. AI and Robots are of course far from new. In 1985, my Father purchased a gigantic Oldsmobile Cutlass Cruiser station wagon for our family. One of my fondest memories of that car which was equipped with air conditioning was waiting for Dad to get back from work on a swelteringly hot day so that I could sit inside and cool myself with its controls (the AI) and robotics (the air compressor and pipes that fed cold air into the cabin). But as you can imagine, times have changed and so too has technology. Recent developments in AI and Robots and in particular how they are applied go far beyond a young boy's thrill of playing with his Father's new Oldsmobile. Robotic communications have the potential to greater **reduce** human-to-human contact in not only conventional retail environments like a clothing or apparel retailer. The technologies that enable telemedicine and automated patient monitoring, specimen sample collection and testing go a long way towards keeping our courageous front-line medical workers from getting sick. Robotics and AI might also assist healthcare professionals to treat COVID 19 "hotspots" remotely vastly increasing the healthcare system's response. Robots might also be used to help prevent future outbreaks (of COVID 19 or the next "superbug") by monitoring body temperatures in places like boarder crossings, airports, cruise ship terminals or gyms. The data analyzed by robots, and collected in real time, would help policy makers formulate a better (not to mention faster) response to the next threat before it becomes a global calamity. And Robots could also be used to sterilize contaminated areas more safely without having to put the lives of human workers at risk.

Speaking of vehicles...

The need for social distancing during the pandemic might just be the spark that spurs on further development in autonomous delivery vehicles. The Mayo Clinic, in a partnership with Beep and the Jacksonville Transportation Authority (JTA) recently began deploying autonomous shuttles to transport personal protective equipment and COVID-19 test samples collected at a drive-thru testing site. The hope is that the fish-tank shaped buggies will expedite delivery of much-needed supplies while reducing the risk of human exposure. COVID-19 test samples are stored in secure containers prior to Mayo Clinic staff loading the contents onto the shuttle, which then takes routes isolated from pedestrians and traffic while Mayo Clinic, Beep, and JTA personnel monitor them from a mobile command centre. A human-driven SUV or truck follows behind each shuttle to ensure they remain on-route.

Beep, Beep...

The ability to limit human contact with hazardous materials shows the obvious potential that such technologies have. Though in order to be totally effective, the shuttles would not need a human driver to flank the transporter and be able to expand beyond a contained physical domain.

But it is not just explicitly risky materials such as COVID 19 tests that could benefit from purely machine-based delivery. The rising use of delivery services to bring things to our homes in this isolated period underlines the importance of limiting human to human interaction. Rather than having members of the "gig" economy worry about their own health when dropping off stuff at your home or mine, foods and household supplies could be delivered by drones. Of course, right now, drones technologies are being applied mainly through a "campus" type setting much like that of the Mayo Clinic. Broader based adoption would require investment, and we feel that such investment could become extensive should shutdowns linger, or a 2nd wave of the pandemic emerge. Remember, a proven vaccine is still not available. But the fact remains that drones have been used to delivery more things to more people in more isolated places than ever before so its an area of keen interest to the MacNicol Investment Team.

A world defined by self quarantining will also motivate people to shop and bank online much more than they have in the past. But I don't just mean the "Amazon effect" or the payment of bills. Long before COVID 19 was discovered, traditional

retail stores were struggling with their e-rivals as the e-commerce revolution ballooned. According to BMO Capital Markets, US online retail sales grew at an average annual rate of 15% per year going back to 2012.

In 2019, 11% of all retail sales were accounted for through online channels, and fewer and fewer traditional products are thriving offline – even clothing. The dramatically increased efficiency by which clothing can now be returned coupled with faster delivery times has driven more shoppers to download online shopping apps. But COVID 19 has modified consumer behaviour in a wider array of demographics like seniors. My own Dad (from the earlier Oldsmobile story) now shops online for many of his day to day needs and while this certainly may not seem newsworthy, it is important to note that more retailers will have to provide robust online solutions for not just 20 year old propeller heads but 75 year old technophobes alike. Retailers will need to invest in technology to not only survive the hardship of the pandemic period, but the period that follows.

Classrooms in a COVID world...

Who can ignore the transformational shift experienced by the education system? Whether it is the local primary school in your neighbourhood or the University of Toronto's St. George campus the education system as we knew it all but shut down completely. Fortunately, e-learning applications quickly made it to the head of the class. Teachers and Professors have been forced to move their lessons online accelerating a transformative shift in pedagogy. And even after COVID 19 passes the use of e-learning modules is unlikely to go away. In an increasingly interconnected world e-learning may greatly reduce the costs of education for students and governments while enhancing convenience and delivery of academic content. Learning Management Systems (LMS) are so huge in fact, that reportlinker.com pegs the industry's value at nearly $200 Billion. It is also why we focused on LMS in our recent webinar *The Big Re-Boot.* But LMS has a wider variety of applications than helping stereotypical college freshman or even the little boy and his father in the picture above. Businesses around the world are increasingly turning to LMS solutions for in-house employee training programs that allow new hires to begin adding value to companies more quickly. And finally, analytical systems in the world of software and cloud computing will become even more important when it comes to evaluating student progress, and policing student ethics. We mentioned last year that Turnitin, a private technology firm we held through a limited partnership, was acquired by Advanced Publications for nearly $1.8 billion is a sign that the plagiarism police we upping their game as well. Although the world knew not of COVID 19

back of March of 2019, experiments with a new world of e-learning and how e-learning is delivered, evaluated and monitored were revolutionizing education before our very eyes.

And what about bricks and mortar?

Any broadly based reduction in economic activity poses an enormous threat to commercial real estate (CRE). Many tenants have either missed payments or informed their landlords of the challenges ahead in the event that the crisis continues. But arrangements to make, delay or defer this or next month's rent in sectors of CRE that depend on a high volume of foot traffic, betray a look at the longer-term. CRE may very well be permanently changed in surprisingly good or surprisingly bad ways. The office category of CRE is doubtlessly struggling under the duress of remote working, be it temporary or rotating and longer-term vacancies will hurt overly ambitious landlords and investors who underwrote aggressively. After all, a cost cutting measure to some is lost rent to others and REITs and LPs focused on the office segment are bound to have tough times ahead. On the other hand, markets dominated by longer-running demand drivers of technology and professional services should prove resilient and we expect less challenges in markets like Toronto, Montreal and Vancouver. Indeed, absorption rates in Canada's "Big 3" markets has always been well above National averages and will likely remain above National averages for the foreseeable future. But that doesn't necessarily mean vacancy will not be a problem. For markets like Calgary which were already struggling [office vacancy rate 25%] much more formidable challenges lie ahead. At the opposite end is industrial real estate and warehouses, which stand to benefit from a point-click-and-shop economy that was already well on its way towards bypassing traditional retail space. Capitalization rates or "Cap rates" on industrial real estate in Canada recently ducked below rates on retail space and its a trend I for one have noticed in terms of direct project specific indicators such as square foot valuations and in indirect indicators such as employment growth in: wholesale trade, transportation and warehousing which have grown at double the rate of traditional retail over the past decade. With residential real estate the longer-term movements could be like slow moving trains. On the one hand they say everyone needs a place to live and we continue to feel that larger urban centres will remain well supported by the sorts of demographics and labour market indicator trends that support demand. But to me the real question is whether more rural locations will actually increase in appeal in a potentially longer running [in some cases permanent] remote work environment. Right now, if I want a 4,000 square foot home on two acres of lush land my options include: a) winning the lottery or b) moving at least 100 miles away from where I live currently. If I knew that my career would involve only the odd trip to congested downtown Toronto and that my children will now learn from a monitor rather a classroom, why wouldn't I at least consider the option. Remember commuter friendly locations that flank transit hubs like Go Transit or TTC have on the one hand augmented the trend towards densification [Toronto and many cities like it are actually growing not contracting] yet also exposed these mainly policy driven places to the dangers of social distancing which run counter to that trend. In other words, rather than

being locked in a tight, congested Toronto home, many households like mine may opt to become locked in a large, airy, beautiful Caledonian home or one even larger and much further away. I suppose it is time to start digging through reports on workable farmland. Toronto has some lovely neighbourhoods but at some point households may question what all the hype is about: I mean we still cannot go anywhere right?

Know when to hold them, know when to fold them...

When it comes to industries to avoid, travel and tourism sits high a top any list of trouble spots. A long, long work out period marked by severe adjustments many of which we are seeing now (Air Canada for instance reported its worst quarter, ever...and CEO Calin Rovinescu was at a loss for words on the company's earnings call) with thousand let go, some possibly for good. An added complication around travel and tourism is that consumer sentiment and attitudes are hard to forecast. My colleagues and I at MacNicol & Associates feel we have reasonably good visibility into many of the areas in which we invest your money but this sector isn't one of them. The airline industry took 4-years to recover from the devastating September 11th, 2001 terrorist attacks and it could take **years** to return back to levels that merit investment. More near-term in nature is the simple fact that none of us really know when cross-boarder travel restrictions will be eased. Sure, some jurisdictions claim a "re-start" is either looming or partially underway, but I for one feel we are far from a place in which multiple daily flights are offered to your favourite locale.

To conclude, no one really knows what the fallout of the COVID 19 pandemic will be or when it will end. Perhaps even more unsettling is that to a small group of industries and the workers they employ - permanent economic damage may very well have been sustained. However, a number of very attractive investment opportunities do exist. On top of that, a deluge of fiscal and monetary support mechanisms have kicked in to support what's left. If there is one thing you can bank on its that the entire MacNicol Investment Team including our broader network of investment partners around the world stand ready to not only ensure that we get you through this, but to find relevant and timely investment opportunities that stand to serve your portfolio's greater good. Whistling past the graveyard, to us, is not about being ignorant to the dangers of simply assuming that just because markets are off the lows seen in late March that everything is fine. But like you, we too will breath a lot easier when we see the epitaph shown below, even if we could frankly give a dam about whether COVID 19 rests peacefully or otherwise.

The MacNicol Investment Team

Ujawnienie

In the interest of full disclosure, I happen to be of Polish descent and while I officially consider myself to be Canadian I am very proud of my Polish heritage. That was until recently. You see Poland as a country is known for a great many things:

beautiful country sides, delicious food and ice cream parlours on just about every corner, art, history and a rich culture. The Polish people are also widely regarded as hard working and personable, and many of my ancestors have made transformational contributions to art, science, literature and medicine. Poland also has two universities that are four times older than my alma mater (U of T). Madame Curie, Pope John Paul II and Nicolaus Copernicus (who graduated from Jagiellonian University a full 510 years before I took a stroll through its campus) are all of Polish background.

Yet of all of the places to visit in Poland, the last place I would recommend you see is the government buildings in Poland's capital of Warsaw. You see while most countries in Europe have postponed their elections for fears of in person polling putting voters at risk of spreading COVID 19, Poland is not one of them. Of course, it should come as no surprise that I was absolutely flabbergasted about learning of this. Poland's presidential election is scheduled to take place on May 10, and as *The Monthly* hits your inboxes, it would appear that any decision to the contrary will have to come via a contentious "11th hour" debate. The ruling coalition government, led by the nationalist Law and Justice Party, wants to delay the vote by just a week or two so that a mail-based system of voting can be rolled out. Fraud-proof systems of this sort often take months or even years to get off the ground. And so, it should not surprise you that the ruling government wants to capitalize on incumbent President Andrzej Duda's recent polling success and is even trying to bend rules which forbid any changes to elections within six months of the vote.

So...would I invest in Poland?

Let me answer that question in the following manner. Poland's economy is the 6th largest in the European Union and the largest among ex-Eastern bloc members. Since the 1990's, Poland has stuck towards following a policy of economic liberalization and – get this – its economy was the only one in the EU to avoid a recession during the global financial crisis. Poland is dominated by leading companies in areas like agriculture, financial services and manufacturing (own a diesel Volkswagen? Guess what...the frugal engines are made in Poland). Once again, the Polish people are smart, hard working and innovative.

However, thanks to a couple of politicians, I find myself in the uncomfortable position of gladly recommending that you visit Poland when the airways finally re-open while recommending that you keep your portfolio away from a place in which the interests of a few stand ahead of the interests of all.

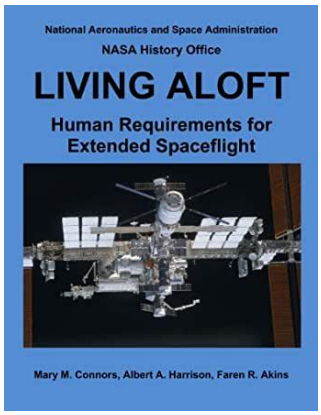
How isolation messes with your mind and your investments...

Dr. Kimberly Norris of the University of Tasmania is something of an authority on the affects that social isolation has on one's brain. Dr. Norris has studied the brains of astronauts, submarine crew members and people who oversee polar observatories high a top our planet. According to Dr. Norris' work, there exists an inflection point at which the novelty of being alone suddenly fades and in fact becomes much harder to bare. Dr. Norris states that there is an initial point called the "honeymoon period" where the novelty of making calls to clients in one's pyjamas is actually quite fun. But after a while, Dr. Norris mentions that things start to change. The novelty of being able to vacuum the roof shingles on one's home is replaced by the crushing sadness that comes with being isolated.

Human beings need meaningful social interaction in order to stabilize brain waves and ensure balance. In my own case, I have two young children and one poorly behaved, judgemental dog. I will openly admit to the fact that on more than one occasion I have desired to severely reprimand my kids for being overly rambunctious. Similarly, with my dog, there has been more that one time where I have wanted to have him shot at dawn. But the fact remains that I find my own situation a world better than that of my Father who lives completely alone. I also have several friends in various states of their own careers who either live alone or with someone and who are far worse off mentally than I am. And this is due to the fact that I can simply walk upstairs and interact with other people.

Dr. Norris goes on to suggest that – as COVID 19 lockdowns extend into May – we might be entering this bizarre period in which the pain of isolation is beginning to overwhelm the pleasure of finally (at long last) tackling that project you have been meaning to attend to for years. A tipping point in which the ability to steam clean the upholstery of my vehicle for the fifth time [this week] is being replaced by hollow-eyed stares down my vacant street as well as odd fixations and brooding resentment over why my grocery bill has gone from $500 to an even $1,000...even though I no longer have to buy gas, or take my business clothes to the cleaners or have to pay for Transit. In the psychological study of extreme confinement and isolation, Dr. Norris terms this as the 'third-quarter phenomenon' but the original background research into third quarter was discovered in early 1980's studies that set out to determine how long humans could survive in space. They found that radiation or zero-gravity were arguably less of a problem than interpersonal conflict caused by isolation. In short, being alone the odd time can be GREAT...but as isolation gets more lengthy...it can frankly suck.

Well in the book *Living Aloft: Human Requirements for Extended Spaceflight*, a third stage of anticipation marked by emotional outbursts, aggressiveness, and rowdy behaviour is documented. To me, there is a direct link between this stage and where we stand in the financial markets. Many commentators and strategists have suggested that the eye of the storm has past and the coast is clear. Even in last month's edition of this publication, we ourselves suggested that the coast is "clear". But we were extremely careful to underscore that despite the worst of the bear market having passed us...it is still important to remain cautious and be focused on what it is you are investing in. Remember, just because a stock has dropped by 50, 60 or even 80 percent, doesn't mean that it cannot nor will not go to zero.



Whether you are new to investing or a seasoned investor, working with MacNicol & Associates at a time like this can be a perk to your portfolio and your psyche. Besides, we'd love to hear from you so if you have any questions or simply want a second opinion please call us at 416.367.3040 or check us out at www.macnicolasset.com

Firm News

MacNicol & Associates Asset Management is pleased to congratulate Joe Pochodyniak for not yelling at his dog "Oreo" for an entire week.

MacNicol & Associates Asset Management is also delighted that Joe Pochodyniak conducted all of his weekly meetings and phone calls professionally dressed this week and not clothed in his traditional weekend garb of an AC/DC t-shirt and shorts.

Finally, Diane and Dave MacNicol are very happy that their eldest son has come home from Medical School and after a 2-week isolation period, David Jr. is back living with us and studying for one of his final exams.

MacNicol & Associates Asset Management Inc.