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August 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.

““Today I will do what others won't, so tomorrow I will do what others can't”.

- Jerry Rice

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		-11%
NASDAQ:		5.8%
Dow Jones:		-11.1%
S&P500:		-5.8%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.19%	0.16%
5-Year Bond:	0.48%	0.40%
10-Year Bond:	0.68%	0.81%
30-Year Bond:	1.27%	1.60%

Economic Data:

Expectations of an economic restart buoy stocks

Emerging markets gain strength on US Dollar weakness

Crude Oil doubles from April 29th, 2020 bottom

US weekly jobless claims under 2 million for the first time since the week ended March 14

A broad range of commodity indexes sharply high in May

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	22	21.4
P/B: Price-to-Book	3.4	3.2
P/S: Price-to-Sales	2.2	2.13
Yield: Dividend Yield	1.9%	2.0%

Year-to-date Performance by Sector: May 31st, 2020

S&P/TSX Composite	-11%
NASDAQ	5.8%
Dow Jones Industrials	-11.1%
S&P 500	-5.8%
Russel 2000 (Small Caps)	- 16.4%
MSCI EAFE	- 15.3%
Crude Oil Spot (WTI)	- 44.8%
Gold Bullion ($US/Troy Ounce)	13.9%
SOX Semi-conductor Index	0.35%
VIX Volatility Index	83.8%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

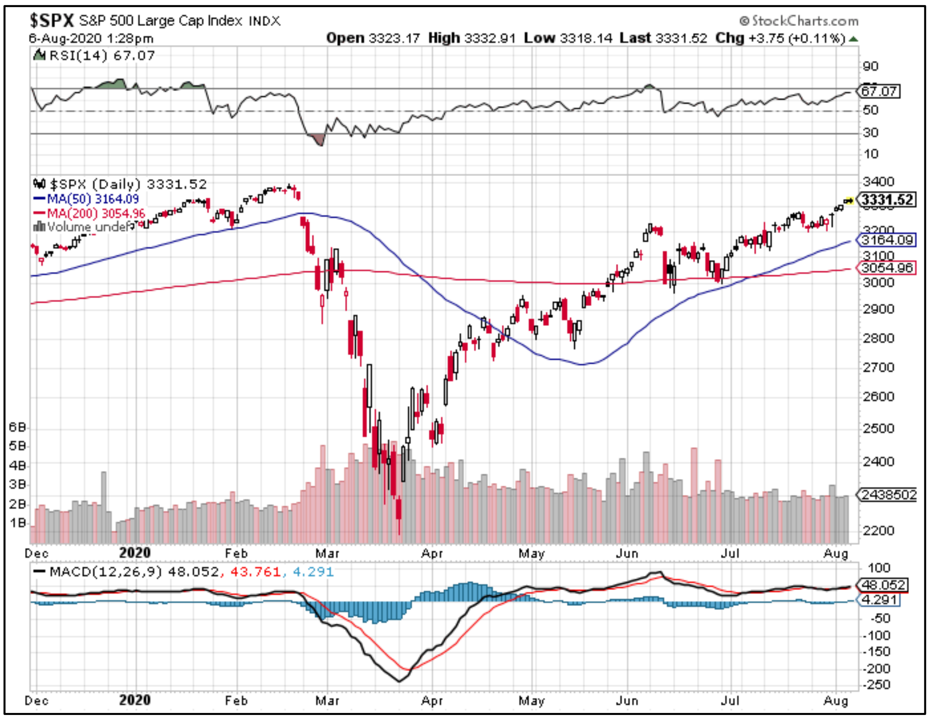
We continue to survey all the Banks and some Custodians to compare Foreign Exchange Rates charged. As you can see in the chart below some of these Institutions are charging considerably more than previous months when we did our first comparison. We tried to include some other firms, but they do not post 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 August 6, 2020 11:10 AM	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3301	$3,759	$-	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3655	$3,662	$(97)	-2.7%
Raymond James	1.3500	$3,704	$(55)	-1.5%
Royal Bank	1.3597	$3,677	$(82)	-2.2%
Scotia	1.3619	$3,671	$(88)	-2.4%
TD	1.3661	$3,660	$(99)	-2.7%
Spot Rate	1.3301	$3,759	$-	0.0%

Groundhog Day…

The concept of time is a funny thing. Sometimes one hour feels like an eternity and sometimes one year feels like the blink of an eye. Oddly enough, when I reflect upon the year so far, it is as if the year has passed in a blink of an eye while also lasting an eternity. It was back in February when the S&P500 registered it's all time high. Nearly 6 months have passed, and to say a lot has happened would be the greatest understatement of the century. Yet, if you were to pull up the price graph for the S&P (see next page) and compare the start of the year (pre COVID 19) to the last couple of months you may be met with a sense of Déjà vu. The price sits just shy of the 3,386 all time high and has exhibited a positive trend over the last month akin to that which was seen in January and early February.

This can be, in large part, attributed to the reopening of businesses and the stimulus packages nations have provided their citizens. Furthermore, many businesses demonstrated the ability to transition to e-commerce and work from home solutions, another such factor which allowed the economy to get back on its feet. Although, larger companies seemed to have faired much better than their smaller counterparts. Take for instance the Russell 2000 versus the S&P500, where the Russell has an overall negative return year to date whereas the S&P has a positive overall return (see table below). This may be a result of larger companies having greater resources which they could invest into the online transition while also having enough funds to act as a safety net to keep them afloat during the downturn.



		Rolling Cumulative Returns
		Custom 12/31/2019 to 08/05/2020
Symbol	Last ($)	
SPX	3,327.77	3.00
RUT	1,546.24	-7.33

Source: Dorsey Wright

When looking at the S&P, the part which really stands out is the speed of recovery which has occurred over the last few months. In a mere couple of months, the S&P saw a historically quick downturn erased by an equally stunning market recovery. It was so fast it even trumped the recovery seen during the global financial crisis.

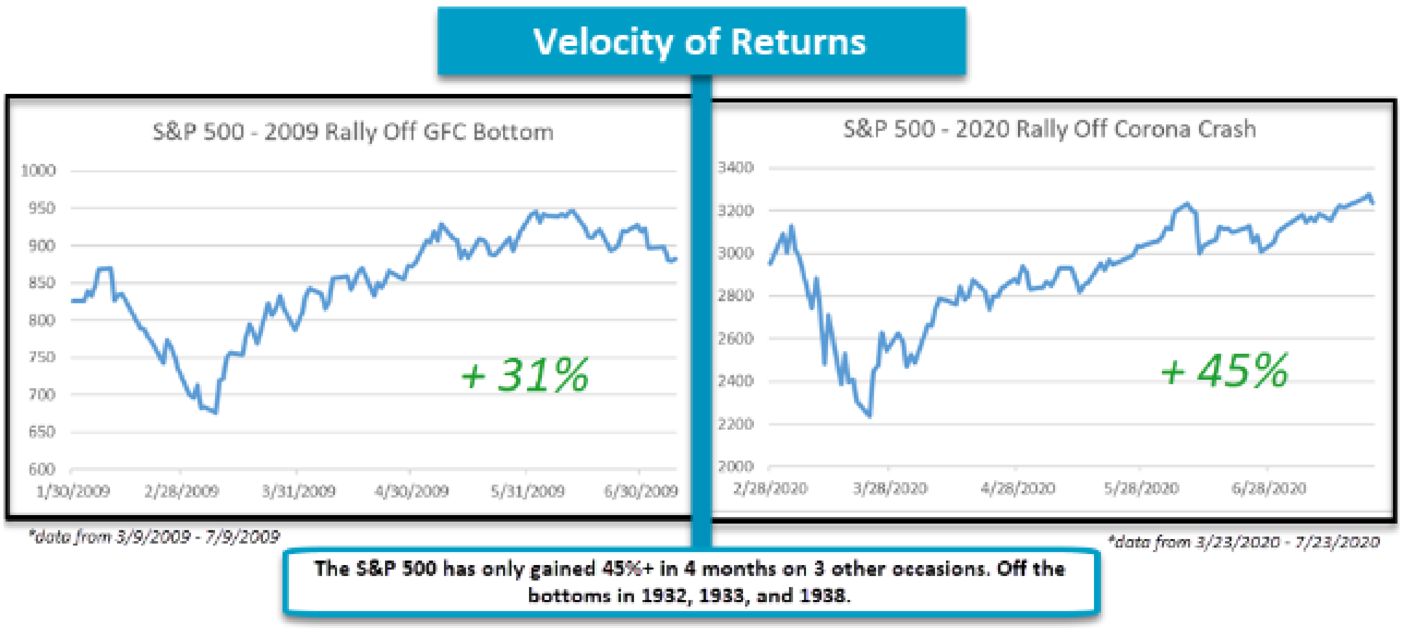
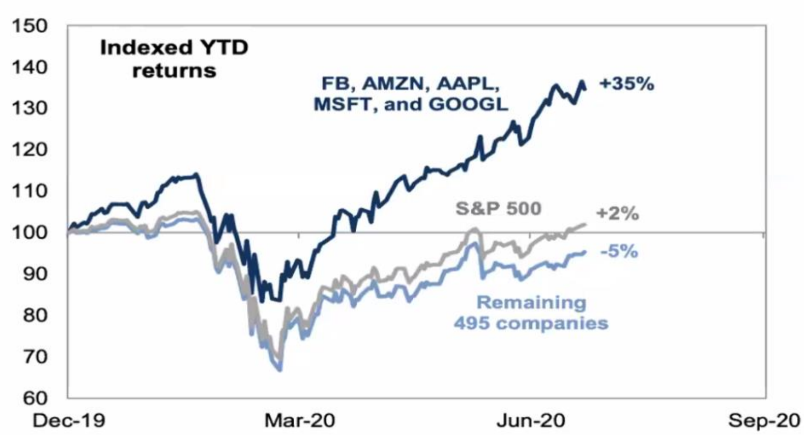


Image Source: NASDAQ DORSEY WRIGHT

On the face of it, all signs seem to be in favor of the market, but one should not be lulled into a false sense of security. It is no secret a large portion of the S&P is being driven by the technology sector. What is more surprising, however, is the magnitude of the impact these stocks have on the S&P. One look at the graph below and the picture becomes clearer. It appears that merely five stocks (the usual big five tech giants) are driving a large portion of the S&P's returns. To be so reliant on one sector, and more specifically five companies, is a dangerous game to play as a negative shock to the technology sector or one of these companies would have a great impact on the S&P.

Exhibit 1: The five largest stocks have returned 35% YTD; the other 495 stocks have declined by 5%.



Source: FactSet, Goldman Sachs Global Investment Research

Further skepticism and caution is warranted when one looks at the short-term outlook regarding the market. Both the upcoming election in the U.S and the continued COVID-19 threat have dominated the recent headlines. Regarding the election, I will not commentate on the political aspects of such as this commentary is not one which is meant to delve into the realm of politics. Rather let us focus on the financial implications a looming election has on the market. Generally speaking, where there is uncertainty with regards to future events, so too does volatility exist with respect to the market. As such, it is important to ensure one has properly positioned their portfolio in such a way to minimize the impact of any potential downturn in the market.

Regarding the virus outbreak, Canada has generally garnered positive reactions with respect to how they have handled the virus (Source: CTV, WHO). In contrast, the U.S has garnered criticism for it's handling of the virus, and in particular those states which reopened early resulting in a spike of cases (Source: New York Times). Although we are now starting to see some return to how things were pre-COVID as businesses open, this does not mean the threat is over. From a financial perspective, the fear for a second wave must be taken into consideration when diversifying one's portfolio and assessing the risk in the market. Although a second wave may not replicate the peak of the COVID-19 outbreak, it nonetheless is a very real and important factor to consider.

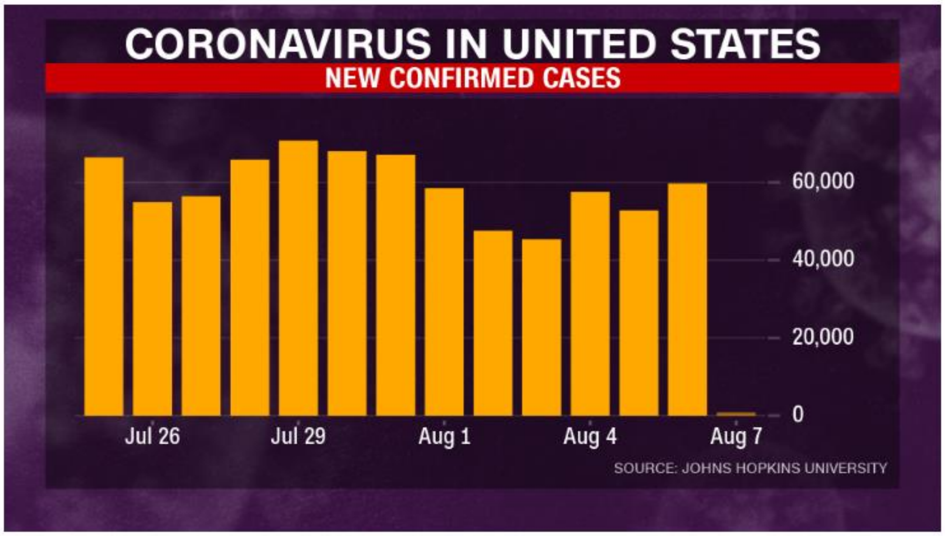
These are just a few key observations we have picked up on when it comes to the market. Such information is important when crafting portfolios which best suit our clients needs. Ultimately, our goal is to ensure our client's have the right investments which allow them to reach their financial goals. For further information, you can always reach us at info@macnicolasset.com and if your more of a phone person try us toll free at 1-866-367- 3040.

The MacNicol Investment Team

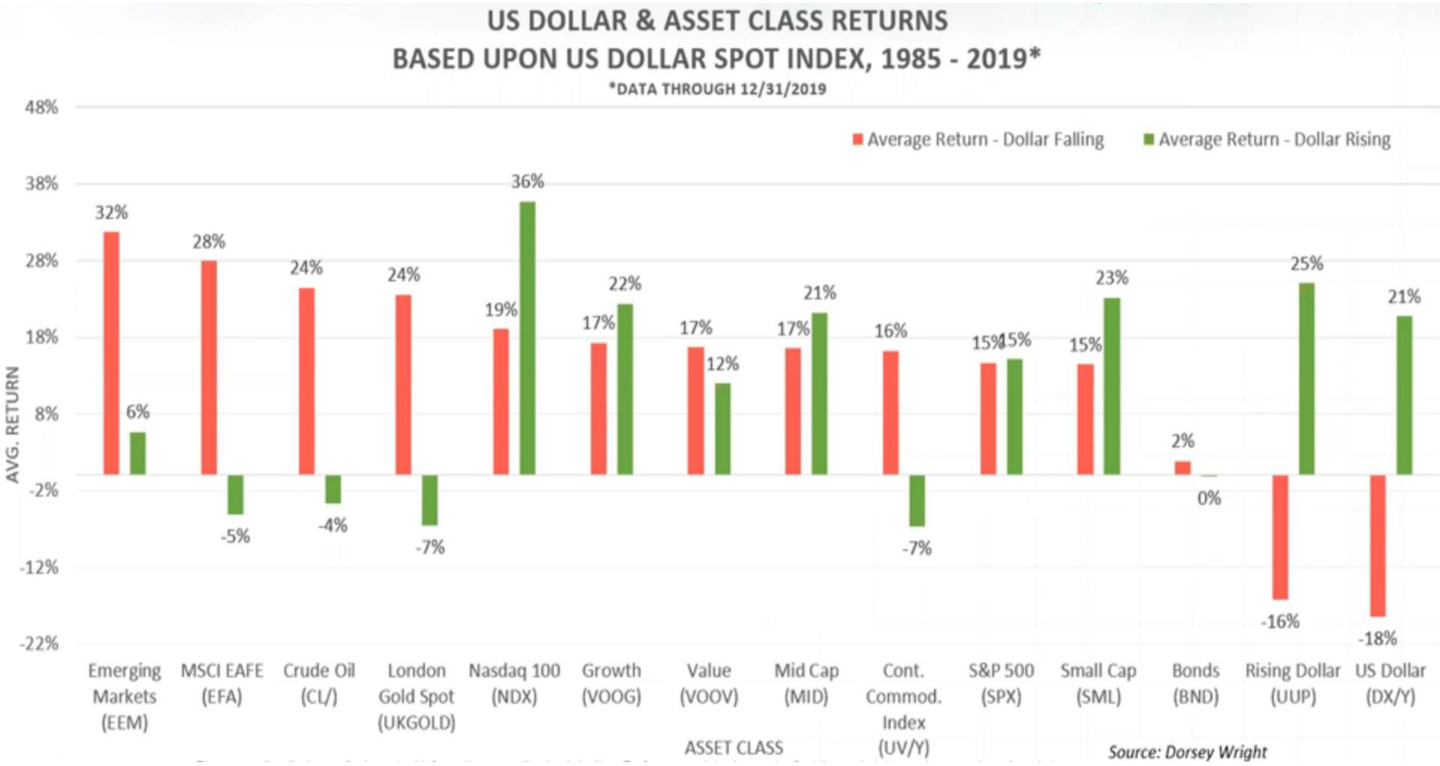
The best offense...is a good defense?

With the sports world restarting over the past week, many people (including myself) are embroiled in following their favourite team as they try to win their leagues respective championship (let's go Leafs). But what does this have to do with investing one might ask. Well, we are all familiar with the adage "the best defense is a good offense". But when it comes to investing the inverse may be more applicable, whereby the best offense is a good defense. Take for instance the market downturn back in March, where many saw the profits they had built up over the years vaporized in a span of a few weeks. This is what we look to avoid, and to accomplish such we look towards defensive asset classes to not only minimize the exposure to such a downturn, but also to generate value in your portfolio over time.

You may ask yourself, why should I move to a more defensive position with the way the market is trending upwards. Well first off, one of the major concerns looming on the horizon is the potential for a COVID-19 "second wave". Certainly, the risk is evermore present as businesses have reopened, and the strict quarantine rules have transitioned into a more social distancing mandate. Nor is the fear of a second wave localized to North America, as multiple countries in Europe are also raising such concerns (Source: New York Times).



Another aspect to consider is the sky high unemployment rates which remain above 11% in the U.S (Source: New York Times). Furthermore, the U.S dollar has been demonstrating a bearish trend over the last few months. What does this mean for investors? First and foremost, one must understand that certain asset classes perform better than others when the dollar is falling, while other assets do better when the dollar is rising.



The graph above shows a clear trend, alternative investment options to the traditional stock market approach such as gold, emerging markets, and crude oil all perform substantially better when the dollar is falling. In contrast, investments into the Nasdaq, small caps and mid caps all perform better when the dollar is rising rather than when it is falling. Evidently, one's investment choices should at least in part consider the state of the US dollar as certain asset classes perform better when the dollar is falling.

Because of these current market conditions, it is prudent to at least start to reposition oneself to account for such risks, even if one doesn't believe that a risk will materialize. We believe in getting ahead of any potential downturns by managing the risk our clients take on and eliminating any unnecessary risks. As they say it is better to be safe than sorry, and the saying could be no truer when it comes to investing.

So, what type of alternative investments are we looking to position ourselves defensively? For starters, we are raising cash as this allows one to avoid exposure to such market downturns while also providing one with the ability to stay agile and capitalize on opportunities in the market which may arise. Secondly, we are focusing on gold and other precious metals which have been performing extremely well. The benefit an investment such as gold possesses is the fact it acts as a tangible store of value and as such it typically performs well in the face of market instability as people look for certainty in times of uncertainty. Take for instance the SPDR Gold Trust (GLD) and when one compares its performance to that of the S&P the results are quite surprising. Not only has GLD outperformed the S&P this year, but so too has it outperformed the S&P over the long term (15 years of annualized returns).

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Overall
GLD 17.66	GLD 22.55	GLD 30.45	GLD 4.92	GLD 24.03	GLD 29.27	GLD 9.57	SPX 13.41	SPX 29.60	SPX 11.39	SPX -0.73	SPX 9.54	SPX 19.42	GLD -1.94	SPX 28.88	GLD 35.68	GLD 342.27
SPX 3.00	SPX 13.62	SPX 3.53	SPX -38.49	SPX 23.45	SPX 12.78	SPX -0.00	GLD 6.60	GLD -28.33	GLD -2.19	GLD -10.67	GLD 8.03	GLD 12.81	SPX -6.24	GLD 17.86	SPX 3.66	SPX 176.35

Annualized Returns* (as of 2020-08-06)

GLD SPDR Gold Trust		SPX S&P 500 Index	
3 Year	17.46%	3 Year	10.58%
5 Year	13.18%	5 Year	9.96%
10 Year	5.11%	10 Year	11.56%
15 Year	10.46%	15 Year	6.93%

Source: Dorsey Wright

This is not to say that we believe one should solely be invested in these defensive players, nor does it mean that you should maintain a defensive position indefinitely. Rather, it is a strategic move in light of current and future market trends. Just like in the realm of sports, there are times when you are on offence and times when you find yourself on defense. One must be vigilant in monitoring the current and future outlook of the market. That's where we come in to help, by ensuring we canvas the market news to ensure your investments are best reflecting your financial goals. For further information, you can always reach us at info@macnicolasset.com and if your more of a phone person try us toll free at 1-866367- 3040.

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Firm News

David and Diane have had an exciting summer so far as their 3 year old Vizsla, gave birth to 9 puppies 2 weeks ago. It has been a very busy time as this is a new experience for both of us, but it is definitely worth it. It has been wonderful watching them grow bigger by the day, open their eyes and taking their first steps.