September 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.

"*A pessimist sees the difficulty in every opportunity*". "An optimist sees the opportunity in every difficulty"

- Winston Churchill

The Numbers:

Index:	**Year-to-Date:**	
S&P/TSX:	- 3.2%	
NASDAQ:	31.2%	
Dow Jones:	- 0.4%	
S&P500:	8.3%	
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.15%	0.11%
5-Year Bond:	0.35%	0.25%
10-Year Bond:	0.54%	0.65%
30-Year Bond:	1.06%	1.39%

Economic Data:

* US Federal Reserve willing to run inflation above 2%
* Rates recover in August though still at all time lows
* US Manufacturing continued to rebound in August
* 4-week moving average of initial jobless claims continues downward trend to 1 million new filings
* Crude Oil appears "locked" to USD $40/bbl
* Natural Gas prices higher in August
* Gold settles into a trading range of $1,950-$2,000/Oz.
* Cryptocurrencies lower as investors offload positions
* Eurozone economic recovery continues
* Copper at a 1-year high of $3.05 per pound

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	31	22
P/B: Price-to-Book	4.0	3.3
P/S: Price-to-Sales	2.5	2.1
Yield: Dividend Yield	1.7%	1.8%

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

S&P/TSX Composite	- 3.2%
NASDAQ	31.2%
Dow Jones Industrials	- 0.4%
S&P 500	8.3%
Russel 2000 (Small Caps)	- 6.4%
MSCI EAFE	- 6.2%
Crude Oil Spot (WTI)	- 30.2%
Gold Bullion ($US/Troy Ounce)	29.4%
SOX Semi-conductor Index	- 15%
VIX Volatility Index	26.5%

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 Sept 04, 2020 1:00 PM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			???
Interactive Brokers	1.308	$ 3,823	$ -	0.0%
Laurentian Bank	No Public Rate Posted Online			???
National Bank	1.3205	$ 3,786	$ (36)	-0.9%
Raymond James	1.3250	$ 3,774	$ (49)	-1.3%
Royal Bank	1.3350	$ 3,745	$ (77)	-2.1%
Scotia	1.3435	$ 3,722	$ (101)	-2.7%
TD	1.3431	$ 3,723	$ (100)	-2.7%
Spot Rate	1.3081	$ 3,822	$ -	0.0%

Stock Market Jeopardy or Stock Market *in* Jeopardy?

You have to admit that Jeopardy is one darn good game show. Its the sort of mental diversion one can take to temporarily "zone out" of all of life's challenges but in a way that leaves your mind feeling clear, well balanced and alert. One obvious category would have to be Incredibly Big Numbers. Big as in like...

$2 trillion

You hit your buzzer and offer: the e*ntire* GDP of a country like say Canada?

But Alex Trebec points at you and says, *"..that's not the right answer"*. The *entire* GDP of a country like say Canada plus the whole GDP of a second, smaller country, like say Jamaica perhaps? You're getting warmer but Alex advises *"...that's not right either".* Drat, wrong again, you say to yourself silently. What could possibly be that big you think to yourself? Well, on August 19th, 2020 the market capitalization of Apple reached the eye watering mark of $2 trillion. Some have already begun the countdown to $3 trillion and we are definitely social distancing ourselves from that cohort.

Market capitalization is one measure of a company's value and it's super easy to derive: you'll need the total number of shares outstanding (usually just a Google click away) and the price for the company's stock (ditto). To put a $2 trillion market capitalization in perspective is easy: its the size of nearly nine companies the size of Bank of America and something that no other company has done, ever. Now I know what you are thinking, and I will not try to convince you that Apple is a poorly run company. An apple with a bite mark out of it is universally known as the company's logo and for the period ending in 2018, 2.2 Billion iPhones were sold along with a good deal of other iStuff. Yet the $2 trillion market cap figure still amazes me. When propositioned by something truly stunning my quest to come up with answers follows a process that's not fool proof by any means but has served me really well this decade: start with the facts and make inferences from there. The reason why I'd never even try to feed you a narrative predicated on Apple being a poorly run company is because it isn't. Apple is a staggeringly successful company and one of the most widely known brands on the planet. And what sort of financial rewards are there for being No. 1? Well, as of the most recent reporting period SEDAR filings reveal that Apple had trailing 12-month revenues of $273 billion and a net profit just north of $58 billion. Well $58 billion in profits is about how much 5 entire Royal Banks glued together would produce. I cannot think of a single person who does not have at least one account with RBC or TD and I guess its really doesn't matter because in the time it took you to open up a new daily savings account, Apple has sold 5 iPhones.

Apple's past success then is *not* in jeopardy: Apple absolutely "crushed it". Inferring even greater success in the company's fortunes along with a $3 trillion market capitalization would be a gutsy – though not necessarily reckless - bet to make on final jeopardy.

The next 2-years in the smartphone sector could be ones to watch as the ongoing rollout of "5G" technology drives a massive upgrade cycle on the part of current smart phone addicts. Analysts at Wedbush Securities for instance figure that as many

as 350 million users of smartphones may upgrade to newer models in the coming 24 months. More optimistic estimates peg the upcoming smart phone "super cycle" at 475 million units sold with some believing that the new iPhone 12 will be used in a new "golden era" in Apple's storied history. Apple's impressive services business will be a key figure in helping it to generate an added $60 million in revenue as the company capitalizes on its existing customer base. And let's not lose site of the wearables segment either. Last year, Apple sold 65 million AirPods, watches and other iStuff that analyst's figure could increase by almost 40% in 2021. Sure, an even bigger value to Apple's stock is not hard to fathom and that's driven entire ETFs and stock markets higher on its own. But what about those inferences I talked about earlier?

So the smart phone business is actually super competitive and we figure that with a potential second wave of COVID 19 in the cards – which means lockdowns and rising unemployment or under employment – more consumers, with more time on their hands but less funds may choose this upgrade cycle as the one in which they prioritized value. Huawei, LG, Meizu and Samsung all produce smartphones. Good ones. And wait till you see what's going on at Xiaomi: that company's shares have rocketed higher in recent sessions on significantly better sales figures and a more optimistic outlook. Xiaomi's more diversified product line and lower entry point give consumers the option to spend like mad for Apple products while knowing that a very suitable (and less expensive) option exists.

Currently, Apple offers users the option of the iPhone XS, the XS Max and the XR. Xiaomi offers consumers the option of pro and lite versions of its Mi 8 phone along with the Mi Mix 3 (pictured above in blue) the Pocophone F1, the Mi A2 and cheaper models from its Redmi and Note series of units. Xiaomi is the latest in a long line of smartphone makers looking to get in on some of Apple's action and their phones compare well to Apple's current line up. Indeed, both companies produce great products that are worth buying but, in a world, where smartphones are pretty much all the same we feel the only comparison that matters in a post COVID world is price. The MacNicol Investment Team does not view Apple's reign on top of the smartphone world as coming to an end just yet. But we certainly question the value the stock market has ascribed to the stock. We hold no Apple shares and feel they are in jeopardy of falling taking a good number of ETFs and funds with it. I am not really sure the world needs a $3 trillion company right now, nor more smart phones. But I am willing to bet that in Apple, final jeopardy may have one of its greatest answers to the question this American tech company did eventually reach a market cap of $3 trillion, but not before taking a trip back down to $1 trillion.

Please click here for our recent Webinar on Apple.

The MacNicol Investment Team

Immigration & Emigration

The rapid spread of the COVID-19 pandemic has led to a swift deterioration of economic conditions and a dramatic shift in the real estate market. Prior to the outbreak, real estate supply and demand fundamentals were biased towards the upside and capital markets where operating efficiently. The speed of government-imposed shutdowns not only took our breath away but impacted demand on an unprecedented scale. In the United States, unemployment claims have ballooned as businesses were forced to lay off or furlough employees to comply with shelter-in-place mandates. This sudden contraction in consumer and business activity will undoubtedly create near to mid-term headwinds for many real estate product types with some questioning the feasibility of urban cores.

The MacNicol Investment Team continues to feel that despite near-term crosscurrents, institutional grade real estate will remain an attractive asset class to Canadian investors, and that fundamentals will ultimately stabilize over the mid-term. During the early weeks of the pandemic, we focused attention on tending to our existing investments, which has not changed. However, with the re-opening of capital markets and major cities, we are increasingly focused on identifying new opportunities in this rapidly evolving investment climate while being mindful of outbreaks in “hot spots”. One “hot spot” that has been driving an interesting about face in real estate is urban centres. The narrative of impending “Doom” in urban centres as throngs of residents embark on a great exodus has garnered much attention in recent weeks.

New York City, a city with many wealthier residents, got ravaged by COVID 19 early on and saw many in the upper echelon flee to alternative living arrangements with those left behind forced to comply with social distancing measures in congested areas with high density housing. Over 20,000 New Yorkers have died of COVID 19 and the city’s density took the brunt of the blame even though places like Tokyo and Hong Kong performed significantly better. “The burbs” suddenly emerged as a far more appealing place to be when lock down orders were issued. Suburban areas like where I live offer more personal space, larger back yards and fresher air than the homes of some of my colleagues. But when you look at managing a real estate partnership, you tend to rely on large cities as anchors for or feeders too your core assets. So how will cities be impacted by COVID 19? In the medium term [2-4 years] we feel urban areas will continue to thin out putting suburban areas into the spotlight. Secondary markets, many of which we invest in directly, are likely to attract buyers from more expensive cities and benefit from a trend to repatriate the American supply chain by domesticating manufacturing.

Cities have a successful track record of looking through crises such as terrorist attacks, natural disasters and plagues. The lingering impact of COVID 19 though will highlight the notion that cities are unsafe. But cities also respond rapidly and – by June of this year – outbreaks were spreading faster. A sizeable cohort of millennials are beginning to hit 40 and have begun the natural migration out of denser urban centres towards the suburbs as the lure of more space, better schools and parks prove enticing. However, this trend was always going to happen and has simply been accentuated by COVID 19 to the possible detriment of 40 something buyers who now have to pony up even more capital to secure a spot in a "family friendly" neighbourhood. The prevailing wisdom was that the emigration of millennials to the suburbs would be offset by immigration of retired boomers from their needlessly large homes. COVID has put this trend on hold for the time being. Landlords are advised that from a rent or purchase perspective, the current trend of growth in suburban areas does not dilute the locational premium that urban cores hold. Indeed, buying residential assets in urban locations could be attractive in the case of more conservative underwriting assumptions as cities work through this adjustment.

Work in front of a computer or a person?

For those with the option to point-and-click their way to work, or the means to relocate if necessary, the suburbs seem like a logical choice. This optionality has pressured the office market with many corporate offices shuttered entirely, or, staffed by workers using the space on a rolling basis. In our own case, we have been virtual since early March, but staff have been using our office at 130 Bloor Street on pre-booked days. In my own case, I have been going in on Fridays. But working from home has experienced productivity gains mainly because of technology and of greater understand among staff who live with families that a closed basement door means that someone is doing work and needs to be left alone. It is possible that many corporations decide that they can remain productive in a virtual environment and save on leases. Upwork, a data enabled online remote working platform, concluded that up to 20% of the North American workforce will remain working from home even after the pandemic subsides. Moreover, Upwork estimates that nearly 40% of all workers could work remotely in the future. But the concept of remote work began in the late 1990s and got its start with the widespread adoption of the internet. Indeed today, applications like ZOOM, Google Meet, Gotomeeting and Virbela Campus are part of more mainstream working vernacular, and a skill set that is no longer reserved for a company's IT technicians.

The extent to which people will work from home is of course industry specific, but the MacNicol Team feels that a wider range of workers will indeed work from home versus an actual office. Technological gains in productivity are complimented by the lack of time wasted on commuting. In my own case, I do periodically venture to the office, primarily to update certain key financial models I am responsible for here at the firm. My home is 17 kilometres away from 130 Bloor Street West yet takes a full hour to drive to most mornings.

Downtown office is not dead, but it sure is down in most secondary markets. Toronto, Montreal and Vancouver will continue to be strong, as will most Tier 1 and 2 US cities. But it is possible that office as a real estate product type enters a period of softness with excess supply absorbed more slowly.

Cities are tough and resilient, much like the people who chose to live in them. But the damage that COVID has caused will take time to repair. But repair it will. Cities provide more vibrant nightlife and more opportunity for those beginning their careers.

Behavioural Investing

Familiarity Bias: the close acquaintance that's bad for your bottom line

Financial markets are often termed "efficient". Efficiency is an easy enough concept to grasp but what does it mean in financial markets? Efficiency in financial markets means that at any time, financial markets and the individual investments or securities that comprise them reflect all information one could possibly know about them through their price. In other words, the market price for an asset is always the correct price for an asset and no amount of time spent rifling through financial reports, charts or quantitative computer models will give you an edge when it comes to selecting investments for your portfolio. The problem is that a **perfectly** efficient market requires all investors to be perfectly rational and devoid of any sort of psychological or emotional processing errors that may impair their judgement. In practice, humans are irrational and make illogical investment decisions all the time and that includes assuming that companies we are familiar with automatically make for good investment choices.

Familiarity bias is one such impairment that causes investors to confine their portfolio of holdings to things that they are familiar with. Apple (AAPL:NASDAQ) because everyone they know owns an iPhone; Starbucks (SBUX:NASDAQ) coffee because that's where they get their morning jolt along with dozens of other users; Lululemon (LULU:NASDAQ) because we all know someone who dropped $300 on a single sports outfit there and Telsa (TLSA:NASDAQ)* because two of them straddle your Audi or Lexus. Investors have a tendency to put more stock in a choice that they recognize and are aware of because unfamiliarity makes them uncomfortable. Familiarity bias prevents the investor from analyzing the actual potential of the lesser known companies that may turn out to be more profitable than the more familiar options. Familiarity also prevents investors from achieving diversity in their portfolio by clustering their net worth in companies they think they know or with head offices they can drive to.

Please click here for our recent Webinar on Tesla.

The MacNicol Investment Team

But why is familiarity bias a habit that is so hard to break?

We feel it centres on comfort, both from the perspective of asking difficult questions and in hearing things you may not like, but we are not alone. Benjamin Graham offered that seeking help with investments is considered a sign of weakness in *Intelligent Investor*, a book first published in 1949. The familiarity bias can also stem from the availability bias as more information is available for the familiar companies than start-ups; or by the herd behaviour that prevents investors from taking decisions that the others are not taking. Becoming overly comfortable with one's investments then is a toxic relationship you cannot afford to be in.

MacNicol & Associates Asset Management is a family-owned business centred on you. Our relationships with investors are clear, straightforward and direct. Our nearly two decades in the business aren't what taught us that calling spade a spade is something more money managers should do. Instead, it is because we have always told investors what's really on our mind that has allowed us to thrive in an environment where others have failed.

We will let your old acquaintances down firmly but gently as we introduce you to some new ones. You might not always see them on every street corner and that's the whole point.

The MacNicol Investment Team

Firm News

The MacNicol Team is pleased to announce that **Ainee Tabernilla** has joined the firm as a Portfolio Administrator. Ainee will focus on providing our clients with high quality client service and attention to their investment needs.

We are also pleased to announce that **Ken Reid** has joined the firm as a Research Associate. Ken will focus on developing actionable, high conviction trading ideas for the firm's separately managed account program and on monitoring certain privately held companies in the firm's Alternative Asset Trust platform.

Happy 19th Anniversary: On September 17th MacNicol & Associates Asset Management turns 19!!!

Congratulations to firm founders David and Diane MacNicol for swallowing one big "brave" pill nearly twenty years ago by starting a company that realizes and has always realized that clients aren't just a part of the investment business, they *are* the investment business.

MacNicol & Associates Asset Management Inc.