November 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 marketplace.

"I will not make age an issue of this campaign. I am not going to exploit for political purposes my opponent's youth and inexperience."

- President Ronald Reagan (Inaugurated at the age of 69 years, 349 days)

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		- 8.7%
NASDAQ:		21.6%
Dow Jones:		- 7.1%
S&P500:		1.2%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.10%	0.11%
5-Year Bond:	0.44%	0.35%
10-Year Bond:	0.69%	0.84%
30-Year Bond:	1.27%	1.63%

Economic Data:

* US Federal Reserve willing to freeze rates until 2023
* Natural Gas up 50% thus far in 2020
* Turkish LIRA implodes on double digit inflation
* Asian equities higher in October erasing September losses
* Gold even at $1,910/Oz., through most of October
* BITCOIN consistently higher through October
* Eurozone economic recovery continues
* Copper maintains $3.05 per pound level in October
* GTA Real Estate sizzles on pent up demand and low rates, with areas in the (905) especially hot with average homes going for $1.1 million

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	34	23
P/B: Price-to-Book	3.7	3.3
P/S: Price-to-Sales	2.45	2.14
Yield: Dividend Yield	1.75%	1.93%

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

S&P/TSX Composite	- 8.7%
NASDAQ	21.6%
Dow Jones Industrials	- 7.1%
S&P 500	1.2%
Russel 2000 (Small Caps)	- 7.8%
MSCI EAFE	- 12.6%
Crude Oil Spot (WTI)	- 41.1%
Gold Bullion ($US/Troy Ounce)	23.7%
SOX Semi-conductor Index	- 18%
VIX Volatility Index	32.5%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

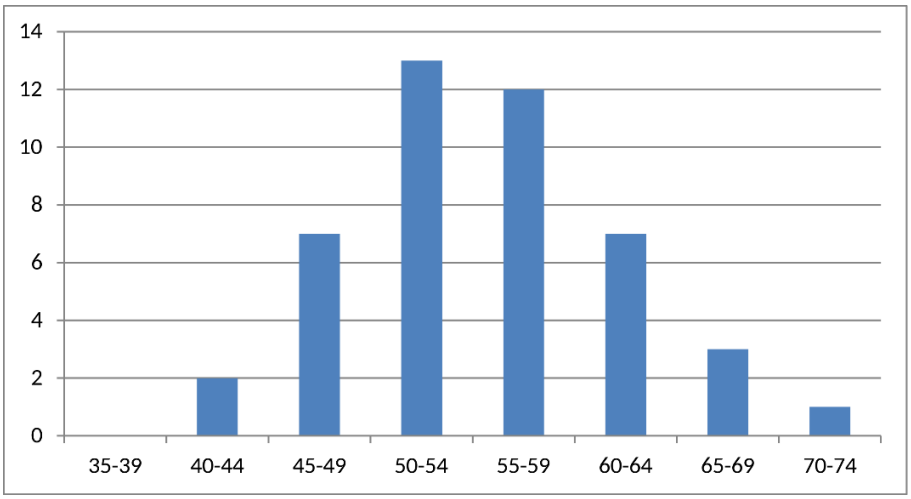
Foreign Exchange - FX

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 November 4, 2020 4:00 PM	**$5,000**	**Cdn**		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	*No Public Rate Posted Online*			
Interactive Brokers	1.3135	$ 3,807	$ -	0.0%
Laurentian Bank	*No Public Rate Posted Online*			
National Bank	1.3251	$ 3,773	$ (34)	-0.9%
Raymond James	1.3310	$ 3,757	$ (50)	-1.3%
Royal Bank	1.3392	$ 3,734	$ (73)	-2.0%
Scotia	1.3476	$ 3,710	$ (97)	-2.6%
TD	1.3482	$ 3,709	$ (98)	-2.6%
Canadian Snowbird	1.3386	$ 3,735	$ (72)	-1.9%
Spot Rate	**1.3134**	**$ 3,807**	**$ -**	**0.0%**

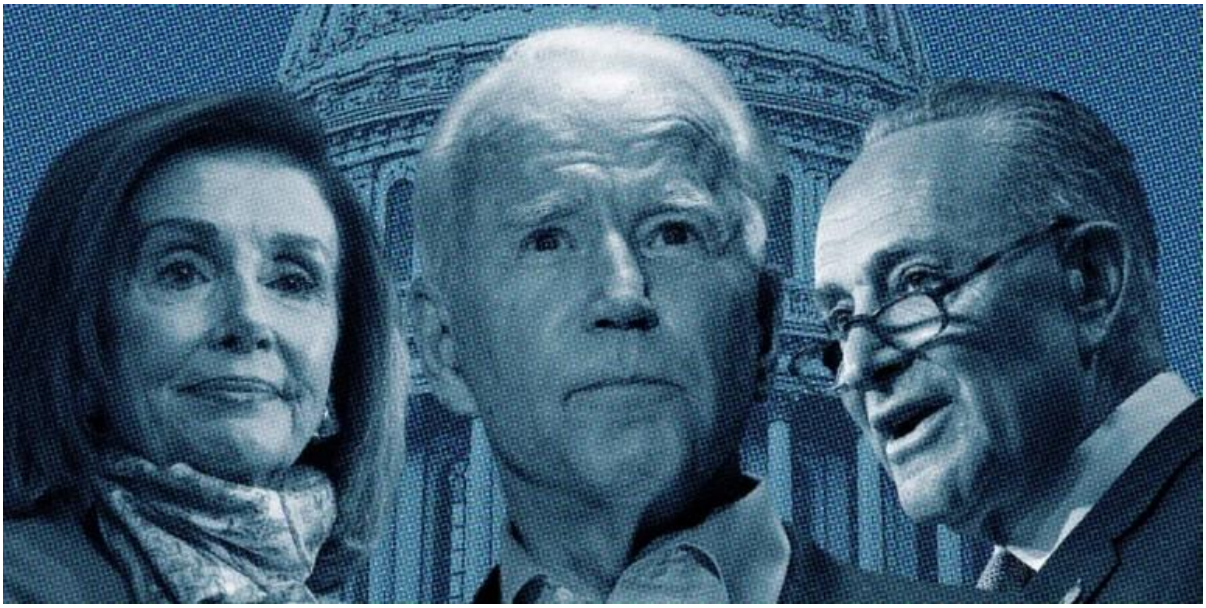
The Thanksgiving Day election…

Donald Trump is 74 years of age. Joe Biden is 77 and will be turning 78 around the time of the US Thanksgiving. Neither man made age an issue in their respective campaigns, because quite frankly President Trump presented enough "issues" in his campaign and indeed during his entire 1st term as President, that and the fact that neither man is particularly youthful as far as American Presidents go.



[The Distribution of ages for US Presidents closely approximates a Bell curve though there has never been a US President in their 30s. According to Article II of the U.S. Constitution, the President must be a natural-born citizen of the United States, be at least 35 years old, and have been a resident of the United States for 14 years.]

The 2020 US Presidential election was as much about the Vice-Presidential candidates as a wider range of issues. The good news about this year's election is that there is a better than average chance that by the time *The Monthly* hits your inbox, the election itself will not have been decided. A new Ipsos/Reuters poll tells us that four-out-of-ten supporters of both Donald Trump and Joe Biden would not accept the election's results should their candidate lose. We are not entirely sure what "not accept" means but we hope that violent confrontations form no part of post election America. Nevertheless, by casting their vote, Americans will have exercised their right to decide on one of three plausible outcomes, which we thought we would rank for you in order or probability – as we see it anyways – and aim to telegraph the ensuing result on financial markets. Before that we would like to point out our Investment Team is apolitical, and we view all politicians homogenously: as liars, crooks and gatekeepers to special interest groups. And some of us just plain do not like politicians. However, we never bring politics into the equation. With disclaimers out of the way, we believe the three possible outcomes for the US Presidential election are: 1. the Democrats decimate the "GOP" 2. The revenant repeats or 3. a Biden Presidency is chaperoned by a Republican Senate. Many winners will learn of their success or failure on election night, but the increase concentration on mail-based voting due to COVID is expected to push back official results for many States late into the week. Twenty-two (22) States along with the District of Columbia allow postmarked ballots to arrive after Election Day, so the timing will depend on when voters return them. Parts of the economy have of course re-opened and for many in services industries, playing financial "catch up" may take priority over deciding a leader. New York and Alaska will not report *any* mail in votes on election night and in key "battleground" states like Michigan and Pennsylvania officials there have said that official voting results could take several days to tabulate.



[As of late October, a Democratic "sweep" was our Investment Team's least likely outcome. Our reluctance to accept the notion of the Democrats running the Republicans "out of town" came in 3rd place.]

3rd Place: Democrats decimate the "GOP"

Though a clean sweep by the Democrats was viewed by our team as the least likely outcome, the policy implications of an all-out Democratic dominance would mean a stock market that looks both ways before it crosses the street. The prospects of: higher corporate taxes, increased environmental regulation, closer pharmaceutical pricing scrutiny and a more relaxed free trade environment probably make more Americans feel good about their morals but this is an economy that just emerged from a sizable economic set back in March that hasn't really abated all that much. You couple that with the decades long structural problems the United States has with things like entitlement programs and you get the feeling that now is not the

time to choke off America's fledgling and tender economic recovery. And with respect to energy policy, US Oil production would be severely impacted by the removal of sanctions on Iran and domestic lockdowns. A grand slam by Biden and the Democrats was viewed by our Investment Team as the least likely outcome.

2nd Place: Revenant President

["C'mon the Dems had no chance"]

When Trump began his Presidency in January of 2017, the economy was healthy, encumbered, but healthy. Businesses added jobs for over 6 years straight, the most consistent hiring blitz on record and unemployment was just 4.7%, a decade low. Corporate earnings were at record highs and so were stock prices. US GDP was expanding at 2.5% a year a modest rate when one considers that it is by far the world's largest economy. But not everything was rosy: the federal debt was at its highest level since the 1950s and Trump (vocationally: a debt touting real estate developer) was set to blow it out even higher. Still it is Trump's lack of fundamental economic knowledge and sporadic "cut the nose to spite the face" approach to pretty much everything that saw him back in command come in 2nd place. Stocks would have rallied sure, but only in the near-term and only to the extent that COVID would not deal the United States another severe economic blow.

Trump's relations with the Russians, his basic inability to unite America in this a most deeply divisive time and even the circus that was his own personal tax returns do little to assuage the deep concern one has about his willingness to ignore medical science and gamble with American lives in the name of profits.

1st Place: Biden wins but the GOP retains control of the Senate

["Now wait just a minute…"]

In our minds, a Biden Presidency is a possibility in a Senate controlled by Republicans. Policy matters under President Biden would be narrower with a Republican base built inside the Senate. Biden would have to pick his battles carefully: cannabis probably does get legalized at the Federal level however corporate tax hikes are most likely off the table. Other matters such as infrastructure investing, pharmaceutical pricing, the regulation of tech and renewable energy rules would feature prominently on the policy side. We love infrastructure at MacNicol & Associates Asset Management given its long runway and have active public and private investments in this area. With respect to big Pharma we aren't huge fans given the always contentious nature of drug pricing in America. We prefer medical devices and healthcare related services or at the very least drug companies with established device and services segments that can compliment EBITDA when a "blockbuster" drug is encroached upon by a newer, better competitor or a lower cost generic. We feel a Biden White House and Republican Senate are fundamentally good for the financial services sector stimulating innovation and rewarding banks for looking after their clients while not being needlessly over regulated. Names such as JP Morgan (NYSE:JPM) and Goldman Sachs (NYSE:GS) are on our radar, but private equity, including shares of private equity firms that trade on exchanges like KKR would be more desirable: we don't see how a ton of money gets made in conventional lending anymore, particularly with yields curves flat as a pancake.

To us, a Biden Presidency and a Republican Senate made us comfortable investing in an environment where the biggest real enemy is inflation without being constantly worried that our conservative approach to money management isn't "hip with the times" in a market that is growing more complacent yet at the same time not growing quite that much anymore.

The MacNicol Investment Team

You Turkey…

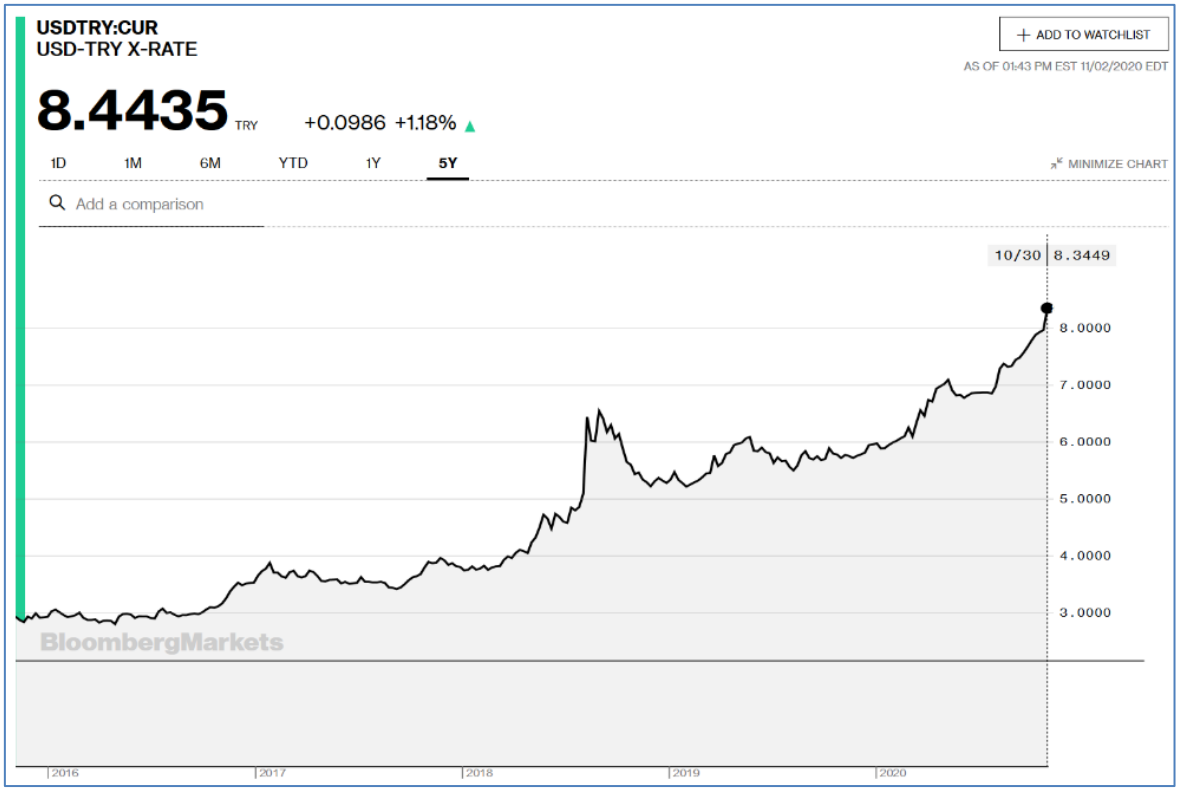
Fans of professional wrestling will of course be familiar with the name Bret "The Hitman" Hart. The 63-year-old native of Calgary, Alberta is an icon of Canadian sport and arguably one of the most famous professional wrestlers ever. Hart's in ring persona, known as the "excellence of execution" was a tip towards his skill as a wrestler (it was truly otherworldly) and complimented by the typical aggressiveness you'd expect from a professional wrestler both in the right and out, but without the vulgarity and inappropriateness that many of the industry's current muscle-bound behemoths display.

Sure, Hart would "trash talk" his opponents in the lead-up to a big match (the pro wrestling world's equivalent of promotion) but he was never rude or inappropriate. Even over a 22 year wrestling career in which Hart would have performed in thousands of matches and given hundreds of interviews plus a few movies like "*Hitman Hart Wrestling with Shadows*", an amazing look into what actually goes on in the world of pro wrestling, a profanity filled diatribe from Hart simply cannot be found either on the internet nor from the accounts of other wrestlers. Despite being one of the very best pro wrestlers ever – Hart was mindful of the fact that a good number or professional wrestling fans who adored him were usually young, impressionable teenaged boys. So rather than referring to an opponent with a 4-letter expletive, Hart instead chose to address his opponents more with more innocuous taunts like "You Turkey". It is unfortunate that too many people in positions of power do not do enough thinking about future generations, and that includes one very big Turkey on the North Eastern coast of the Mediterranean.

Last summer, we wrote a piece criticizing Turkey's President Tayyip Erdoğan for sacking the country's central bank governor Murat Çetinkaya and replacing him with his own "puppet" central bank chief. That silly move along with others like it have undermined a storied and culturally rich nation, confused relations in the Muslim world and certainly compounded existing challenges for the Turks. One of Turkey's primary headwinds is inflation. Last month, Turkey experienced double-digit inflation [11.7%] and most financial market observers attribute to the plunge in the Turkish LIRA as directly related to Erdoğan's meddling with the Central Bank of Turkey and aversion to higher interest rates. Higher rates would numb the searing pain of inflation and hopefully encourage more Turks to slow the pace at which they dump LIRA and more investors to consider investing in the LIRA. But more is needed that a Central Bank that can think for itself.

Turkey's tourism revenues tumbled 71.2 percent from a year earlier to USD $4.044 billion in the third quarter of 2020, of which 71.6 percent was obtained from foreign visitors and 28.4 percent was obtained from citizens resident abroad.
All expenditure types decreased compared to the same quarter of the previous year. Sports, education, cultural expenditure decreased by 82.6 percent, tour services expenditure decreased by 78.8 percent and package tour expenditure (share of Turkey) decreased by 77.2 percent. As with many things here in 2020, COVID 19 is to blame. But the pandemic is an easy scapegoat for what has happened to Turkey *just* in Q2 and Q3 of 2020 remember the LIRA rrreeeaallllyyy began plummeting in 2018 and Erdoğan's actions in regions like: Libya, Syria and the area around Greece and Cyprus, as well as, his actions with regions like Russia demonstrate that his consolidation of power have caused him to become something of an oil thirsty thug more interested in weapons than furthering the plight of Muslims in the region or his nation's own currency. And things (may) get worse. A Biden victory in the United States, particularly a landslide, would raise the chances of severe sanctions by the Americans for purchasing Russian made S-400 anti-aircraft defenses. The Turkish Lira has lost 26% of its value this year and the Turkish authorities are reported to have spent about $134bn (£103bn) in the past 18 months propping up the currency. FX reserves remained close to their lowest level since September 2005, because the Central Bank and state banks have been stepping up efforts to support a falling LIRA.

When Erdoğan took the helm in March of 2003 the LIRA rate was 1.6 to the dollar - now it is above 8.0. Erdoğan's first years in power were marked by solid growth and a development boom. But more recently Erdoğan has been the source of contrived controversy, meaning actions that divert attention from core issues.



[Currency 101 teaches that a currency is the stock price of a nation. Back in 2016 the average Turkish citizen had to produce 3 Lira to obtain 1 US Dollar…today that ratio is over twice as high and stands in excess of 8.]

[“I am trying hard not to look at the previous page Mr. Erdoğan …that lousy currency of yours is a joke…and for your information the people of France seek not to intimidate Muslims we seek to better integrate them”.]

Le Boycott?

There is certainly tension between Erdoğan and French President Emmanuel Macron. Erdoğan insinuated that Macron had a mental problem (political soap opera) and that Turks should boycott French products (an actual recommendation). Few Turks are likely to heed his appeal. Economic turmoil, meaning inflation, is the Turks' real preoccupation and many owe their jobs to joint ventures with the French – especially Renault Cars.

[Foreign stock investment in Turkey fell due to the pandemic however the trend has been lower over the past several years.]

Turkey's pursuit of a neo-Ottoman Islamist foreign policy through the leadership of President Erdoğan reverses much of the nation's forward momentum in areas like manufacturing and exports. But domestic problems with inflation cannot be resolved with questionable foreign policies and bullying tactics aimed at securing better access to natural gas and oil deposits around the Mediterranean.

We would gladly visit Istanbul on vacation, just not now. We would love to invest in Turkey's robust manufacturing base, just not now. We feel that Turkey will deal with its central economic challenge: inflation, just not now. If Bret "The Hitman" Hart were ever interested in lacing up his wrestling boots to take on one of the biggest Turkeys of them all, now would be just fine by us…

The MacNicol Investment Team

Behavioural Investing: Fear

A US election, a global pandemic, ongoing trade tensions, collapsing world oil prices, the problems in Turkey…

Any *one* of the above uncertainties on its own could trick an investor into thinking that the recovery market rally we have witnessed since March was no treat at all. Halloween was certainly different this year and as we all continue to learn to co-exist and adapt to our new realities there remains some pretty tasty places to invest if you don't get spooked by a little volatility. Volatility has returned to markets and though unpleasant our decision to raise cash, precious metals and alternative allocations in many client portfolios has the perception of volatility stinging more than the reality of volatility. So why then are many investors who do not truly know that much about investing afraid of investing? For answers, we turned to a paper written by Vanessa Lobue, Ph.D.

Dr. Lobue is an associate professor of psychology at Rutgers University and she points out that fear is not something we are born with. Instead, fear is something that gets developed within us over time. Rather than using actual investors as her test subjects, Dr. Lobue used the next best thing: babies. In her study Lobue et al found that babies do not demonstrate fear for the very first time until around the age of 8 to 12 months.

Often, the origins of fear are new events or people, especially strangers. A key finding too was the idea that not all babies react to strangers with fear, which is to say the context of the situation matters a great deal. For instance, the most fearful reactions to strangers can be observed in strange places, such as a laboratory. Few (and occasionally no) fearful responses to strangers are seen when babies are in their own homes or when they are sitting on their mothers' laps. In other words, babies are more likely to judge the stranger as threatening when they are not in a place of comfort or security. Lobue's work illustrates that we are not born afraid and that means that most of our fears are learned at some point in our lives. Some fears can be learned by conditioning, or by having a negative experience with something. For example, you might learn to become afraid of Bees if you have been stung by one. But we can also develop fears by watching someone else's fearful reaction. For example, instead of learning to be afraid of Bees we can also develop a fear of Bees by watching a close friend or family member scream when in close proximity to a Bee. In my own case, being the descendant of overbearing eastern European parents, I learned to be fearful of numerous things by warnings and threats.

"Joey, if you don't eat your vegetables, you'll never grow up to be big and strong"

I apologize for not providing an official citation for the above quote, though I assure you it was repeated numerous times at the kitchen table of my Mississauga home in the early 1980s.

Although fears are learned, and we can learn them in a variety of ways, not all fears are created equal—some fears are much more common than others. Snake and spider fears, for example, are some of the most common ones in the world perhaps due to their creepy appearance. Indeed in (Ohman and Mineka, 2001) it was proposed that with certain fears, we are born with them specifically to react to dangerous predators. Still, Dr. Lobue is not so sure. For example, when presented with a variety of images on a touchscreen, preschool aged children *and* adults detect snakes and spiders more quickly than a variety of other things, including flowers, mushrooms, frogs, and cockroaches. But Lobue and her colleagues note that they do not seem to be afraid of them. In fact, babies will reach for and try to pick up moving snakes from a screen while 18-month old to 3-year-olds will interact with a live snake and spider just as much as a live fish and hamster. And this suggests that the children showed a homogenous in all of these animals suggesting that a pre-programmed fear of Bees, Snakes or Spiders is there from the beginning.

Why then are many investors scared about investing without ever having done extensive research *into* investing? One obvious reason might be tails of lost fortunes bandied about by the media or a gossip-prone neighbour and we get it: losing money is not what anyone wants. But remember that for every frightful investing tail you may hear there are the good ones you have not heard from groups like ours.

Unbiased. Family-owned. Independent.

The MacNicol Investment Team

Firm News

The 2020 Canadian Hedge Fund Awards

Each year Alternative IQ selects the top investment firms in Canada based on their fund performance and risk-adjusted returns throughout the year. We actually won a few years back but modestly kept that news to ourselves. This year there were **221** firms under consideration for awards in their respective categories.

MacNicol & Associates Asset Management was proud to be recognized under **the Global Macro/Managed Futured/Multistrategy** category where we placed in the top 3 for 3 different awards.

These awards demonstrate our strong track record regarding both returns and risk-adjusted returns.
We are very pleased to be able to share this with you.

The MacNicol & Associates Team Working From Home Due to COVID-19

In response to the uncertainties presented by COVID-19, our team has been working remotely for the past seven months. Here's what our team members have to say about how they have been handling working from home.

"Lack of commute time has made days more productive however, I wish we weren't still in lockdown and could get back to living a normal life again. I really miss seeing people in person."

-David MacNicol, President & Portfolio Manager

"This business is about people (clients and colleagues)…it always has been and always will be".

-Joe Pochodyniak, Portfolio Manager

"I definitely miss the social interaction that comes with being in an office. On the positive side, we have definitely spent more time with our family, and this has been a very happy bonus."

-Diane MacNicol, Office Manager

"I am enjoying working from home (and I think that my wife feels very much the same way). I am fortunate to have a superb associate who makes it technically easy and very effective to continue doing so. I do not miss the hour spent on the subway each day, although once at the office, that face to face interaction is something that was a very nice feature of my life. Mixed emotions about the whole experience!"

-Ross Healy, Senior Portfolio Manager

"I never thought I'd say this, but I'm tired of wearing sweatpants and miss getting up, getting dressed and hitting the road."

-Darren Rabie, Business Development

"As a new graduate entering the work force, the pandemic has put forth new challenges to overcome. It has reiterated the importance of strong values such as teamwork and responsibility which continues to drive my spirits here at MacNicol & Associates."

-Karan Ramlochan, Portfolio Administrator

"I miss routine without chaos. I have learned ways to be grateful for the little things."

-Naima Egal, Manager, Client Services

"Combating social isolation has been a challenge however, working with a strong and very supportive team has really helped to overcome this obstacle."

-Ainee Tabernilla, Portfolio Administrator

"Working from home almost every day becomes a routine and somewhat like the movie "Groundhog Day". Looking forward to breaking the pattern and interacting with actual people again."

-Mark Dormer, Controller

MacNicol & Associates Asset Management Inc.