December 2020

The Monthly

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

"Fiat currency always eventually returns to its intrinsic value--zero."

- Voltaire

The Numbers:

Index:		**Year-to-Date:**
S&P/TSX:		0.7%
NASDAQ:		36%
Dow Jones:		3.9%
S&P 500:		12.1%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.12%	0.09%
5-Year Bond:	0.48%	0.42%
10-Year Bond:	0.74%	0.94%
30-Year Bond:	1.24%	1.67%

Economic Data:

* Joseph R. Biden defeats Donald Trump in US Federal Election, Republicans hold the Senate
* Chinese PMI Data for November expanded for the 9th straight month to 52.1
* Fresh lock downs in the UK see the Bank of England hold rates [at 0.1%] and expand quantitative easing
* Oil prices rose in November as investors expect OPEC to delay January 2021 output hikes
* A $908 billion stimulus plan is tabled in the US
* European Commission expects economic contraction of 7.4% for 2020 along with a recovery expected to take two full years
* Gold off roughly $100 in November to $1,780/Oz
* BITCOIN sharply higher in November up over $5,000 to $19,439

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	37	23
P/B: Price-to-Book	4.0	3.8
P/S: Price-to-Sales	2.7	2.5
Yield: Dividend Yield	1.60%	1.83%

Year-to-date Performance: November 30th, 2020

S&P/TSX Composite	0.7%
NASDAQ	36%
Dow Jones Industrials	3.9%
S&P 500	12.1%
Russel 2000 (Small Caps)	9.1%
MSCI EAFE	0.8%
Crude Oil Spot (WTI)	- 25.8%
Gold Bullion ($US/Troy Ounce)	16.7%
SOX Semi-conductor Index	44%
VIX Volatility Index	50.7%

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 December 3, 2020 10:00 AM	**$5,000**	**Cdn**		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	*No Public Rate Posted Online*			
Interactive Brokers	1.2909	$ 3,873	$ (2)	0.0%
Laurentian Bank	*No Public Rate Posted Online*			
National Bank	1.3034	$ 3,836	$ (39)	-1.0%
Raymond James	1.3070	$ 3,826	$ (49)	-1.3%
Royal Bank	1.3168	$ 3,797	$ (78)	-2.0%
Scotia	1.3302	$ 3,759	$ (116)	-3.1%
TD	1.3261	$ 3,770	$ (104)	-2.8%
Canadian Snowbird	1.3072	$ 3,825	$ (50)	-1.3%
Spot Rate	**1.2904**	**$ 3,875**	**$ -**	**0.0%**

Crypto come back

Twenty-one years ago, on December 6th, 1999, shares of **Amazon** hit $113. In and around that time many investment professionals, including our colleague, Ross Healy, began warning that unproven technology companies were overvalued, fraught with risk and poised for collapse. I had just graduated from university earlier that year and I really did not know much about investing. Luckily, my lack of investment experience did not matter. A $15,000 student loan (a bargain by today's standards) and a job with few real responsibilities meant that deciding whether to invest in Amazon or not was more of a metaphorical choice than a literal one.

Yet for many investors, the decision to invest in Amazon in December of 1999 was a real one because it involved real savings. Some got it right while others were not so fortunate. By September of the following year shares of Amazon could be had for $8. But by that point a good number of investors were left wondering whether they had been *had*. It is hard to say how many of Amazon's December 1999 investors hung on until today, but it is easy to say that those who stayed put had strong stomachs, a high degree of confidence in founder Jeff Bezos' vision and the growth in their capital that comes with investing in a revolution.

[These days Amazon's stock market capitalization is similar to the GDP of many medium sized countries and fulfillment centers like the one pictured here are really cities controlling the flow of goods throughout the economy…but that was certainly not always the case.]

The Amazon we knew back in late 1999 was not a parable of profligacy but a pretense about price and the power of transformative technology. Amazon changed the way consumers consumed.

The *next* Amazon or rebound?

We have invested in cryptocurrencies before and our experiences with the world of currencies that don't really exist was mixed, raucous and in many ways still a work in progress. At one point, in late 2018 and 2019, digital currencies seemed like an outright scam complete with fraudulent trading, massive data breaches, flagrant hacks and thefts and the gigabytes of lawsuits that followed. Painful as it was to lose money that never really existed in the first place (if that makes any sense) it would appear that the dog days of 2018 are behind us. One of the best things we did as an organization back then was to make investments in cryptocurrencies that were comparatively smaller than our mainstays in areas like big data, robotics, cyber security and artificial intelligence. Cryptocurrencies were new to us because frankly they were new to everyone just a few years back.

So, by way of review, by far the world's most popular cryptocurrency is BITCOIN. Three short years is all it took for the BITCOIN to come full circle: from a meteoric rise, to spectacular crash and back…Amazon took nearly a decade.

[BITCOIN's price resembles Amazon's in many ways though the popular digital currency took 36 months to accomplish what Amazon needed a decade to do. Perhaps convincing people to use money that did not actually exist was made easier by the already established.]

So now that BITCOIN has silenced critics for the 2nd time…do we feel it could go even higher?

We do…

A lack of recent hacks, theft or outright fraud and no truly bad press has helped investors forget about BITCOIN's earlier days. Broad-based acceptance on the part of regulators has helped too and made institutional investors more comfortable with the idea of owning BITCOIN in many of the larger investment programs they manage. Regulation in financial markets be they real or virtual is tantamount to credibility and BITCOIN's credibility didn't just pop up overnight. In September 2014, TeraExchange LLC, received regulatory approval from the US Commodity Futures Trading Commission to begin listing an over-the-counter swap product (derivatives contract) based on the price of BITCOIN thus making it a security. In March 2016, the Government of Japan recognized cryptocurrencies like BITCOIN as having a function similar to real money. And one by one more and more regulatory authorities gave their blessing on BITCOIN allowing it to build momentum outside of niche markets or amongst users who viewed it as a novelty. More merchants gradually began to accept BITCOIN as a form of payment. For example, train stations in Switzerland began allowing passengers to buy tickets with BITCOIN and soon there were even BITCOIN ATM machines popping up.

[After being "steamrolled" in 2018, BITCOIN and other cryptocurrencies are back on track. COVID 19 probably has played a role in BITCOIN's resurgence but it is not the only factor.]

A leading research and advisory firm, Forrester Consulting, recently penned a research paper entitled *"The Total Economic Impact of Accepting BITCOIN using BITPAY"*. The team from Forrester outlined four key findings about BITCOIN that those of you who have owned businesses would find very interesting. First, as many as 40% of customers that pay with BITCOIN were new to the merchant. Every business owner knows that finding new customers is the lifeblood of any business. Second, transaction amounts are now directly on par with transactions consummated via credit cards. For the record, the combined market capitalization of VISA, American Express and Mastercard is a trillion dollars. Third, using BITCOIN and other cryptocurrencies was concluded as being cheaper than using other forms of payment such as credit cards. Lastly, no fraud related charge backs were associated with transactions involving BITCOIN since phony transactions are incredibly hard to perpetrate. Saying that BITCOIN is immune to fraud probably isn't exactly correct but credit card fraud has been going on for years and seems to happen with striking regularity despite the banks and credit card companies assuring us that they really, really do have the most sophisticated surveillance technology in place to protect us.

The Forrester study by itself does not give us blind faith that BITCOIN's best days are ahead of it after all it is one study. But it certainly solidifies the idea that in an increasingly competitive (and cordoned off) economy businesses have no choice but to offer their consumers easier methods of payment. BITCOIN's supply would also appear to be better controlled than that of fiat currencies like the US dollar, the Euro or the Japanese Yen. Adding to BITCOIN's appeal is a point we touched upon a few moments ago: increased purchasing on the part of institutional money managers. Though nerve wracking at times, we are pleased that some of our initial forays into this would offer us the opportunity to now sell our positions into the thirst of highbrow Bay and Wall Street firms wanting in on the action.

[Long before Amazon founder Jeff Bezos was a Kingpin of commerce, he was sitting in an office that resembled my own bedroom during my undergraduate days. Patience, tenacity and offering something that people will actually use are worth a premium even if you have to wait a while to reap the rewards.]

Some comebacks are easier to spot than others. Not everyone sold their stake in Amazon during the dot.com implosion. Some investors realized that selling books online wasn't such a silly idea after all. Other come backs are harder to spot and take a combination of knowledge and good judgement. In 2010, most hockey experts had the Philadelphia Flyers dead-to-rights in their series against the Boston Bruins. Ask Simon Gagne what he thinks of most hockey experts.

With cryptocurrencies like BITCOIN making predictions is a little tougher. BITCOIN isn't something that is bought and sold (though it can be) rather it is something that is designed to facilitate the sales of goods and services whenever and wherever you like. In a world increasingly defined as being "trapped" or "addicted to" Modern Monetary Theory, BITCOIN represents an appealing and convenient option to traditional fiat currencies. That serious money and serious regulators have giving the e-currency their blessing suggests that what was once a source of significant resistance and uncertainty is now a source of tremendous support and credibility. The recent COVID 19 lock downs and investors' on-again, off-again obsession with gold as a safe haven bodes well for BITCOIN et al and we can envision a higher price in the currency even from the current levels.

Jeff Bezos did not become one of the world's richest people by packing up and going home when his chips were down. He did it by offering the world a transformative way in which to shop, which is exactly what BITCOIN is doing today. We don't believe that the future of BITCOIN will be completely blemish free but what we can tell you is this: the come back is real, the currency is real (okay you got us there…no its not) and the future profit potential is too.

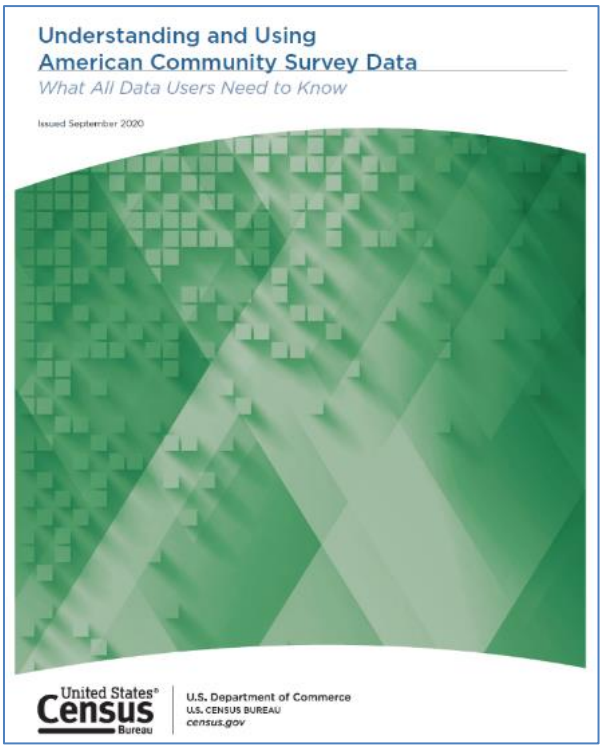
The MacNicol Investment Team

A treat for the *Census*…

When my colleague Ken Reid and I were preparing for our recent webinar *Real Estate: What does the future look like now?* we spent a good deal of time studying data provided to us by the United States Census Bureau, part of the Commerce Department.

I had signed up for updates from the Bureau shortly after I took over the MacNicol 360 Degree US Realty Income Fund figuring that if I knew where most Americans were and where the majority were going I would have a better than average chance of deploying capital to properties that would be mainly full and collecting most of their rent. As it turns out I was right. But before diving into what "mainly" and "most" mean here I wanted to highlight just how informative it has been getting to know the US Census Bureau through their timely updates, informative studies and plethora of excellent publications. The Bureau even created a handbook called "Understanding and Using American Community Survey Data: *What All Data Users Need to Know"* presumably for types like me , who get pitched on real estate opportunities day-in and day-out, and who must quickly separate such opportunities into 2 buckets: the not a chance bucket and the lets talk more bucket. In typical Bureau fashion *America Community Survey Data* is an excellent, if lengthy primer on extracting from the Bureau's vast armada of intel the statistics you need to make your decisions count. More importantly it gave me the opportunity to appreciate how valuable demographics are when it comes to making real estate investment decisions. Speaking of valuable, having a research Analyst roughly half my age was enormously helpful too. Ken made quick work of some very unruly spreadsheets, which prior to being "processed" by Ken resembled little more than a completely random assortment of numbers on a spreadsheet that took a good 8-9 swipes of the mouse to scroll through. Believe me, raw data, much like raw sewage, stinks and so one of the things Analysts and Portfolio Managers like to do is "sanitize" the data such that the figures divulge their secrets to you more openly. My motive in instructing Ken to sanitize one of the Bureau's massive spreadsheets was to convince myself that the 360 Fund was invested in the right jurisdictions for each of you and your families. You see, I spend most of my time ferreting through the various property specific reports for each of the fund's holdings and I have personally visited many of the buildings myself. So I know where the properties are and I know the people who run them – but what I suppose I wanted to know is whether data provided to me by a highly credible third party would comport with my own beliefs about *why* the fund is invested in many of the cities shown on the map below.

Now at this point you might have noticed me use the word **right** on the previous page in connection the fund's jurisdictions, which by the way real estate portfolio managers term MSA's or Metropolitan Statistical Areas. In a nutshell, the right MSA has the right demographics and the right demographics are in my mind defined by: a younger and growing population, a skilled and educated labour force, a good but primarily growing median income and a culturally rich and economic diverse local economy (this last part I find sometimes gets missed). If you make real estate investments in MSA's with those sorts of statistical attributes then global pandemic or otherwise, you'll be okay…



[Manage a serious real estate portfolio? Step 1: read this excellent 89 pager from the US Census Bureau to learn where all the people are. Step 2 find a research Analyst who *started* university at least a decade after you completed university so you can track where the people are going.]

I haven't forgotten that I promised you an explanation for my use of the words "mainly" and "earlier on". Attached below, you will find a data table from one of our real estate partners in the United States whose identity I have deliberately concealed. Gone are the names of the CEO and CFO, gone are the images of the properties themselves and gone is any hint as to which state they are found in though I suppose you now know these aren't Canadian investment properties. I engaged in redacting chicanery not to deceive or trick you but to get you to focus on each of the lines in the table. Beginning with the figures 93.8% and 95.9% it should be clear that these two properties were largely full. Next, lets examine the all-important collection number to the end of October and on a trailing 12-month average basis. The data shows that collections even during these hideous economic times remain well into the 90% range albeit with a slight tapering off across the summer as one might have expected. But suffice it to say that's a score of over 90% in two critical real estate areas. Next up is the figure $3,339,204 in the middle of the table which represents the properties cash reserves and the figure $533,783 which represents total monthly operating costs (utilities, insurance, property taxes and management fees) in addition to interest expense and principal, repayments. Taken together the cash reserves divided by the monthly operating costs show that even if the properties were completely empty or even if not, a single tenant were able to pay a dime of rent, the properties would have 6.3 months of coverage available.

Current Month-To-Date	Trailing 12-Month Average
92.9%	91.4%
93.2%	90.9%
93.8%	
95.9%	
$3,339,204	
$533,783	
6.3	
4.5%	
5.8	

[Our real estate strategy is quite simple: a property or portfolio of properties that performs like this during a global pandemic is a beacon of stability.]

As many of you know, the 360 Degree US Realty Income Fund is the foundation that the Alternative Asset program at MacNicol and Associates rests on so it must be capable of withstanding formidable, direct hits from economic challenges no matter how big or plentiful. The COVID 19 global pandemic is firstly a human tragedy with a societal cost that might take decades to truly reconcile. But to a team of Analysts and Portfolio Managers running a real estate fund, it was one of the most significant tests we have ever seen and that includes the global financial crisis of 2008/2009. We're glad to have access to enormous databases, amazing partners and dedicated in-house staff when it comes to running the fund and witnessing each of the facets of the fund's management coalesce really is a treat for the senses…

As 2020 enters its swan song month, the fund is flat for the year but once again beginning to show signs of life. In a year like this, flat looks pretty good so too does property selection reports like the one I showcase above.

The MacNicol Investment Team

Hikikomori Kara Toshi

Hikikomori is a Japanese term for acute social withdrawal. Hikikomori can be used to describe total withdrawal from society, the desire to seek extreme social isolation and confinement of reclusive individuals themselves. A sad and escalating consequence of lockdowns is the degree of isolation many people are being **forced** to endure. Applications like ZOOM, Virbela Office and Gotomeeting are helping to manage the dislocation of person-to-person interaction, but the sentiment seems to be shifting as to their longer-term efficacy in and collaboration and societal impact on communication. Social withdrawal from either an underlying mental health challenge or through imposed isolation is quite unfortunate indeed. As a Portfolio Manager, I often see things through the lens of people's finances, and I hope you'll appreciate that. I could not help but feel that when it comes to making investments (Toshi) many people experience a form of isolation on their own. That most Canadians would rather plan a diet or reorganize their basements than discuss their finances and this includes an overview of their investments. One thing that may compound the reluctance many of us have in discussing our finances is that the investment field has created this culture where money managers and analysts are held in such high regard and suppose to appear confident and important. I feel this might alienate many people who simply want to know the answer to one basic question: am I'm going to be okay. Another factor that can contribute to investment hikikomori is the notion that most of us simply do not want to expose ourselves to the criticism of "the establishment" for fear of being made to feel stupid. The problem with social isolation and with investment isolation is of course that the longer it goes on, the longer (and potentially more costly) it becomes to fix. At MacNicol & Associates Asset Management we can and do help many Canadians and a growing number of Americans with their financial needs and we always tell you what we truly believe but not by looking disapproving down our noses at you. You are important to us, but we understand that you also have a voice. So, in addition to offering complimentary no obligation portfolio reviews, we will take time to listen to you. At MacNicol & Associates, you're not alone. But if you want to be, we will respect your boundaries.

The MacNicol Investment Team

Firm News

MacNicol & Associates Asset Management is pleased to announce that Portfolio Manager Joe Pochodyniak (only) got mad at his Dog "Oreo" three times during the production of this month's edition of *The Monthly*, a marked reduction from November's eleven times. When asked for his thoughts on this matter, "Oreo" responded with "woof woof" and then promptly began scratching himself.

MacNicol & Associates Asset Management would like to remind everyone to continue to exercise caution and vigilance in all your daily activities. Though progress towards concurring COVID is being made, now is not the time to let your guard down so please keep you and your family safe.

In the spirit of sharing and goodwill, we have made a donation to the Yellow Bus Foundation (www.yellowbusfoundation.com) in honour of our clients, friends and colleagues.

Lastly, we would like to close with some Winnie-the-Pooh thoughts shared with us by a client:

We wish you all a Merry Christmas, Happy Hanukkah, and Best Wishes for 2021!

MacNicol & Associates Asset Management Inc.