January 2021

The Quarterly

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.

"I'd be looking to lower the temperature in this country not raise it"

- President Elect Joe Biden

The Numbers:

Index:	**2020 Calendar Year:**	
S&P/TSX:	2.2%	
NASDAQ:	43.6%	
Dow Jones:	7.2%	
S&P500:	16.3%	
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.06%	0.08%
5-Year Bond:	0.44%	0.46%
10-Year Bond:	0.79%	1.09%
30-Year Bond:	1.40%	1.87%

Economic Data:

* Chinese economic momentum fades in Q4'20
* Singapore GPD off 5.8% in 2020
* Oil higher in December WTI at $45/bbl
* Gold recovers from November correction to $1,900
* BITCOIN finishes 2020 strong at nearly USD $30,000
* Eurozone $920 billion stimulus plan likely to stimulate growth but well into the second half of 2021
* Copper maintains $3.50/lbs., in December
* Canada losses 63,000 jobs in December

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	38	25
P/B: Price-to-Book	4.3	3.5
P/S: Price-to-Sales	2.8	2.3
Yield: Dividend Yield	1.5%	1.8%

2020 Calendar Year Performance, by Sector: Dec 31st, 2021

S&P/TSX Composite	2.2%
NASDAQ	43.6%
Dow Jones Industrials	7.2%
S&P 500	16.3%
Russel 2000 (Small Caps)	18.4%
MSCI EAFE	- 12.6%
Crude Oil Spot (WTI)	5.4%
Gold Bullion ($US/Troy Ounce)	24.8%
SOX Semi-conductor Index	50%
VIX Volatility Index	5.8%

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 January 20, 2020 9:00 AM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.2691	$3,940	$14	0.3%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2818	$3,901	$(25)	-0.7%
Raymond James	1.2850	$3,891	$(35)	-0.9%
Royal Bank	1.2958	$3,859	$(68)	-1.8%
Scotia	1.3078	$3,823	$(103)	-2.7%
TD	1.3126	$3,809	$(117)	-3.1%
Canadian Snowbird	1.2839	$3,894	$(32)	-0.8%

We got through this…

Subjectively, 2020 was a disastrous calamity none of us will ever forget and many of us are still grappling with today. Yet, from an investment standpoint 2020 was a lot less heart breaking than it might have been. This time last year, we really did not know that a virus that originated in China would claim thousand of lives and lead equities on a raucous ride for those who took their finances as loosely as they took their health and safety. Once COVID made its way to North America, a smooth, stable ride for stocks [like 2017] was out of the question. Somehow though, we got through this.

Maybe it was the scar tissue from the Global Financial Crisis (GFC) or the ever-present promise of Central Bank intervention, but something told investors to hunker down and stay put. Roughly eleven years prior, I had front row seats to the GFC and for whatever reason felt more frightened back then. I wasn't one of these non-believers: I knew COVID was steamrolling through victims like a freight train. But in an interconnected financial web contagion can spread in hours versus weeks and even the simple hunch that something may be up is enough to spook investors around the world into heading for the exits in droves. Still, despite COVID's steep human toll, investors were less prone to selling than when Lehman Brother's CEO Dick Fuld attempted a last-ditch effort to sell his firm to Bank of America (little did Fuld know, Bank of America had secret meetings with Merrill Lynch that same week) which never happened and led to the bankruptcy that caused the GFC. Perhaps investors have become more battle hardened, perhaps analysts and money managers got better at communicating our findings to investors (our own firm seized the opportunity to communicate *more* with our investors through numerous webinars that were easily produced thanks to the latest in video conferencing solutions) but the point is more and more of you remained fully invested. Some investors, like those who made large bets on electric cars, online shopping, social media, search engines and smart phones, were handsomely rewarded for their boldness. Indeed, betting on just 5 stocks (5 companies out of 3,300+ accounted for half of the NASDAQ's 40% run in 2020) was bold, very bold, and aggressive. We do hope the "thrill seekers" among you have at the very least taken some money off the table. If you haven't perhaps a visual might help illustrate our point:

[FINVIZ allowing investors to see potentially overvalued stocks with minimal squinting: big squares should come with big questions.]

Armchair investors?

Another explanatory variable in the 2020 market mystery was the emergence of a new crop of retail stock traders. But it is hard to discount the impact this had on certain individual companies.

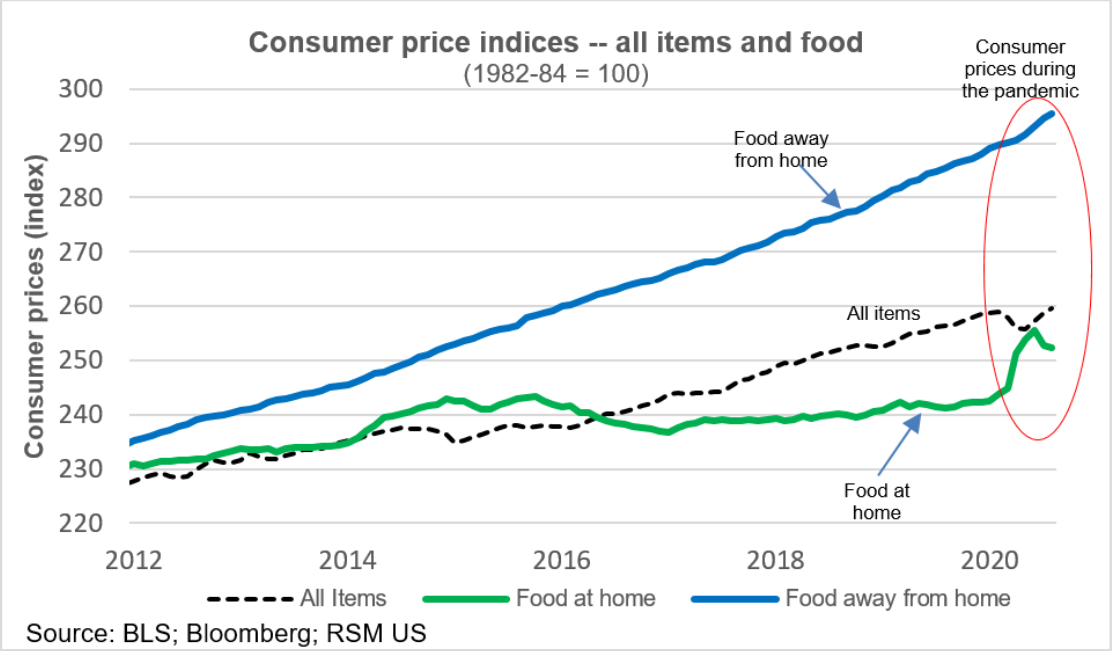
[With Robintrack, investors can track the *popularity* of a stock. Note that we said popularity of stocks, not valuations.]

I am sure many stay-at-home investors have likely taken more than just a cursory peak at their personal trading accounts and attempted to play with the market. But I am not as sure that these same people were responsible for the rise in stocks generally during the end of 2020. Sadly, a lot of these people were home because the industries where they earned their livelihoods were badly damaged by COVID closures and I am sure whatever stimulus payments they were able to receive went towards making ends meet and not the stock market. Of course, 2020 was also a year in which politics once again came under the spotlight as something few investors should ignore when making both broader investment decisions around allocations to various asset class and when selecting individual securities from specific sectors of the market. While politically agnostic, the MacNicol Investment Team was mindful of geopolitical risk in 2020 as we were in years prior.

Did the paradox of thrift keep people in stocks?

I am not so sure. On the one hand households are likely to curtail spending to essential items (like food and rent) whenever times get tough saving whatever might be left over just in case things get even worse. Challenges not unlike those faced by the economy during the Great Depression. But inflationary pressures are mounting and sitting at home has done little to make the overall situation better. It is true that for many of us, the costs related to transportation, personal maintenance, dry cleaning and visits to Starbucks have declined, it is equally true that those costs have been offset by inflationary pressures in other areas of our lives.

Back here in Toronto's East end, my electrical bills have caught me looking the other way on more than one occasion and I now engage in frequent "tours" of my own home in search of needlessly illuminated rooms or appliances set to inappropriately high levels form my own version of "energy audits". And when it comes to food prices, I will say this it really was not that long ago when $800 of groceries was a "mountain" of food…believe me it really doesn't look like all that much these days.



[The illusion of low inflation is understandable: consumers simply didn't have that many places to go or that many things to do. But we all have to eat.]

Inflation is finance for rising prices, and we believe it is the primary reason why investors have opted to stick it out in stocks. To show you just how expensive things have become, consider this. Let's assume you live on a fixed income and require $40,000 from your investments annually to support your cost of living. Were you to shop the Canadian bond market for something maturing just a few years out specifically carrying a government guarantee, you'd find it quite easily…the price tag…well that's an entirely different matter. Nearly $5 million of capital would have to be rolled into a 5-year Government of Canada bond just to get your renumeration to where you would like it to be. Small wonder that equities, despite their own pricing problems, in many cases offer better value. BCE stock is not currently one of our favorite names. Its been in sort of a "no man's land" of late and some of its technical attributes look poor. Yet with a yield of 6% and below average volatility relative to the broader stock market, it is hard to argue why one would lend the Government five *million* dollars when a much smaller allocation to BCE stock achieves the same desired result. Sure, we omit taxation and the fact that investments in equities are never guaranteed, but we do so to hammer home just how bad inflation has become in financial assets along with real assets. COVID is no joke and remains a virus to be feared, but at some point, those fears were besieged by inflationary worries.

And we think that's the bigger picture here.

Mercifully, 2020 is over and yes, we got through it, but many did not. We still have a long way to go before we resume in person meetings with investors and other partners. Until then we thank you for sticking with us and for sticking to your own, respective financial game plan by having the discipline to hunker down and tough this out. With vaccinations currently underway we truly hope this is the last time you read about it in these pages because as you have read, we think a bigger problem looms in the distance.

Be well. Be Safe. Be invested.

The MacNicol Investment Team

Alright, alright Elon…we're sorry too…

Shortly after 10:15am on Thursday January 7th, 2021...49-year-old Elon Musk overtook Amazon founder Jeff Bezos as the world's richest person. I was just exiting our weekly MacNicol research meeting en route to my kitchen sink for a top up of H20 and another jolt of espresso. Together with being on better terms with my disobedient, judgmental Barbet "Oreo" research is something I intend to spend a lot more time on in 2021. You see despite 20 years in this business I clearly don't quite understand how stocks work. As it turns out, I am in good company in that respect:

Tesla call was completely wrong, RBC says after 1,200% rally

Long-term bear moves price target for the stock to US$700 from US$339

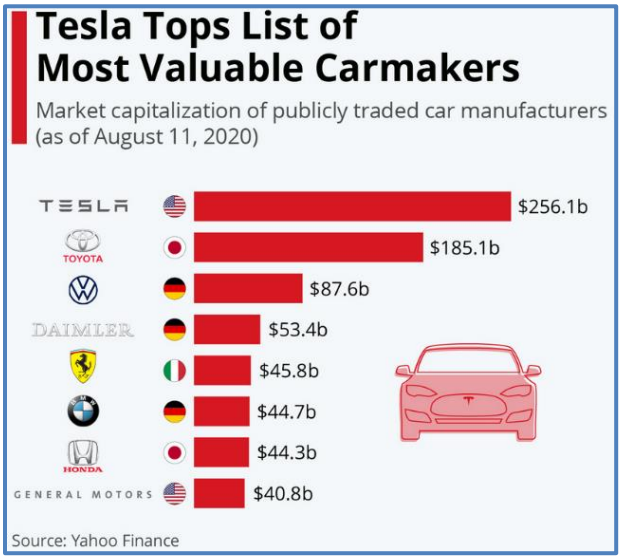
Bloomberg News
Joe Easton

Jan 07, 2021 • Last Updated 10 hours ago • 2 minute read

A Tesla logo is seen on a 250kW electric vehicle charging station at the Tesla Inc. supercharger station on January 4, 2021 in Hawthorne, California. PHOTO BY PATRICK T. FALLON/AFP VIA GETTY IMAGES

[Say what you will but do you really think it's a good idea to hold Tesla shares just as many "long time" bears are growing horns?]

By some accounts Tesla stock is overvalued by 70% and tables such as the one below has been popping up for months now. Teslas are of course very "cool" but Volkswagen is just one example of the sort of rampant savagery we are dealing with sold over 10,974,000 vehicles in 2019 to Tesla's 370,000.

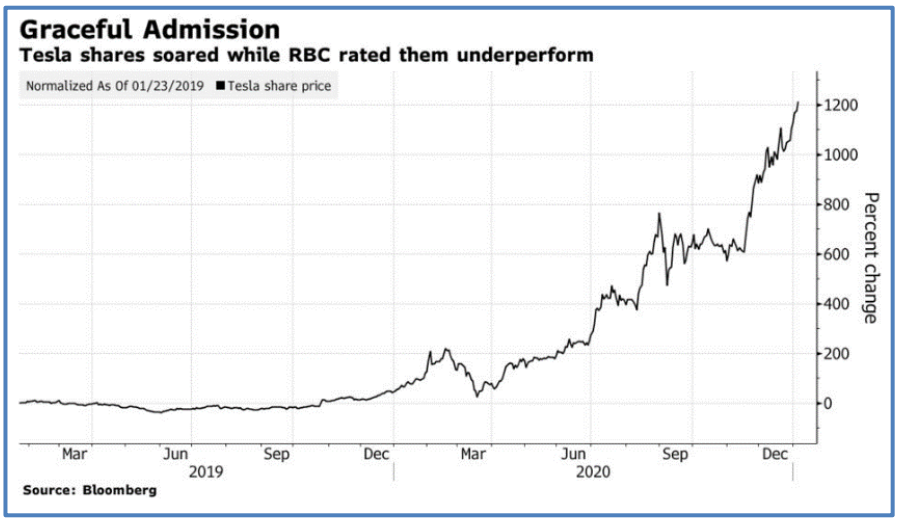


[This table was plucked from Yahoo Finance back in August and the gap has only widened since.]

97% of Tesla's revenues come from selling cars. The company also has their hand in an electrical generating and storage business that accounts for 2% of revenues, as well as a few other segments that amount to just basis points. Five years ago, the average Tesla went for $98,000. Today, thanks to the $45,000 Model 3 your average Tesla price is in the $58,000 range and we figure that falls further as sales of the Model 3 make up a larger composition of Tesla's overall revenue base. When it comes to deliveries, Telsa's performance has been more impressive. In 2015, Tesla delivered just 51,000 units. By 2019 the company delivered 367,000 cars and we are waiting to see what the company's 2020 delivery figures are though COVID will almost surely be blamed for any weakness there. Unfortunately, an increase in unit volumes have come at a cost. The company's gross margins have been falling for some time: in 2016 gross margins were 35%. By 2019 that figure had dropped to 28%. Overall gross margins *may* revert back up to the 30% range as economies of scale are achieved but we believe Telsa's valuations are stupefying high. Tesla stock is up roughly 800% over the past two years yet analysts have lowered (not increased) their consensus earnings expectation for the company in each year out to 2024.

Do we feel badly for missing out on the fun?

Yes and no. Short sellers like Jim Chanos and others have lost nearly $35 billion (cumulatively) through bets *against* the company. Tesla's addition to the S&P500 (which fueled programmatic buying by ETFs and other funds) along with increased electric vehicle adoption saw some notable investment houses reconsider their stance. Goldman Sachs believes electric vehicle adoption is accelerating due to a decline in a battery that has been faster than expected, combined with an increase in regulatory proposals to limit or ban the sale of internal combustion engines over the next few decades. Electric vehicles probably do become mainstream in the United States and parts of Western Europe eventually, but a showdown amongst current Tesla shareholders is coming soon. Tesla is overly reliant, addicted perhaps, to sales of emissions credits, which are declining. Take away environmental incentives and Teslas represent an entirely different proposition to more peripheral buyers. Tesla is selling cars, but they are not selling enough cars to justify the company's massive market capitalization.



[We feel badly for missing the Tesla jolt down the drag strip. We would feel worse buckling up into the stock today.]

Teslas are great cars – please don't misunderstand us – but when it comes to the company's stock two things merit mention. First, Elon Musk is a genius and he certainly has earned his spot among the world's very richest people. Musk founded a car company and at the end of the day, Tesla is no longer an amusing side show for executives at GM, Toyota or Volkswagen to scoff at, and the cars themselves are no longer being bought solely by Yoga instructors, graphics designers and college professors. As far as Musk becoming the richest person in the world goes? Well, that brings me to my second point. Obviously, the Lion's share of Musk's comes from Tesla stock. By this point I am sure you appreciate that we feel the stock is not just overvalued but grotesquely so. Elon Musk is a genius, an innovator and the world richest person…time will tell whether all three of these things remain to be the case a year from now.

The MacNicol Investment Team

Endel Tulving

The University of Toronto is home to a number of renowned scholars and the thousands of students whom they teach. As a young man, I was lucky enough to have learned from many of these very smart and very dedicated men and women. I once even got to meet a Noble Laureate, in a stairwell, who graciously offered to sign my physical chemistry textbook, right there on the spot. I took several Chemistry classes at the Lash Miller Chemical Laboratories. Challenging and frankly boring to some, classes in the sciences were thrilling and inspiring to me. Every now and again I liked to venture to a less conventional part of the U of T's large downtown Toronto campus for something a tad different.

[The Lash Miller Chemical Laboratory, 80 St. George Street, Toronto, Ontario and home to the University of Toronto's Department of Chemistry. A little over twenty years ago, in stairwell "B" I had an impromptu run in with John Polyani, a winner of the 1986 Nobel Prize in Chemistry.]

Called "breadth" requirements, every University of Toronto undergraduate student was expected to take a small number of classes outside his or her own core focus area. The idea being to produce graduates who were more well rounded. So, what did I take when I wasn't busy mixing together potions in a lab deep within the heart of the U of T?

Psychology…

God, I loved psychology classes. Part science but in a cool, "real world" sort of way and part art because success in psychology involved not just looking at data but inferring what the data might mean in daily life. One of U of T's most famous Psychologists was Endel Tulving. Tulving has written enough books and research papers to fill a room in my house. And, Dr. Tulving has been cited over 3,000 times by other academics and researchers. Though he made formidable contributions to a wide range of psychological topics, Tulving is widely regarded as *the* key contributor to our understanding of episodic and semantic memory. **Episodic memory** is the ability to consciously recollect previous experiences from memory (for example recalling details of a recent trip to Disney World), whereas **semantic memory** is the ability to store more *general knowledge* in memory (the fact that Disney World is in Florida). This distinction was based on theoretical grounds and experimental findings Tulving himself uncovered. This sort of theorizing represented a major departure from many contemporary theories of human learning and memory, which did not emphasize different kinds of subjective experience.

[Professor Endel Tulving.]

Why I bring this up is firstly, I think that it is really, great that some people in this world prioritize knowledge and constantly yearn for more. But I also think Dr. Tulving's work has direct implications to the way investors observe markets. Sure, a great many of us have only a cursory understanding of financial markets. It isn't that we lack the cognitive processing power necessary to carefully study financial markets, it's that we just don't care or have other things on our mind. This of course is fine because such people afford people like us who do care about financial markets to earning a comfortable living by offering them a service, I firmly believe is truly important. At the same time, I cannot help but wish that more investors and those with capital were able to tap into their episodic memory for more specific recollections of how they felt during a point in the market cycle. They say that financial markets don't repeat but do rhyme. But that's not my point. Instead, I wish more investors could remember exactly how they felt the last time something bad happened in the stock market.

Believe me, doing so would help acquiesce any present or subsequent anxieties that might be brought on by a sea of red displayed on Bloomberg, BNN or even one's own portfolio statement. In 2008, I took on a job managing money for clients at one of the big banks. I was 31. Shortly after receiving my registration from the securities commission and the keys to my office, I set out to do my job. It was August. Not even a month later, Lehman Brothers, the large US investment bank filed for Chapter 11 bankruptcy protection following the exodus of most of its clients in connection with the bank's role in the subprime mortgage crisis. I think you probably know what happened next. But you probably don't know that for (several) weeks back in 2008, I was petrified. Threat of litigation by clients, at that point, were besides the point. The main point was protecting people's savings and in order to do that, I knew not to invest until the dust had settled nor to let fear's invisible hand overwhelm any one of my clients into selling at precisely the wrong time. Make no mistake, I aged about 10 years from September 2008 until a good number of quarters into 2009 but being able to tap into or draw from specific memories about that experience, versus having a general sense of what happened back then, I feel, truly made more of an impact on my ability as a money manager than even the very best business school could.

Twenty years ago, I never would have dreamed that a few psychology courses would open my mind to the importance of psychology in behavioral investments and that's certainly no pun. On the other hand, I do feel that my plight, as well as the plight of my clients through the global financial crisis genuinely made me a better resource for clients and investors. I began this edition of *The Quarterly* on a somewhat light-hearted way by choosing to name our first missive "We Got Through This". We got through this because I always knew we would. But don't thank me, thank we. Without your support, encouragement and most of all trust, no past episode would have mattered.

The MacNicol Investment Team

Firm News

We are pleased to welcome two new members to our team - Peter Tsimicalis and Paola Grey.

Peter Tsimicalis is a second-year student at the University of Toronto specializing in finance and economics. He spends his time at MacNicol working on many business development functions as an associate and has a deep passion for markets. Outside of the office, Peter is a diehard sports fan with an affinity for all things Toronto Maple Leafs and is an avid jogger.

Paolo is a 3rd year Accounting Co-op major at the Ted Rogers School of Management and aspires to obtain the CPA designation. He is currently a Research Associate with a focus on the overall market and various asset classes. He is also responsible for writing research reports and participating in weekly research meetings. In his spare time, he enjoys exercising and spending time with family and friends.

MacNicol & Associates Asset Management Inc.

Consolidation…your best solution to "account sprawl"

Merriam Webster defines the word *consolidation* as the process of unification or uniting. When it comes to your investments, consolidation means having your investments overseen by a single firm or manager. While it is not uncommon for Canadians to spread out their investments, the practice does not guarantee better results or better risk management. In fact, "account sprawl" can lead to unpleasant surprises that you may not have even considered.

Combining your investments under a single, qualified manager can:

- Give you the piece of mind that comes with greater insight into your wealth
- Help you avoid duplication, over exposure and ensure your investments are well diversified
- Help when it comes to taxes by positioning investments within registered and non-registered plans more effectively
- Simplify the process of tax preparation by having one institution issue tax forms and by having one manager oversee the process of tax loss or gain harvesting
- Ensure that transactions executed by one manager do not inadvertently trigger adverse tax consequences elsewhere
    - Such as the sale of a position held at a substantially lower cost basis, which would lead to an unplanned capital gain

When it comes to Estate Planning, a sprawled approach can cause complications for your Executor that are truly worth noting. In a perfect world, you want your Executor to conclude your affairs expediently and not have to act as a scavenger tracking down accounts. By getting your Executors to know your manager, you can also help establish a working relationship between the next generation and enhance a commitment to saving for the future. Finally, consolidating your investments can result in lower fees due to the preferred pricing that comes with tiered, asset-specific milestones and not having to pay multiple administration fees.

Why don't we start with your RRSP's which might need some consolidating?

At MacNicol & Associates Asset Management we have helped families with their investment needs for nearly 20 years. Our time-tested safe harbour approach to investing and clear reporting ensures piece of mind that you and your family can get comfortable with.

If you have questions about consolidating your investments, please call us today at 416.367.3040 or 866.367.3040 or info@macnicolasset.com