February 2021

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.

"LEAVE ROBINHOOD. They don't deserve to make money off us after the millions they caused in losses. It might take a couple of days but send Robinhood to the ground and GME to the moon."

- Anonymous WallStreetBets user

The Numbers:

Index:		**2021 YTD:**
S&P/TSX:		-0.6%
NASDAQ:		1.4%
Dow Jones:		-3.3%
S&P500:		-1.1%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.08%	0.06%
5-Year Bond:	0.44%	0.44%
10-Year Bond:	0.91%	1.10%
30-Year Bond:	1.49%	1.87%

Economic Data:

* Reddit rioters wreak havoc on short sellers
* Chinese economic momentum resumes in January with exports and producer prices higher
* US homebuilding and permit rose in December
* Oil higher in January to $56 per barrel
* Gold contracts rise $100 in January to $1,845/Oz.
* BITCOIN maintains $35,000 level through most of January but fades slightly toward month's end
* Euro lower versus other global currencies in January
* Copper prices fade from $3.65 across most of January
* Canada sheds 63,000 jobs in December on COVID
* UK requests extension of Brexit grace period to 2023

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	39	25
P/B: Price-to-Book	4.2	3.5
P/S: Price-to-Sales	2.8	2.3
Yield: Dividend Yield	1.5%	1.8%

2021 Calendar Year Performance, by Sector: Jan 31, 2021

S&P/TSX Composite	-0.6%
NASDAQ	1.4%
Dow Jones Industrials	-3.3%
S&P 500	-1.1%
Russel 2000 (Small Caps)	5.0%
MSCI EAFE	- 12.6%
Crude Oil Spot (WTI)	- 1.1%
Gold Bullion ($US/Troy Ounce)	- 2.1%
SOX Semi-conductor Index	3.3%
VIX Volatility Index	45%

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 February 3, 2020 9:00 PM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.278	$3,912	$1	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2912	$3,872	$(39)	-1.0%
Raymond James	1.2940	$3,864	$(47)	-1.2%
Royal Bank	1.3046	$3,833	$(79)	-2.1%
Scotia	1.3137	$3,806	$(105)	-2.8%
TD	1.3141	$3,805	$(107)	-2.8%
Canadian Snowbird	1.2919	$3,870	$(41)	-1.1%

Disruptive, persistent, not going anywhere soon…and let me tell you about something called Reddit…

One of our great clients here at MacNicol and Associates is a local Toronto area Doctor whom I exchange e-mails with every now and again. In one recent dialogue which was frankly more of a diatribe, I lamented about a nasty injury that has been plaguing me for roughly 3 weeks. Thank goodness Doctor…Dr. "A" who also happens to be an all-around swell guy took great interest in my latest trip down injury lane.

"Tell me more about this leg injury of yours Joe, you're a bit young to be falling apart, let me guess you probably did something really stupid".

Guilty as charged - more on that in a moment - for now please allow me to explain. I suspect I damaged something in my lower back though more precisely the upper quadrant of my left buttock. Historically my back has been a source of Herculean strength and Toyota reliability, so I doubt that was the culprit. Regardless of the injury's physical mailing address, I obviously caused enough carnage that the ensuing inflammation constricted what I suspect to be my sciatic nerve, which you can Google later this evening. Gosh it hurts. The English language did not offer nearly enough expletives with which to communicate my pain to Dr. "A". I went on to describe how the pain radiates down the leg in a "stretch like" pain (the sort of pain you'd feel in a joint or ligament contorted well past your own "maximum" mark) and concludes with a most uncomfortable "pins and needles" like sensation in my left shin. At one point I even drew upon some Polish profanities to convey my pain more emphatically and I think Dr. "A" got the point. In a nutshell, the pain was disruptive, persistent and not going anywhere soon. Dr. "A" surmised that this might just be a case of a Portfolio Manager who simply isn't that bright:

"Joe you'll need an MRI for a proper diagnosis but I'm guessing that with the lockdown, you had been doubling down on those Yoga classes you always seem to talk about and ruptured something important". "You know Joe, you aren't Gumbi or anything like that".

[Doctors go to school for so many years and we should be grateful for it: humans are not Gumby.]

After some quick tips and helpful hints [mainly to get a proper MRI and to stop being a total idiot] Dr. "A" turned the discussion to the matter of the markets.

Dr. "A": *"Joe what the heck is going on with these markets"?*
Me: *"Have you Reddit"?*
Dr. *"A": "Read what"?*
Me: *"Not read, Reddit"…*

Reddit started off as a sort of internet based "corkboard" where like-minded people could discuss a wide range of topics from fishing tackle to taxidermy and Range Rovers to remittances. Of course, Reddit had several "sub Reddits" dedicated to, what else, investing. The chat boards were intended to be forums where liked minded investors could calmly discuss investment topics collaboratively but somewhere along the line, they turned into battle grounds where financial rioters banded together to topple Wall Street elites. I suppose it was a different kind of collaboration. Typically, when you have a great investment idea, the last thing you want to do is tell everybody you know about it: no sense having people "copycat" your trade right? Well as crazy as this might sound what members of one particular sub Reddit called **WallStreetBets** were doing is getting out there and drawing attention to their individual trades. The noise was an effort to lure more buyers to purchase the same stock with the goal of putting the squeeze on a good number of prominent hedge funds. Believe it or not, it worked, and some very good hedge funds were "juiced" out of their own trades.

[Generally speaking, when a Hedge Fund blows up, it is because the fund's manager either grotesquely miscalculated the inherent risks of a transaction or was reckless with investor capital.]

Just a couple of months ago, taking a short position in a beleaguered company like GameStop or AMC seemed like a relatively safe bet even if shorting stocks is generally viewed as a more acidic variety of trade in general. GameStop had been doing absolutely nothing for some time because the world of video games moved online ages ago and COVID 19 simply accentuated the trend, all but sealing GameStop's fate with mandated closures. AMC movie theatres was a faster moving train but no less interesting to watch: one evening theatres were packed with movie goers, the next evening you'd

think *Ishtar* was playing. AMCs business was in shambles, high fixed costs ground working capital down to little more than a yucky paste and emergency loans simply kicked the can down the road in what looked to be the final curtain call of a doomed company. Smelling blood, many hedge funds took out short positions in both names, and this of course makes perfect sense. But that's when a band of Reddit users on a "sub Reddit" called **WallStreetBets** took matters into their own keyboards and leapt into action.

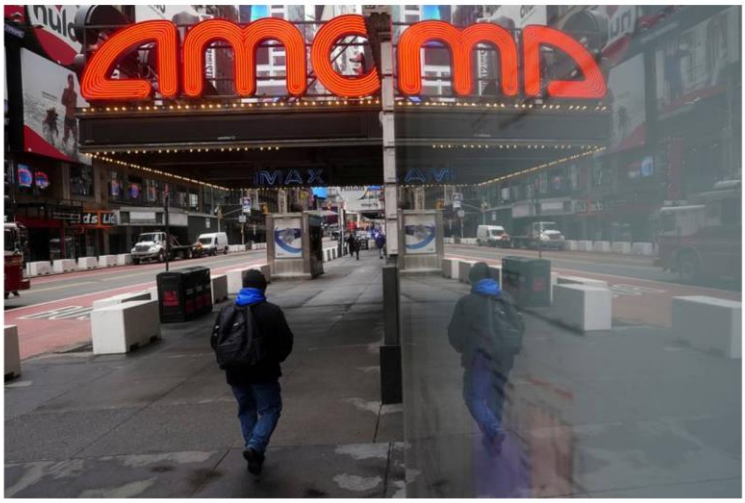
MELVIN CAPITAL

[Melvin Capital is a US Hedge Fund that bet *against* GameStop. Figuring that GameStop was ostensibly doomed Melvin shorted the company's shares. What Melvin did not figure was the fortuitous stroke of luck that GameStop would experience at the hands of band of anonymous Reddit users. This radical form of decentralized capitalism has given companies like GameStop a lifeline and dealt an exacting blow to Funds like Melvin who lost 53% in January alone.]

When you short a stock, you are selling something you do not actually own. The practice, which sounds complicated but really isn't, involves *borrowing* stock from someone in order to sell into the market. Because you don't own the stock yourself, you are subject to the lender's every beck and call in the form of margin requirements. What this means is that if the stock you shorted suddenly begins to rise because a band of anonymous capitalists gang up on your position you will be *forced* to cover your short position, potentially buying the stock you sold into the market earlier at a far, far greater price. This is what happened to Melvin Capital. But while money piling into quasi bankrupt companies can exact a crushing blow on those who bet *against* the companies, some of our friends in the private equity world were able to dig themselves out of some very deep holes.

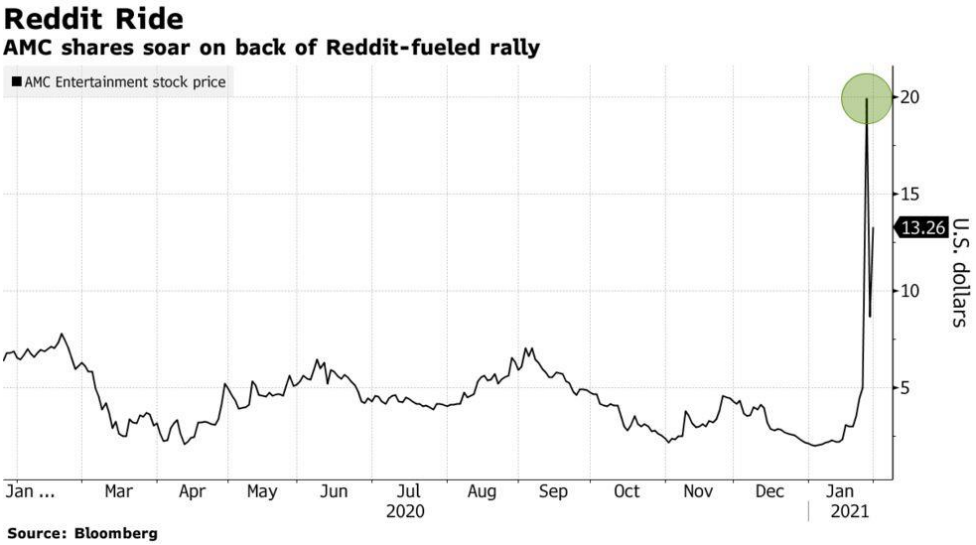
Silver Lake cashes out on AMC for $713 million after Reddit-fueled rally

Joshua Franklin
Published: a day ago



[Private Equity firm Silver Lake lent AMC Movie Theatres $600 million in 2018. As COVID closed many of the company's theatres, AMC looked as though it was heading towards its final curtain call and shares of the company lost 70% of their value in 2020 alone. Thanks to a tsunami of buying from Reddit users, the shares sprung back up in January and Silver Lake was able to convert its loan into AMC shares at $13.51 and sell them into the market for a $113 million profit on a trade that was going south.]

Silver Lake found a *silver lining* to its AMC loan in the most unlikely of places: an internet chat room. And perhaps at this point short sellers should be warned, rumors of ongoing Reddit riots continue and like my leg injury are not going away. The US Securities and Exchange Commission has warned that all transactions in listed issuers must comply with established securities laws. The trouble is, I don't think there is anything illegal about announcing your intentions to buy or sell shares of a listed company. Yes, the corner office crowd of most publicly traded companies [i.e. CEO, CFO, General Counsel etc.] must obey strict guidelines when buying and especially selling shares of their companies. Obviously, these sorts of people are insiders and ones who potentially become exposed to the financially gnarly charge of insider trading. But I don't believe there is anything in securities law which prohibits you from posting that you intend to buy or sell shares of a publicly traded company. As a matter of fact, at this very moment I am debating whether to establish a position in Pfizer stock because it happens to be the maker of every Yoga-infused Portfolio Manager's favorite drug: Advil.



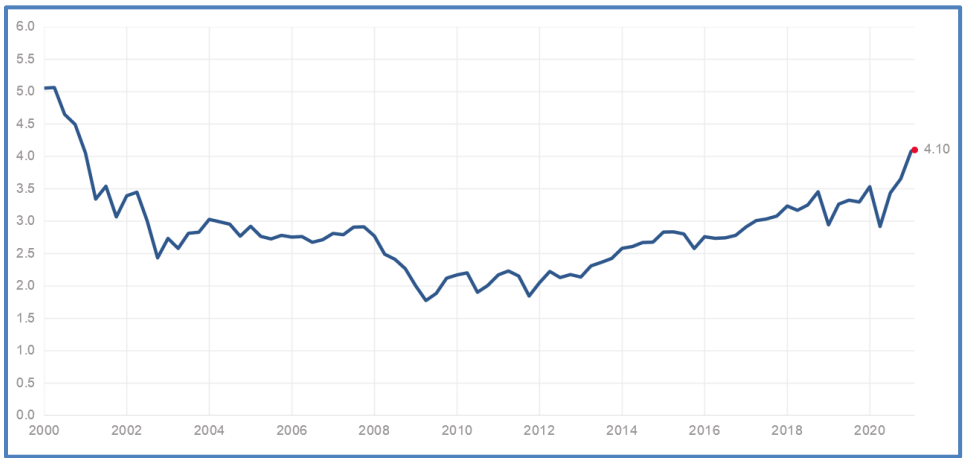
[January was by far AMC's best month at the "box office" so to speak. The company was careening towards bankruptcy and praying that vaccinations would hopefully lead to theatre re-openings in the Summer. Thanks to a blockbuster deal of new capital, AMC can keep the popcorn popping for hopefully long enough until the theatres reopen.]

Indeed, capital courtesy of Reddit would appear to be a beleaguered company's best friend: no need to issue more shares, diluting existing investors and no need to mortgage their future with pricey loans. Nothing beats people buying your stock when they aren't busy buying your product and if a few hoity-toity hedge funds pay the price so be it. That's what makes a market. The trouble is this, in the same way I will solve my disruptive and persistent leg injury, [by getting better data and by getting smarter] I suspect the Hedge Fund players will initiate a revolt of their own. Will it take down the Reddit rioters on WallStreetBets? Time will tell. In the meantime, I really and truly don't want any of you getting hurt. What is going on now in financial markets in some cases boarders on outright speculation and ostensibly wild guesses and it's tantamount to being the referee in the boxing match between George Foreman and Mohammed Ali [one stray punch, even a grazing one, from one of those two killing machines, is more than enough to put a mere mortals lights out]. So, our advice is be careful out there, oh and always listen to your body…ouch!

The MacNicol Investment Team

The Bible of Book Value…

Ross Healy is one of Canada's truly great investment analysts and he also happens to be one of the kindest Portfolio Managers I have ever met. Kind, and a truly great teacher. Despite Ross' spritely appearance, energetic personality and razor-sharp mind, Mr. Healy has more years of experience than our firm. Sometimes that's apparent, and other times it takes a bit of pointing out. In a time of disruptive Fintech and disruptive social media the natural temptation can be to view Ross' work as strictly passé or not "keeping up with the times". When you add in complacency, you might see no reason to listen to Ross' teachings on book value at all. Let me tell you, when Ross Healy offers you a lesson about the stock market, you'd be well advised to listen up. Book Value is something of a lost art on Bay and Wall Street. The practice involves ascertaining the amount paid for an investment and adjusting it for any relevant depreciation in a company's assets. In striking contrast to Book Value, stocks also have a more frenetic sibling called Market Value, which is of course how much a stock is going for at the present time. We saw in *Disruptive, persistent, not going anywhere soon…and let me tell you about something called Reddit…*that a company's market value can change rapidly, even as luck might have it, through posts by anonymous users on a web forum. But the relationship between a company's book value and market value can offer essential insight for investors inasmuch as it helps to clarify how **much** of a company's value is tangible and producing revenue. Companies with lower ratios of market values to book values can draw attention to a company is undervalued and possibly a good deal. On the other hand, it can also signal a company in trouble. High ratios of market price to book value are less ambiguous and warn that a company is relying on intangible assets and consumer sentiment to drive value.



[The Price to Book Value of the S&P500 has spent much of the past decade rising from the ashes of the global financial crisis and short of the COVID correction in March/April of 2020 is approaching the Dot.com levels. Source: Multipl.com]

If a company's market price can be viewed as the subjective component of the equation, then the book value per share of a company is the more objective figure calculated from the company's balance sheet. It isn't that hard either: when all assets are totaled and all outstanding liabilities removed, what is left over is the company's book value. Said differently, book value represents what would be left for shareholders if the company were to liquidate. When divided by the number of outstanding shares, the outcome is book value per share. If a company's book value has fallen or gone negative, investors can view the company as owing more than it is worth. The comparable analogy is of a homeowner whose mortgage balance exceeds the market value of the house. In most situations though, a company's market value will exceed its book value, and indeed it should. Book value won't include intangible assets like the value of a company's brand [for example the Starbucks logo] goodwill or patents the company owns. And all of these things make a company more valuable. But take heed on the fact that firms with low price to book value ratios can be in severe distress due to heavy liabilities and or depleted asset reserves. Also, a possibility are firms that own substantial *intangible* assets that promise growth. At MacNicol & Associates Asset Management, we always look at things from various points of view: things that are excessively "cheap" are probably so for a reason while investments that are exorbitantly priced rarely make good sense in the medium term. Our overall market view is that the Price to Book ratio signals that the market is elevated. Back in September, the markets moved higher, and then corrected sharply. The same pattern was observed on the vaccine news and then again, this past week. So as with anonymous users on a web forum, the name of the game and the name of our game is safety. So be careful. Beyond anything else, ratios prompt further investigation rather than provide answers, and having someone like Ross Healy has taught a whole new generation of Portfolio Managers to think about how to apply these metrics in the real world without ever sounding like he is preaching.

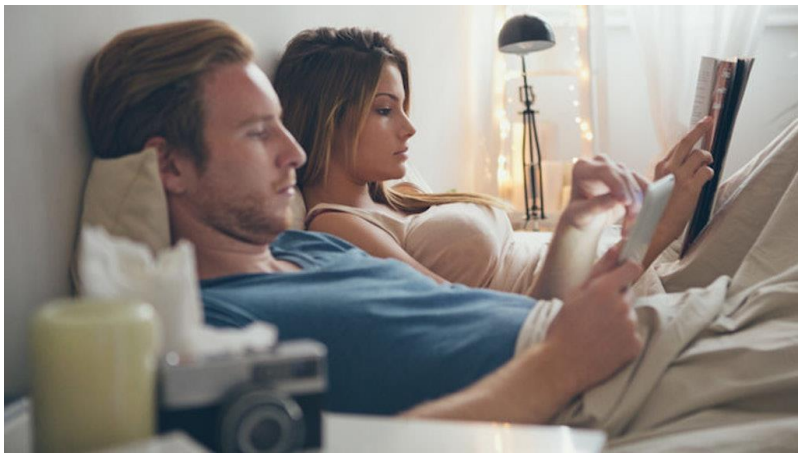
The MacNicol Investment Team

Behavioural Investing

Complacency: bad in a marriage, worse in a portfolio…

Dr. Michael Hurd is something of an expert in depression. Dr. Hurd earned a Ph.D., in Psychology with distinction in 1991 and he is a widely followed therapist and writer. According to Dr. Hurd, a good deal of depression arises from a lingering feeling that one is a victim. That many of Dr. Hurd's patients feel like victims of some unidentified underlying cause motivates a pretense that life is futile, and that the pursuit of goals and happiness is a complete waste of time. Over time, feeling "victimized" can lead to a sense of depression.

My marriage sucks and I want out…



Dr. Hurd suggests that people who feel victimized are most often their own worst enemies and that seems to make complete sense: if you're the one creating the problem, you're the one who can fix it. You just don't want to be accused of doing something wrong. What causes the sense of victimization resulting in depression? Dr. Hurd suggests that it is complacency or a feeling of smug or uncritical satisfaction with oneself or one's achievements. Complacency is a false belief that you're doing the right things to advance, when you really are not. Husbands and wives can become hostile towards criticism levied against what they bring to a marriage, and companies can go through this as well. Did Blockbuster not know that Netflix was a serious threat to their business? I would suggest they did. But as companies become successful, they can sometimes stagnate, or lose out against new competition. My own personal view is that this is happening right now with the major Canadian Banks: if you don't care about your customers, someone else will. But people are the same: they attain success or momentum in some area, and then they get stuck "spinning their tires". They falsely believe they're more "set" than they really are. Economically, complacency can be highly detrimental. Earlier in this edition of *The Monthly*, we commented about the worrying degree to which anonymous posters are influencing financial markets. In last month's edition we discussed how many investors are confusing a stock's popularity with its value.

While complacent *people* might thrive economically, they might still be unhappy. On the other hand, complacent *investors* might be happy because they think they are thriving economically when in fact they are exposing themselves to huge potential risks. They might think they have found a quick and easy way to profit in the stock market or think they can defer making important allocation decisions in their portfolios for an indefinite period of time when the reality is simply not so.

[Time spent on my investments, 98 seconds. That leaves the rest of the afternoon for my "career" in aviation. Besides, what could possibly go wrong with getting stock tips from a chat room.]

So, what is the connection here? Well according to Dr. Hurd, the person (or investor) has attended to material progress, and even personal progress, quite well. But he or she has not checked in with themselves often enough to identify, whether or not they are missing out on anything. Whether or not corrections or adjustments need to be made? And a failure to do this leads to a sense of victimization. Resentment and anger build, eventually collapsing into depression when answers never emerge. Exposure to parents, teachers and others who reinforced the false belief that we are not only entitled to the vast amount of wealth and accomplishments that we often see around us but that such plentiful wealth comes into existence far easier than it really does, or can. Most prior generations were exposed to the idea of "You can make something of yourself, but it's up to you to do it." Complacency blocks such thinking in individuals, and to an investor, it can thwart the very good progress they can make by understanding investments in a deeper way. Complacent individuals expect things to happen automatically and easily, with little or no effort expended. Complacent investors are much the same. The complacent person becomes easily disappointed, easily frustrated and then angry that things are not going as smoothly as he or she thinks they should, and the same goes for the complacent investor.

There's a subconscious (and even conscious) sense that, "This isn't fair." Ultimately this leads to some kind of depression, because of a chronic sense of futility and victimization. It's a modern form of fatalism, whereby the person feels as if someone or something else has written the script of his or her life, and there's nothing that can be done about it. And the snake oil salespersons in the media, politics, and even financial services says, "Yeah go ahead, get angry". But anger doesn't truly help, not in the long run.

The alternative to complacency is a fresh perspective and it applies equally to marriages, personal goal setting and your investments. The MacNicol Investment Team can provide you with a fresh perspective, but we need more than just your time. We need a willingness to believe that your own attitudes and thinking, including subconscious thinking, can give rise to your emotions and ultimately your behaviors. It's a spirit of honest and ongoing self-criticism (done in a positive way) whereby one reasons that if you are even thinking that you might have a problem, you no longer have to be the victim of your own complacency.

The MacNicol Investment Team

Firm News

As you probably know, Groundhog Day was on February 2nd. For those of you who believe in the tradition, you will be happy to know that Wiarton Willie didn't see his shadow and therefore spring will arrive early this year. On an interesting note, the National Post wrote an article about the movie Groundhog Day and its relevance in today's world. The main character in the movie, Phil Connors (played by Bill Murray) was stuck in a time loop and relives Groundhog Day over and over. What seems so applicable to all of us today is the concept that we are also stuck in a continuous loop of lockdown and that there is "nothing new for us on the horizon". Happily, Phil Connors breaks out of this loop and we assume, gets his life back to normal. With the vaccination programs starting to make headway, we can all look forward to breaking out of our personal time loops and hopefully returning to some form of "normal". Here's to an early spring and a new normal!

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, Toll Free at 866.367.3040 or info@macnicolasset.com

MacNicol & Associates Asset Management Inc.