March 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.

"All the evidence shows that God was actually quite a gambler, and the universe is a great casino, where dice are thrown, and roulette wheels spin on every occasion."

- Stephen Hawking

The Numbers:

Index:		**2021 YTD:**
S&P/TSX:		5.4%
NASDAQ:		0.3%
Dow Jones:		2.9%
S&P500:		2.3%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.11%	0.04%
5-Year Bond:	0.90%	0.86%
10-Year Bond:	1.41%	1.61%
30-Year Bond:	1.91%	2.31%

Economic Data:

* Oil surges to $64 a barrel
* Gold drops by about $130 to $1,710/oz
* BITCOIN surges to $54,000, but mostly maintained a $48,000 price level.
* US Dollar improves over February relative to other currencies.
* Copper rises in mid-February but falls to $4 in the end.
* Unemployment in the US dips to 6.2% as the U.S. economy added 379,000 jobs in February

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	40	23
P/B: Price-to-Book	4.2	2.9
P/S: Price-to-Sales	2.9	1.8
Yield: Dividend Yield	1.5%	1.8%

2021 Calendar Year Performance, by Sector: March 5, 2021

S&P/TSX Composite	5.4%
NASDAQ	0.3%
Dow Jones Industrials	2.9%
S&P 500	2.3%
Russel 2000 (Small Caps)	14.2%
MSCI EAFE	0.6%
Crude Oil Spot (WTI)	36.2%
Gold Bullion ($US/Troy Ounce)	-10.5%
SOX Semi-conductor Index	3.6%
VIX Volatility Index	1.5%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

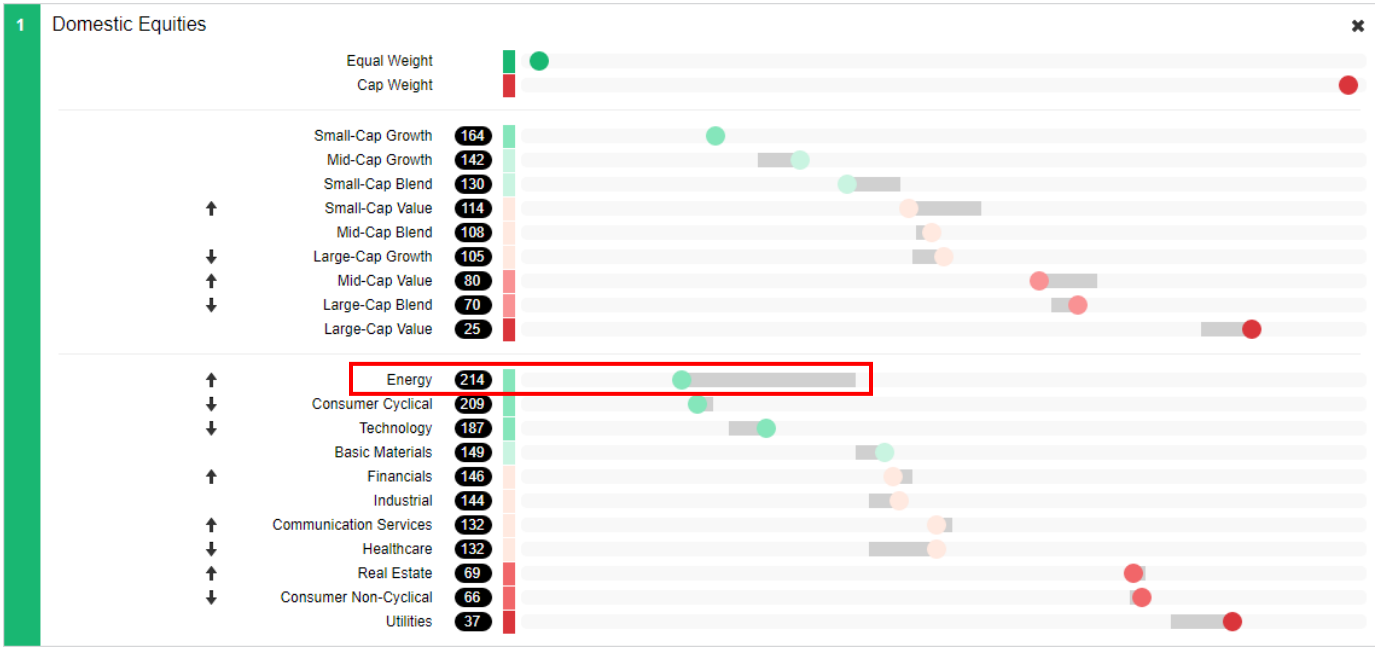
Foreign Exchange - FX

As of March 9 , 2021 1:00 PM	$ 5,000	Cdn		
Banks	Rate	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.2648	$ 3,953	$ (1)	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2775	$ 3,914	$ (40)	-1.0%
Raymond James	1.2800	$ 3,906	$ (48)	-1.2%
Royal Bank	1.2904	$ 3,875	$ (79)	-2.0%
Scotia	1.2955	$ 3,860	$ (94)	-2.4%
TD	1.3002	$ 3,846	$ (108)	-2.8%
Canadian Snowbird	1.2775	$ 3,914	$ (40)	-1.0%
Spot Rate	1.2646	$ 3,954	$ -	0.0%

Energy Sector

Energy has always been necessary in fueling society and progression. Lately, the energy sector has been a hot topic on the market because of the upward price movement of energy-related investments. According to the Nasdaq Dorsey Wright (NDW) research platform, the energy sector is currently the strongest sector among the 11 sectors; energy climbed to 1st place, all the way from 11th place on October 16th, 2020. As shown in the image below **[*Figure 1*]**, the energy sector was also by far the most improved sector last month; the shaded area indicates the one-month change in the previous score, where a shaded area to the right of the point score depicts a positive change.

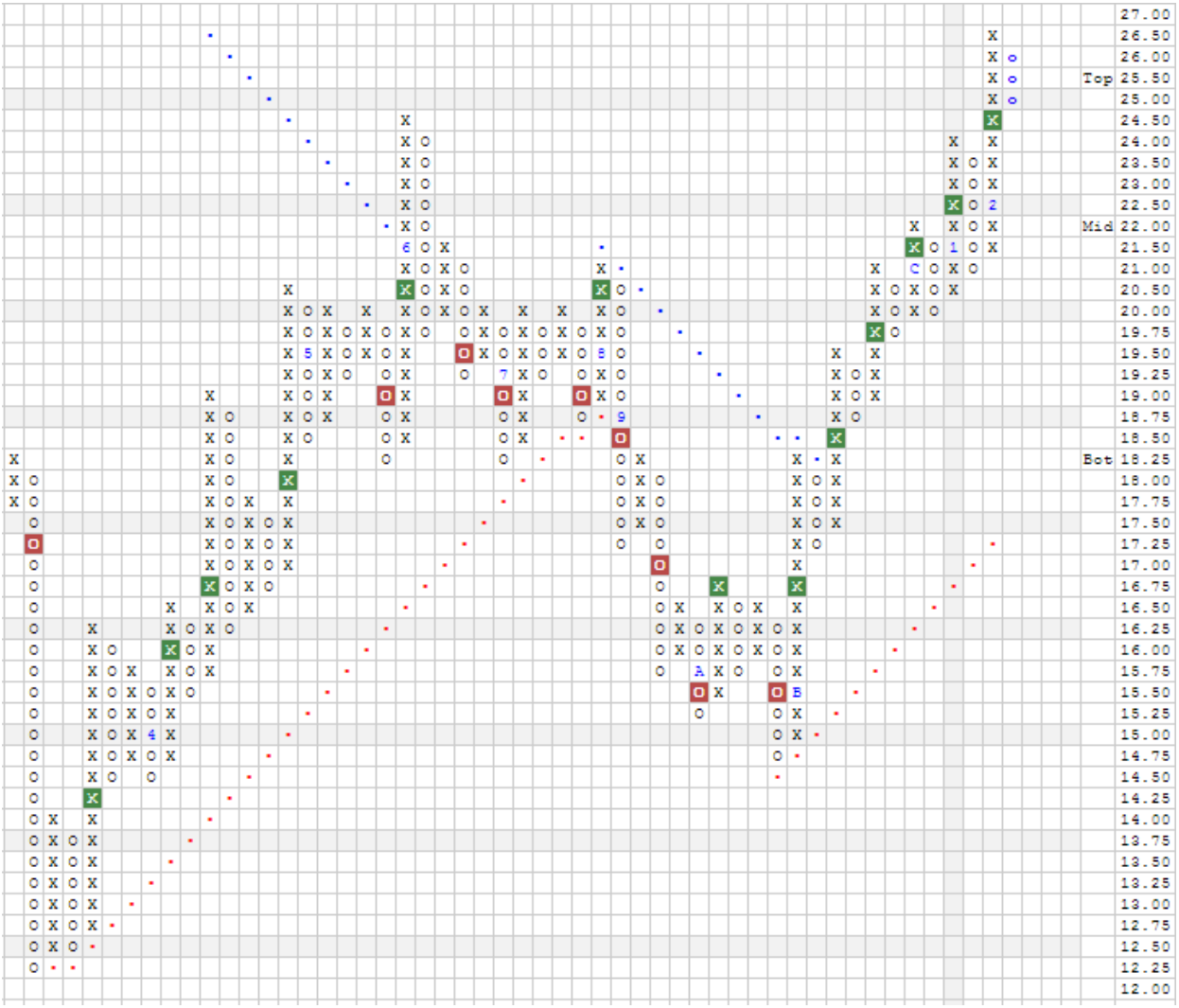
Figure 1 [Details of the D.A.L.I. Domestic Equities Sub Asset Class]



U.S. Energy Sector

The strength in the energy sector is reflected in the strong performance of energy ETFs. The iShares U.S. Energy ETF (IYE) tracks U.S. companies that produce and distribute oil and gas. As shown on the ETF's Point and Figure chart **[*Figure 2*]**, the ETF has been trading in a positive trend since mid-November of last year with 6 consecutive buy signals and is trading at $25 per share at the time of this writing. It also has an annual dividend yield of 4.57%, a positive daily, weekly, and monthly momentum, and was 91% overbought the last week of February.

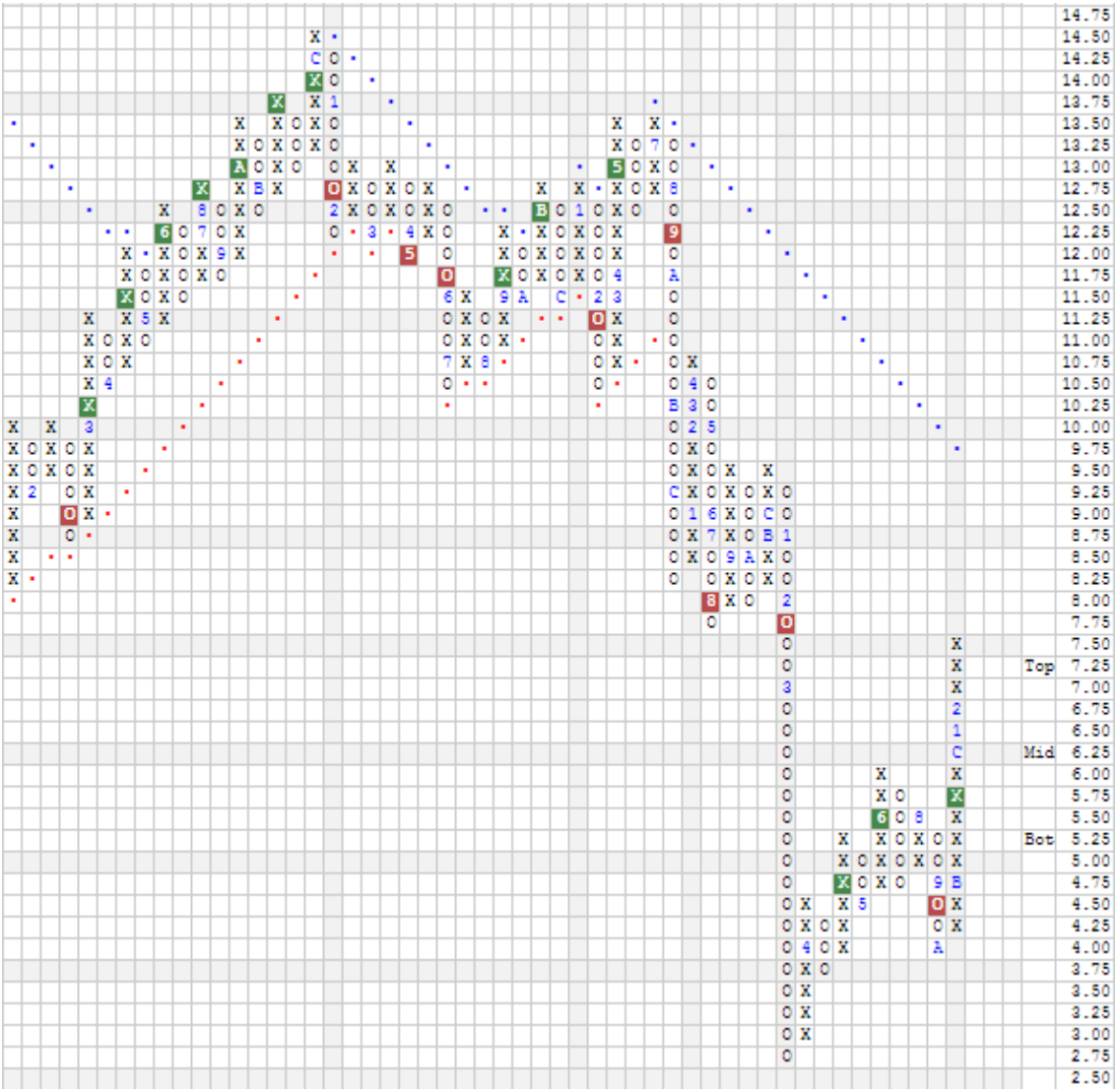
Figure 2 [iShares U.S. Energy ETF P&F Chart as at February 26, 2021]



Canadian Energy Sector

Like the U.S. energy sector, the Canadian energy sector also exhibits individual and relative strength but is not quite as strong as its U.S. counterpart. The iShares S&P/TSX Capped Energy Index ETF (XEG) holds companies in the Canadian energy sector and has been trading in a negative trend since late-October 2018. As shown in the ETF's Point and Figure chart below **[*Figure 3*]**, it is trading at $7.50 per share at the time of this writing and has an annual dividend yield of 2.99%. Just like its U.S. counterpart, it has a positive daily, weekly, and monthly momentum, and has a strong weekly overbought percentage of 81% during the last week of February.

Figure 3 [iShares S&P/TSX Capped Energy Index ETF P&F Chart as at February 26, 2021]



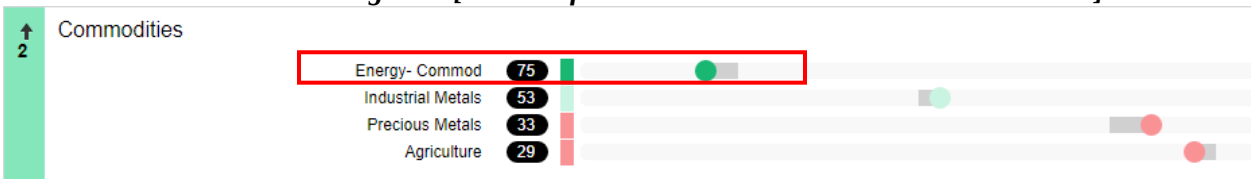
Energy Commodities

Like energy ETFs, energy commodities also performed well. On NDW's D.A.L.I. Broad Asset Class Rankings **[*Figure 4*]**, commodities ranked 2nd after passing international equities on January 25th, 2021. This is the first-time commodities have ranked 2nd among broad asset classes since December 2016. Energy commodities in particular were crucial drivers to the rise of commodities as depicted in NDW's D.A.L.I. Sub Asset Class Details chart **[*Figure 5*]**. Energy commodities hold the most buy signals at 75; this is 22 more buy signals than industrial commodities, which has the 2nd most buy signals within the asset class. Besides energy commodities' impressive buy signal count, it also improved the most last month as shown on ***Figure 5***.

Figure 4 [Historical Ranking of the D.A.L.I. Broad Asset Classes]

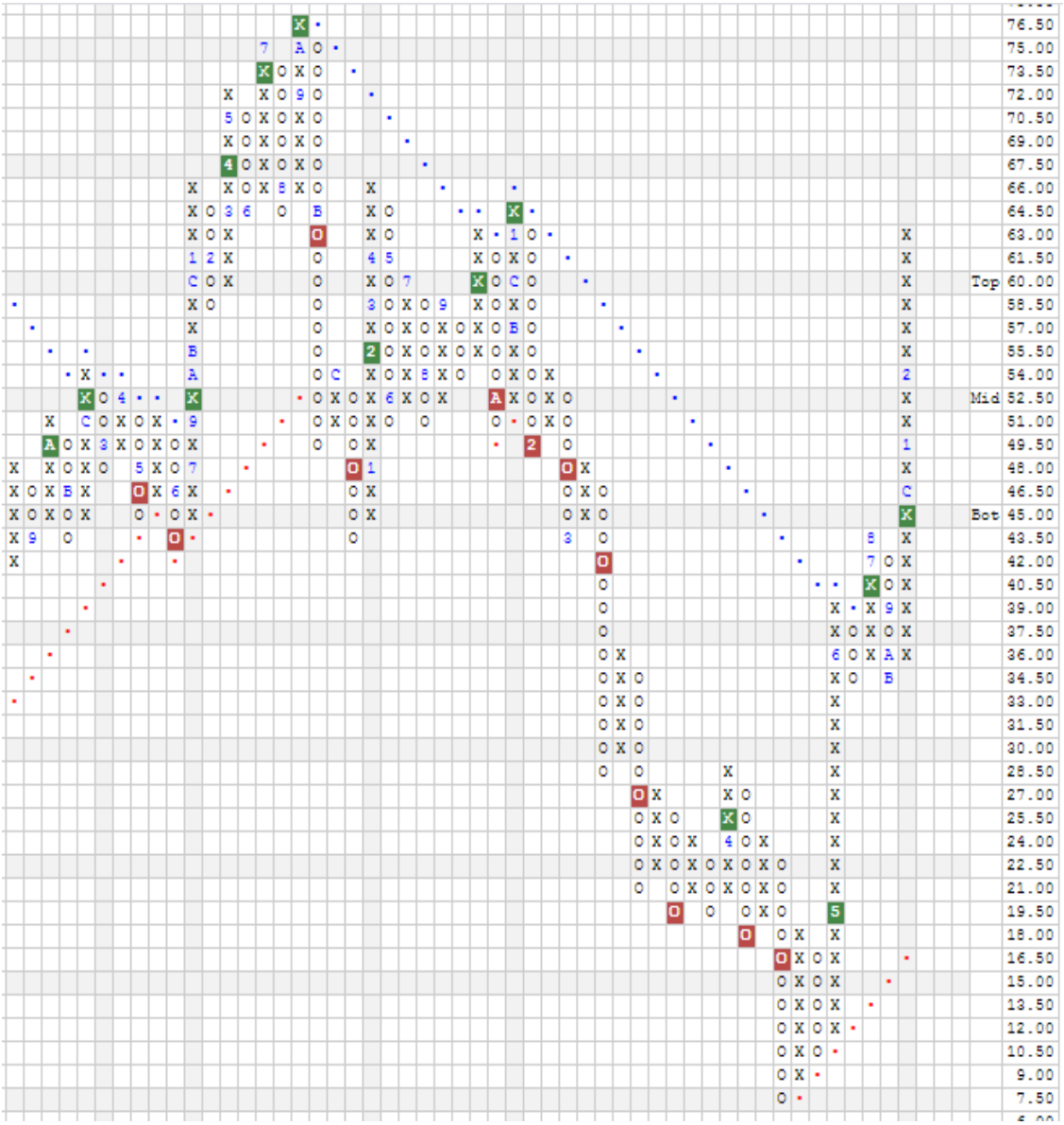
DATE	DOMESTIC EQUITIES	COMMODITIES	INTERNATIONAL EQUITIES
02/25/2021	1	2	3
02/24/2021	1	3	2
02/23/2021	1	3	2
02/22/2021	1	3	2
02/19/2021	1	3	2
02/18/2021	1	3	2
02/17/2021	1	3	2
02/16/2021	1	3	2
02/12/2021	1	3	2
02/11/2021	1	3	2
02/10/2021	1	3	2
02/09/2021	1	3	2
02/08/2021	1	3	2
02/05/2021	1	3	2
02/04/2021	1	3	2
02/03/2021	1	3	2
02/02/2021	1	3	2
02/01/2021	1	3	2
01/29/2021	1	3	2
01/28/2021	1	3	2
01/27/2021	1	3	2
01/26/2021	1	3	2
01/25/2021	1	3	2

Figure 5 [Details of the D.A.L.I. Commodities Sub Asset Class]



Oil is undisputedly a critical factor in the recent success of energy commodities. With the rollout of COVID-19 vaccines in the U.S., the demand outlook for oil improved. On top of that, oil supplies tightened as oil refining centres in Texas, one of the world's largest oil producers and the country's largest oil producer, lost power due to a devastating winter storm in the state. These caused the price of crude oil to skyrocket to $63 per barrel as shown in its Point and Figure chart at the time of this writing **[*Figure 6*]**. Crude oil has been trading in a positive trend since late July of last year and is sitting on 3 consecutive buy signals. It has a negative daily momentum but a positive weekly and monthly momentum. Over the last week of February, it was also overbought by a staggering 149%.

Figure 6 [Crude Oil Continuous P&F Chart as at February 23, 2021]



Inflation

Based on conventional knowledge, inflation is positively correlated with the prices of energy commodities because energy commodities hedge against inflation. Since the 10-year breakeven inflation rate broke through the 2%, investors expect higher and more persistent inflation ***[Figure 7]***. This is a result of the increase in fiscal spending by the U.S. government, such as Biden's $1.9 trillion COVID relief package. As expected, the inflationary environment we are currently in is driving energy commodity prices up.

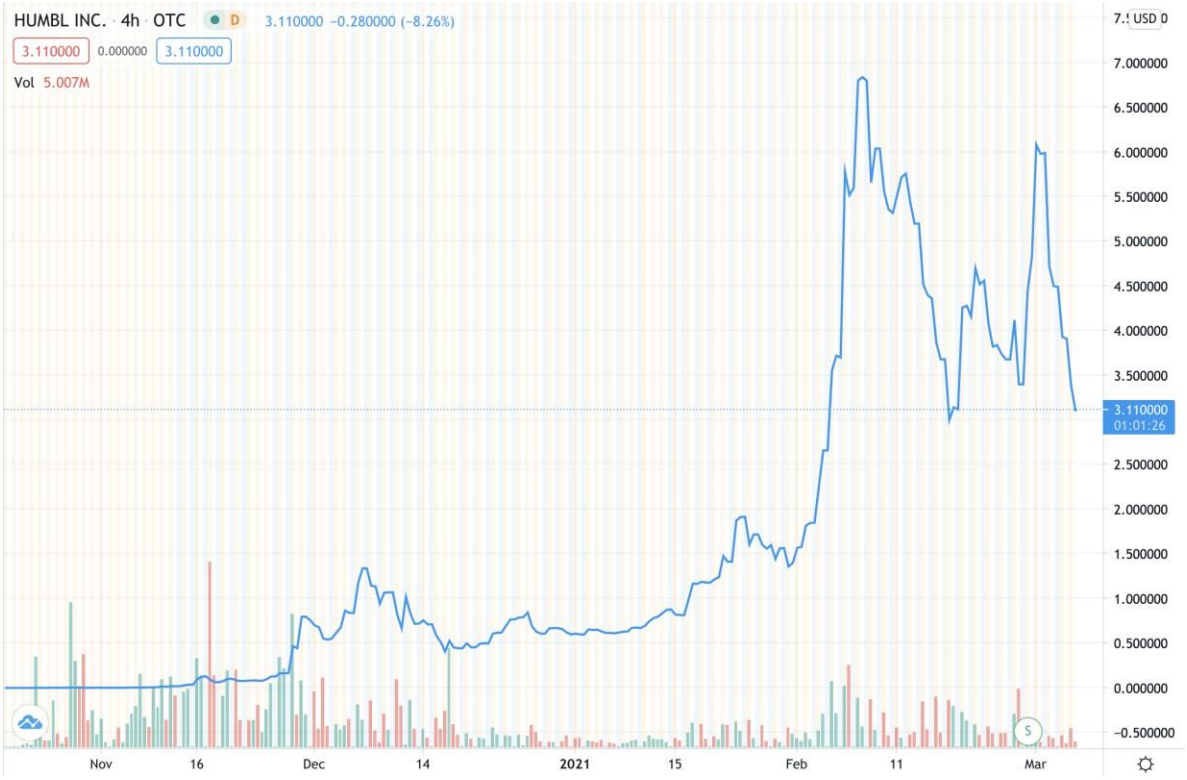
Figure 7 [10-Year Breakeven Inflation Rate]

Payment Networks

In the grand context of the modern era, FIAT currency, or money as it currently presents itself, has only been a short experiment over the past couple of decades following WW2. It is as a result of this that the digital age has brought with it sweeping changes to all aspects of society, inclusive of currency; this phenomenon takes many forms, from the advent of credit cards to cryptocurrency and all that is in between, it is likely that the most important innovation has taken place within payment systems and the innovation of digital wallets. Platforms such as Paypal have grown enormously in their short tenure and the adoption of digital wallets in comparison to the amount of new bank accounts is an order of magnitude higher which only seeks to further validate this trend.

This newfound space of technology, payment networks, is also one marred by the strictest laws in different geographic regions due to the financial nature of the sector. This is why while some companies such as Paypal have flourished in the US and have already grown to their industry incumbent sizes, companies within other parts of the world where banking policy takes precedence over innovation and there is a need to bank the unbanked have not been allowed to do so yet; this is specifically why there is a likely trend of continued high-growth for the industry, the amount of unbanked individuals in areas within Asia and Africa are astronomical and with the digital divide becoming ever less so, this is a story that we are eagerly following.

Here's a great recent example of one of these such companies, Humbl:

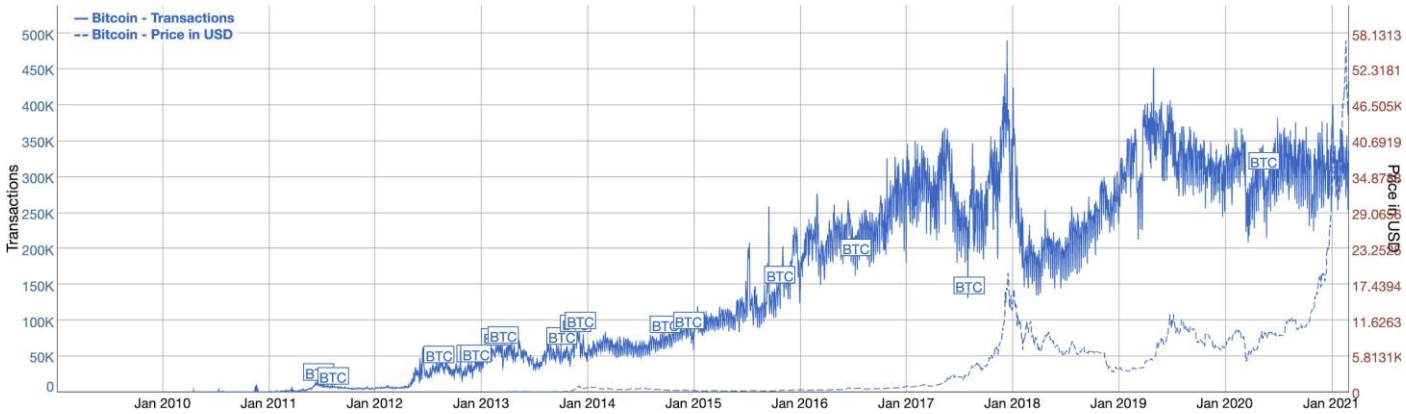


Humbl is a newly launched wallet provider operating within Asia that seeks to bank the unbanked and provide a payment route for commerce to flourish within developing regions. They have a stellar strategy and a clear plan to execute which even integrates with the digital asset world. The meteoric rise pictured above is only the start for them, and companies like them within the space. From a specific standpoint – Humbl is launching with a fully integrated product lineup that includes digital wallet services as well as a Business-to-Commerce (B2C) marketplace platform. Moreover, from this, the firm is even targeting the financial world by providing retail solutions to their users. Additionally, this includes a digital asset investment platform that seeks to provide cryptocurrency exposure through a range of fund products available to their users. As a result, their firm has the potential to establish themselves as the A-Z financial solutions provider in the unbanked regions they enter; Humbl has just launched their namesake service and the next few quarters will be crucial in establishing a solid core base business to build out from over the long term.

On the note of payment networks, Bitcoin has consolidated itself within the mainstream and its price has experienced a momentous rise of over 70% since the start of the year. While many think of Bitcoin and other digital assets as stores of value and commodities, they are also a payment network and their success can be used to further validate the continued momentum of the industry on a whole. Correspondingly, while there are many

theories as to what directly drives the price of Bitcoin specifically, it is a popular notion that its price is a function of its active users. Below is an overlay of the assets price in comparison to the volume of transactions.

While a majority of what the concept of payment is concerned with is of a financial nature, the processes taking place in order to transfer capital are more so of an informational one; for example, the things that matter most on a cheque are its information, as such, the medium for which payments occur will grow and change with the information technology industry and the innovations seen thus far, from payment cards to cryptocurrencies are still just the beginning.

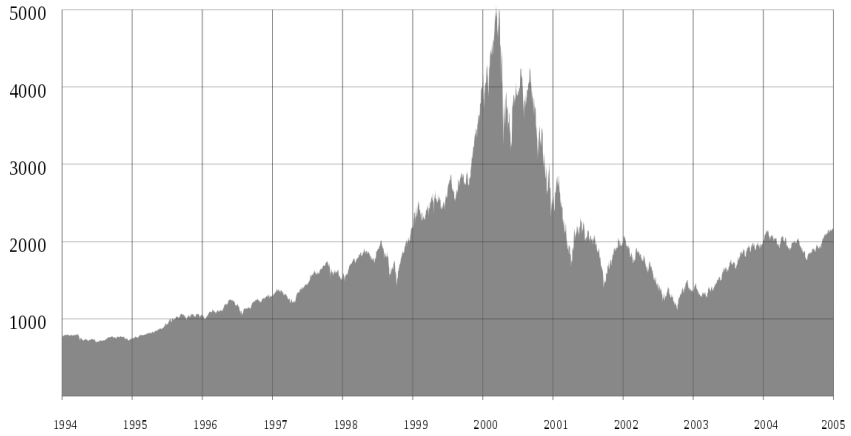


Behavioural Investing

The investment decision making process has proven to be influenced by various behavioural biases that cause investors to make irrational investment decisions. One of the behavioural biases is called herding, which is self-explanatory. Herding is irrationally imitating the judgements of others when making decisions, just like a herd of sheep; this occurs because people have a natural tendency of syncing with the crowd to feel safe and secure. Retail investors are especially prone to herding when exposed to online investment forums such as the Wall Street Bets and the subreddit that we discussed in our previous *The Monthly* edition. In fact, a 30-year-old Redditor (a person who frequently visits reddit) said that he lost $20,000 from investing in hyped-up stocks by Wall Street Bets in a Forbes interview.

Herding was also evident in the famous "dot-com" bubble of the early 2000's. Some retail investors were investing their life savings into overvalued internet stocks because these companies were perceived as ground-breaking and highly valued. As a result of the speculative mania, prices of these internet companies surged so high to the point where even a rich impulsive purchaser would stop and think. Despite the unreasonably overpriced stocks, some retail investors fell into the trap of herding and purchased these stocks because it was the "hot thing" right now and because "everyone was doing it". Consequently, when the "dot-com" bubble popped, these retail investors who came in late to the party lost staggering amounts of money.

[Nasdaq Composite Index]



So, how do you negate the herding bias and other behavioural biases? Well, the first step is to be aware and accept that your investment decisions are susceptible to behavioural biases. The second step is much harder… It is to spend long hours of your day conducting due diligence on your investments while asking yourself, "Is this decision influenced by a behavioural bias?" A more effective and safer alternative to the second step is to leave your investments to the professionals at MacNicol & Associates Asset Management Inc. However, we also need your time and you to take the first step in negating behavioural biases. From thereon, is smooth sailing and safe harbour for your investments.

Firm News

We would like to let you know that one of our team members, Ainee Tabernilla contracted COVID-19 in mid January. While we are happy to report that she is out of the hospital and back at home recovering, Ainee is still not well enough to come back to work. Happily, we have found two new part time people to help fill in while Ainee is recovering. Amy Ellis and Monique Berar have several years of experience in the financial services industry and we are grateful for their help during this transition period. We would like to thank all of you for your continued patience as we work our way through this.

The MacNicol Investment Team

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.