April 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.

"An investment in knowledge pays the best interest."

- Benjamin Graham

The Numbers:

Index:		**2021 YTD:**
S&P/TSX:		7.3%
NASDAQ:		2.8%
Dow Jones:		7.8%
S&P 500:		5.7%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.09%	0.02%
5-Year Bond:	0.98%	0.91%
10-Year Bond:	1.51%	1.68%
30-Year Bond:	1.95%	2.34%

Economic Data:

* Coronavirus curbs in France and Germany weighed on a badly trailing Eurozone, Euro fades versus the USD for the entire quarter ending below USD $1.20
* Chinese PMI continues a decline that began in November 2020 falling to 50.6 on domestic weakness
* WTI crude oil up 21.8% in the quarter to $56.19
* Gold off 9.7% in Q1'21 at $1,715.60 per ounce
* BITCOIN rockets to over USD $59,000 in Q1'21
* Stocks were mainly higher in Q1, 21 with Italian equities the best of the G7
* The US 10-Year Treasury was off 4.9% during the first quarter with the yield at 1.51%

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	41	25
P/B: Price-to-Book	4.4	2.9
P/S: Price-to-Sales	2.9	1.8
Yield: Dividend Yield	1.45%	2.25%

2021 Quarter-to-Date Performance:	Mar 31st, 2021
S&P/TSX Composite	7.3%
NASDAQ	2.8%
Dow Jones Industrials	7.8%
S&P 500	5.7%
Russel 2000 (Small Caps)	18.4%
MSCI EAFE	4.0%
Crude Oil Spot (WTI)	21.8%
Gold Bullion ($US/Troy Ounce)	- 9.7%
SOX Semi-conductor Index	15.7%
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 April 16, 2021 5:00 PM	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.2506	$3,998	$(1)	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2632	$3,958	$(41)	-1.0%
Raymond James	1.2650	$3,953	$(46)	-1.2%
Royal Bank	1.2758	$3,919	$(80)	-2.0%
Scotia	1.2863	$3,887	$(112)	-2.9%
TD	1.2864	$3,887	$(112)	-2.9%
Canadian Snowbird	1.2503	$3,999	$-	0.0%

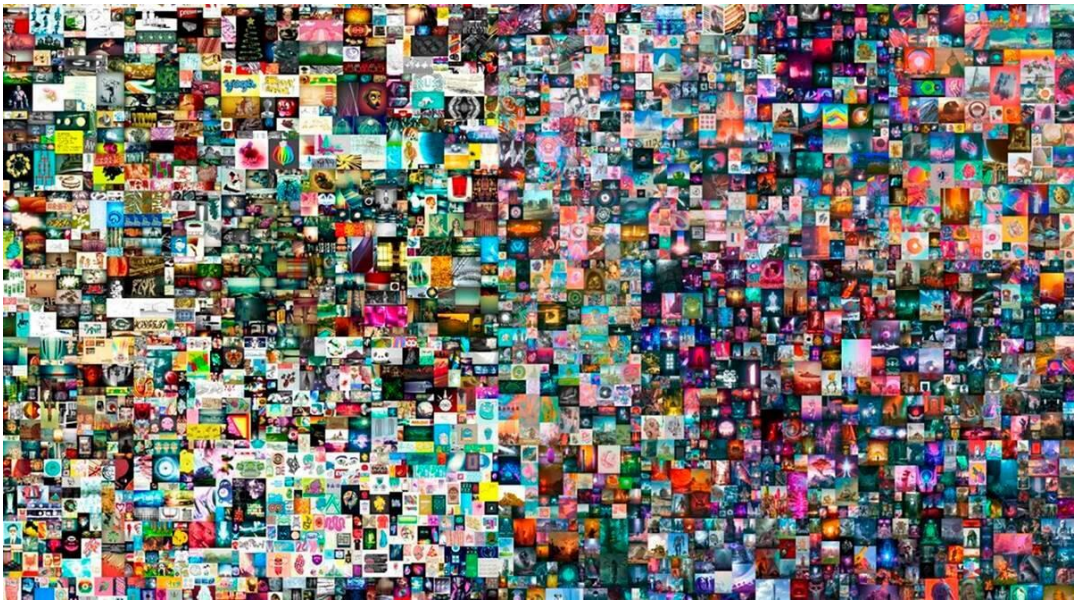
Non-fungible tokens: as unique as you are…

I am not the biggest fan of Nashville, TN rock band The Kings of Leon. The Kings have definitely put out some solid content since debuting in 1999 including my personal favorite track "*Joe's Head* " but save for "Joe" I fall shy of considering myself a "diehard" fan. Now when it comes to the band's progressive approach to how their music is *sold*, well, that's a different story. You see, I love that the Kings have sold their work over the blockchain via **Non-Fungible Tokens (NFTs)**. What in the world wide web are NFTs? As Ben Graham said: knowledge pays the best interest…

Non-fungible tokens (NFTs) are digital tokens associated with a specific "thing" like a song or work of art. But they can also be associated with less interesting (but no less important) "things" like an insurance contract or the deed to your house. You see NFTs are unique and use blockchain technology to confirm ownership, payment and transactional fidelity. NFTs are related to but different from cryptocurrencies (one unit of BITCOIN is exactly the same as any other) so you can think of NFTs as an electronic certificate, the cryptocurrencies as your method of payment and the blockchain as the trust-based protocol that facilitates an exchange of goods or services. The "tokenization" of specific things, like works of art, is the conversion of physical or virtual assets into digital units that represent ownership, and which can be bought, sold and tracked. As I mentioned earlier, The Kings of Leon have used NFTs to sell their last rock album.

"But couldn't I just walk to a record store and buy the band's latest album in person and then walk back home to enjoy it"?

Obviously, the answer is yes. But as is becoming more common in our evolving world, territorial barriers and various transactional frictions often stand in the way of conventional merchant/consumer or P2P relationships. That and the fact that hardly anyone just walks to the store anymore. It is primarily barriers and frictions that have seen explosive growth in the ETN world and tokenization is not just limited to smaller,"token" purchases. A few weeks ago, two Indian businessmen Vignesh Sundaresan and Anand Venkateswaran parted with $69.3 million for a digital artwork called *Everydays: The First 5000 days* stored in a JPEG file. *Everydays*, the brainchild of digital artist Mike Winklemann, began as a digital collage project. In May of 2007, Winkelmann, who goes by the digital artist name "Beeple", posted a new work of art online. He did the same thing the next day, and the day after that for over 13 years. The individual pieces of digital art were then brought together in a digital masterpiece that requires nearly as much time to appreciate as it took to create.



[Art is an exercise in subjectivity and futility, to me *Everydays* is stunning and mesmerizing and as someone who appreciates art but who is totally inept when it comes to producing art, I would love to hang *Everydays* in my office. But then could I? *Everydays* you'll recall is a purely digital work even if the nearly $70 million offered for its NFT were very real]

By purchasing "Beeple's" masterpiece(s) Sundaresan and Venkateswaran did more than part with $70 million worth of Ether. The pair capitalized on a unique opportunity to own an entry on the blockchain created by one of the world's leading digital artists while setting a (very) high bar for the highest price paid for the work of a *living* artist. And again, Beeple (Mike Winklemann) is real, like actually real…and by the way Venkateswaran operated via the pseudonym "Metakovan" during the auction process for Everydays, which was brokered by Christies.

A living economic model…isn't that what we have today?

NFTs are unique and the concept of uniqueness is the very definition of non-fungible. But is this truly a viable economic model? Well, consider that NFTs can also be used to remove intermediaries and connect artists with audiences directly or to enhance identity management. The paradigm shift that NFTs represent (and again the shift is fungible to *non*-fungible) is really all about how the blockchain, through cryptocurrencies has evolved to make our living economy more vibrant. Vibrant because barriers are being broken friction points are getting lubrication and overall transactional fidelity is being enhanced rather than compromised. Want just one example that ties together the identity management and friction? How many times have you fumbled with a smart phone, your carry-on luggage and your physical Passport when attempting to board a plane? I don't think physical passports ever truly disappear, but by converting them into NFTs, each with their own unique identifying characteristics, it is possible to streamline the entry and exit processes at high-volume jurisdictions and remove one of travel's most common friction points. NFTs can also democratize investing in physical assets such as real estate. It is much easier to divide a digital real estate asset among multiple owners than a physical one.

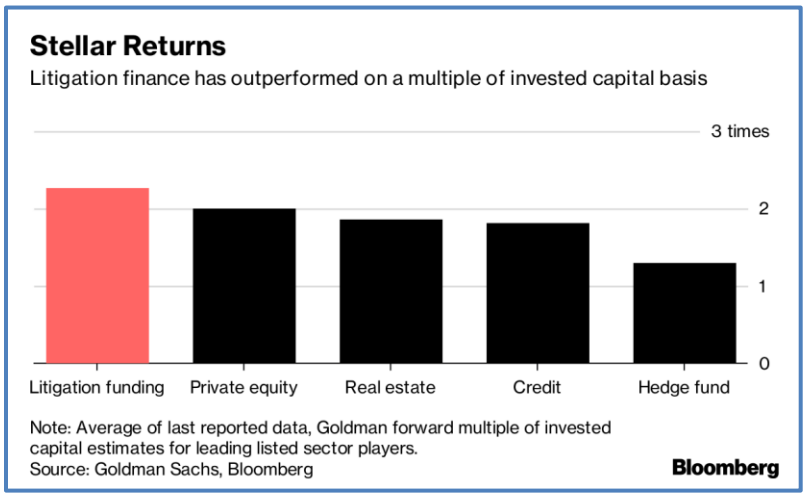
"But isn't that what <u>you</u> do already"?

Sort of, yes. But we do not actually *own* the majority of the buildings we feature in our commentaries. I mean in some cases, we sort of do: such as in equity co-investments. But to be technical if only for a moment, we have an investment vehicle (the MacNicol 360 Degree Realty Income Fund) that in turn owns partnership units (the fractions) of various real estate partnerships who in turn hold LLCs (corporations) that in turn own the buildings themselves. But suppose for a moment you and your sister want to own a duplex together, in Kitchener. Let's also suppose that you happen to live in Waterloo but your sister lives in Antwerp. Tokenization can make this transaction much simpler. Back in the world of art, a painting need not always have a single owner. Its digital equivalent can have multiple owners, each responsible for a fraction of the painting. Such arrangements could increase its worth and potential revenues. Perhaps that's what really prompted "Metakovan" to "hand over" such a massive pile of Ethereum for the Everydays ETN. Of course, for ourselves, the most exciting possibility for NFTs lies in the creation of new markets and new forms of investment. So back to real estate: consider a piece of real estate parceled out into multiple divisions, each with different characteristics and property types. One area of the asset may be next to a beach, another opposite an entertainment complex and, still another, a residential zone. Depending on its characteristics, each piece of land is unique, priced differently, and represented with a NFT. Real estate, being complex, can be simplified by incorporating relevant metadata into each unique NFT. We look forward to updating you on this exciting development…oh and don't worry…I have no plans on creating an NFT relating to myself…my colleagues consider me "unique" enough.

The MacNicol Investment Team

Court is now in session: did you bring your wallet?

It is fair to say that I have been to court on more than one occasion. But in my own defense, I have never gotten into any serious trouble with the authorities before. As a money manager who prioritizes punctuality, I occasionally take a more liberal view of local traffic laws solely on main roads or highways and never, ever in school zones or elder care residences. Once in court, I stick to a time-tested script, offer up an apology dripping with remorse and understanding and have my credit card handy. My cases usually end with a brief lecture, a warning and a monetary fine that stings just enough to make me think before I "floor it" again. In other words, I do not require *outside* help to represent myself or to pay my debt to society. Unlike my own experiences with the Highway and Traffic Act, which honestly have been trending down in recent years, litigation finance is a growing area. Very much so as a matter of fact. And the returns being generated by this asset class are impressive, uncorrelated with stocks or bonds and garnering great interest from the investment community.



[Litigation finance has done very well indeed. This table from Bloomberg and Goldman Sachs highlights healthy multiples in the space.]

Our own firm's research into litigation finance goes back to 2015, however the asset class as a whole really goes back about 20 years. Early-stage growth in countries such as Australia, Canada, the United Kingdom and other countries based on English Common Law define litigation finance's frontier days. Promoting litigation finance's growth was the removal of numerous long-standing barriers in favor of better access to justice. Since contingent lawsuits have been going on in America for over a century the pace of litigation finance has been more sluggish there. But even though American law firms have deliberately avoided using contingency suits, litigation finance has given claimants wider access to Lawyers and Lawyers wider access to cases. Normally, most American firms would not consider taking on a case of contingency litigation. And aside from firms in Washington and Arizona (and I believe this is a recent development), law firms are businesses that **lacked** the ability to tap into unaffiliated equity capital (this means you cannot become a Partner at a Law Firm and therefore contribute to firm equity capital *without* being a Lawyer yourself) so old school ligation finance was done quite differently. So, in came the litigation finance funds. The cases were big and the dollar amounts raised were too:

GLS CAPITAL

January 27, 2020 08:04 AM Eastern Standard Time

CHICAGO--(BUSINESS WIRE)--GLS Capital, LLC today announced the completion of fundraising of its inaugural litigation finance fund, GLS Capital Partners Fund I, LP. Together with its affiliates, the Fund has investor commitments totaling more than $345 million.

GLS Capital raises $345 million for litigation finance fund. Trio of industry veterans launch fund to finance commercial and intellectual property litigation.

Tweet this

The Fund's diverse institutional investor base includes global financial institutions, endowments, foundations and family offices.

GLS invests in complex situations involving commercial litigation and arbitration, as well as intellectual property disputes in both the technology and pharmaceutical industries. The firm will structure creative and flexible solutions for businesses and law firms that are looking to better manage litigation and balance-sheet risks.

"We are excited to launch our first fund in a growing and dynamic asset class," said David Spiegel, Managing Director of GLS. "Our fundraising significantly exceeded our initial target size, reflecting a high level of investor interest in our ability to be successful."

[GLS Capital Partners Fund I recently raised $345 million for funding ligation loans. Lawyers? Loving money? Who knew!]

In litigation finance, the intrinsic value of a claim is used to secure financing through an investment vehicle, mostly a fund. The ligation finance fund's manager then makes decisions on a case-by-case basis, and unit holders of the fund gain access to a diversified array of cases across multiple industries. After securing capital commitments from investors, the funds almost offer non-recourse loans that are repayable when (and if) a case is successful.

Litigation finance primarily sees action in areas such as: consumer litigation, class action cases, commercial law and in the area of mass torts (class action's smaller brother: where plaintiffs come from a narrower geographic area, for example Port Carling or Thunder Bay). Capital that is drawn upon on a case-by-case basis and advanced to the tune of about $0.75 for each dollar of estimated litigation cost to either a firm or the claimants (i.e. to pay firms that do not engage in contingency arrangements) on a non-recourse basis. The balance is covered by individual law firms or claimants to ensure they too (not just us) have a stake in the results.

Now about those results…

[NO we aren't mocking you Herman…oops sorry….Judge Haller[1]. Fred Gwynne's Judge Chamberlain Haller presided over a legally accurate but ultimately fictitious murder trial in 1992's *My Cousin Vinny*. Though Gwynne was mocked by Joe Pesci, the results of litigation make for more than just courtroom drama. Oh and, for the record, we still aren't sure what the term "Two utes" actually means either.]

In the event of a positive outcome (judgement) litigation funds will typically reap rewards 2-to-3 times of size of the monies loaned out with the firms and claimants themselves splitting up the leftovers. Investors like the Emergence Fund will get proceeds after the fund's general partner or manager is paid their stipulated share of the profit cascade. Litigation funds have management fees too, but the meat of their earnings come from studying cases that are likely to produce results. Like us, litigation funds hope that every case will pay out but the reality is only about three quarters of cases are profitable to investors. Hit movies like *My Cousin Vinny* and shows like *Suits* glamorize the legal profession. However, most Lawyers are not stars but hard working, tenacious people. For this reason, the fund's manager has to understand that a material chunk of cases will be settled early or abandoned prior to trial. Litigation finance is an interesting and growing area. It provides Law firms with the capital they need to pursue bigger and better litigation.

[1] For those of you from my vintage or from earlier (i.e. better) vintages, you'll probably know that Fred Gwynne's most famous role was a toss up between Herman Munster from *The Munsters* or Officer Francis Muldoon from *Car 54, Where Are You*? That TV sitcoms were (much) better back then is no close call: the 1960s and 1970s win hands down.

It provides investors with the opportunity to further diversify their portfolios away from a reliance on the stock or bond market. So why haven't we made the move into this area just yet? Well, as you may know, we prioritize safe harbor investing. We manage against something much more important than a benchmark: our client's financial well-being. And though we continue to explore opportunities in this important and growing area, we would never proceed just because. As with driving, "flooring it" when it comes to your investments is something we would only do in the most extreme situations, and only to get out of harm's way…not to dive into it. It isn't that we don't know that this area exists, we just haven't found a way for it to co-exist with our investors not yet anyways. And with that, the Prosecution rests its case.

The MacNicol Investment Team

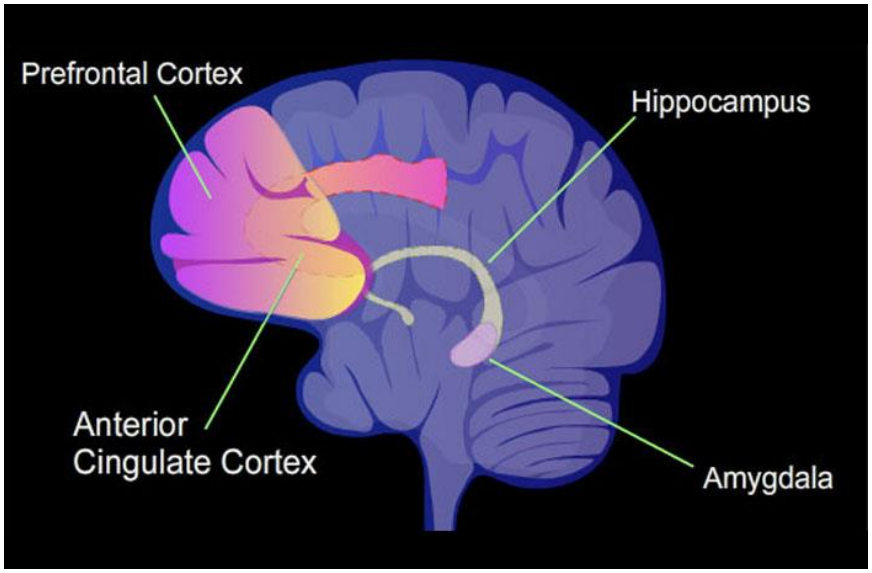
Giving a thumbs up to the thumbs down…

We recently opined on an occurrence in which a group of anonymous social media users ganged up on a group of prominent US hedge funds via a site called Reddit by driving up the price of several ostensibly bankrupt companies thereby triggering massive losses for many of the funds that were short (extremely bearish) on the companies. The aftermath of this occurrence has been varied. For instance, the US Securities and Exchange Commission has begun monitoring the social media accounts of various posters with close ties to the OTC Market[2] (Over the Counter Market). If you suckered investors into buying up shares of a speculative shell by "pumping" it up through Twitter or other backroom chatter while you were simultaneously "dumping" your own personal stake in the scam, then you better not post pictures of your new Ferrari on the same thread just a few days later. But investors with more sedate expectations are probably feeling disappointed. Where is my Ferrari? But it really doesn't work that way and, not all the time, and there's a wider and deeper narrative here.

[2] An over the counter (OTC) market is a decentralized market in which market participants trade stocks, commodities, currencies, or other instruments directly between two parties and without a central exchange or broker. Over-the-counter markets do not have physical locations; instead, trading is conducted electronically. In general, OTC markets are typically less transparent than exchanges and are also subject to fewer regulations. Because of this, liquidity in the OTC market may come at a premium, which is a fancy way of saying that OTC markets are the "wild, wild West" of the securities market.

Dealing with disappointment - Behavioural Investing

Being disappointed about one's finances is broader than dwelling about a social media user's account of some sketchy penny stock. Plus, with COVID entering year 2, I figured disappointment was in the air anyways. Manfred F.R. Kets de Vries is a Dutch management scholar and psychoanalyst, as well as an award-winning professor at the INSEAD School of Business. Kets de Vries explores the interface between management theory, psychoanalysis, psychotherapy, executive coaching and evolutionary psychology, and he does an exemplary job of helping executives deal with disappointment. According to Kets de Vries, disappointments are inevitable, earth shattering I know. But how we respond to disappointment is as unique as the ETNs we wrote on earlier and it can make all the difference. In a piece for the Harvard Business Review, Kets de Vries highlights that the way in which people respond to disappointment can be influenced by upbringing; some will seek to avoid disappointment by underachieving (setting their expectations permanently low) while others will seek to avoid it by overachieving (setting their expectations unattainably high). In my own case, I have observed a sort of metamorphosis from a chronically optimistic little boy to a more guarded adolescent to a downright skeptical man. Sure, I've become a bit jaded with age, many of us have. But I think its important to truly know the type of person you are if you want to get better at investing and especially about feeling about your investments – and believe me the two aren't worlds apart. Kets de Vries suggests that we can learn to respond to constructive disappointment by committing to a fresh perspective: much like committing to a good diet or a regular exercise regime. When you take the perspective of seeking to understand what happened with your investments against whether your expectations were reasonable in the first place, and then re-evaluating your perception rather than dwelling on the past you might find it easier to "move on" with your (investing) life. Introspection can be helpful, but Kets de Vries argues that rumination is often not. Although disappointment is inevitable, being discouraged is always a choice.



[Depressive rumination is the process of continuously thinking about the same dark or sad thoughts. Like many of the brain's more complex psychological outputs, rumination doesn't have a singular culprit that can be causally linked. Instead, studies, such as: Burkhouse, Jacobs, Peters, Ajilore, Watkins and Langenecker, 2016, Neural correlates of rumination in adolescents with remitted major depressive disorder and healthy controls, Cognitive, Affective & Behavioral, 17, pages 394–405, point to a system or network of "parts" called the default mode network.]

As you can see, overcoming disappointment can be a formidable task. Dealing with a complex maze of neurological machinery probably does amount to "brain surgery" but coping with the psychological feelings the maze creates doesn't have to be "brain surgery". Professor Kets de Vries offers some valuable insight into dealing with disappointment in general. The MacNicol Investment team can help you when it comes to your more complex feelings about your investments. Perhaps the best course of action one can take when dealing with a problem is talking about it. Call us toll free at 1-866-367-3040 if something's been eating away at you. Believe me, we are here to help and here to listen.

The MacNicol Investment Team

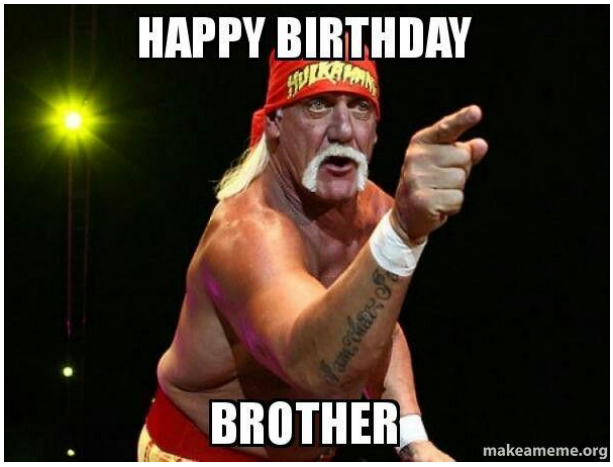
Firm News

MacNicol & Associates Asset Management is pleased to congratulate Portfolio Manager Joe Pochodyniak for **not** getting angry at *anyone* for the week of March 22nd, 2021…**APRIL FOOLS**…as if…

MacNicol & Associates Asset Management is pleased to welcome **Amy Ellis** to the team. Amy will be focusing her efforts in the area of Portfolio Administration. Welcome Amy!

A very special Birthday "power slam" to firm Founder **David MacNicol**. David turned "a-hem" 48 recently.

Happy Birthday Dave!



MacNicol & Associates Asset Management Inc.