November 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.

"History proves that all dictatorships, all authoritarian forms of government are transient. Only democratic systems are not transient. Whatever the shortcomings, mankind has not devised anything superior."

- Vladimir Putin – January 2000

The Numbers:

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Index:		**2021 YTD:**
S&P/TSX:		21.6%
NASDAQ:		19.9%
Dow Jones:		16.7%
S&P500:		22.4%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.14%	0.04%
5-Year Bond:	1.41%	1.11%
10-Year Bond:	1.63%	1.50%
30-Year Bond:	1.98%	1.89%

Economic Data:

- Oil and the Bank of Canada helped the Canadian dollar to over $0.80 in October
- Stocks globally were mostly higher with only markets in Shanghai and Tokyo spooked
- Gold added 3.75% in October to $1,783
- Digital currencies were [sharply] higher in October with BITCOIN adding $15,000
- Bonds in Canada and the United States were lower in October
- Stock market volatility was lower in October

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	30	37
P/B: Price-to-Book	5.0	3.7
P/S: Price-to-Sales	3.2	2.4
Yield: Dividend Yield	1.3%	1.7%

2021 Calendar Year Performance: October 31st, 2021

S&P/TSX Composite	21.6%
NASDAQ	19.9%
Dow Jones Industrials	16.7%
S&P 500	22.4%
Russel 2000 (Small Caps)	15.3%
MSCI ACWI ex-USA	9.70%
Crude Oil Spot (WTI)	74%
Gold Bullion ($US/Troy Ounce)	-5.6%
SOX Semi-conductor Index	25%
VIX Volatility Index	-24%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

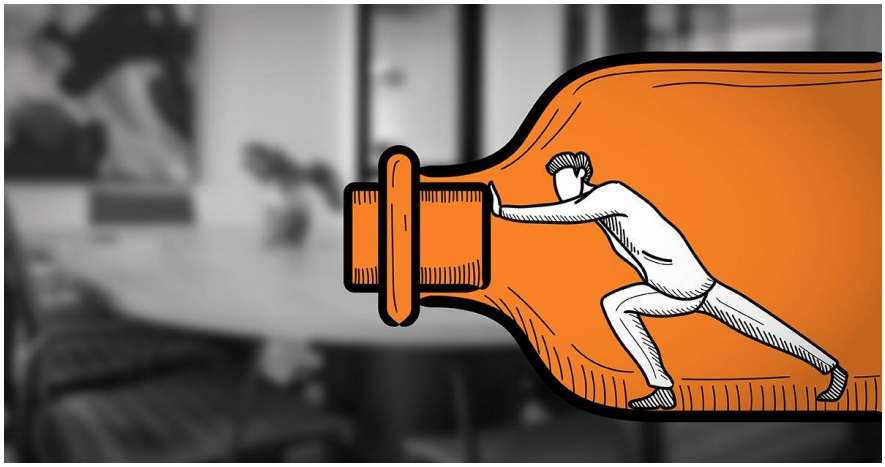
As of Nov 11, 2021 1:00 PM	$ 5,000	Cdn		
Banks	Rate	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.2593	$ 3,970	$ 0	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2718	$ 3,931	$ (39)	-1.0%
Raymond James	1.2725	$ 3,929	$ (41)	-1.0%
Royal Bank	1.2843	$ 3,893	$ (77)	-2.0%
Scotia	1.2827	$ 3,898	$ (72)	-1.9%
TD	1.2948	$ 3,862	$ (109)	-2.8%
Canadian Snowbird	1.2481	$ 4,006	$ 36	0.9%
Spot Rate	1.2594	$ 3,970	$ -	0.0%

Chain of command…

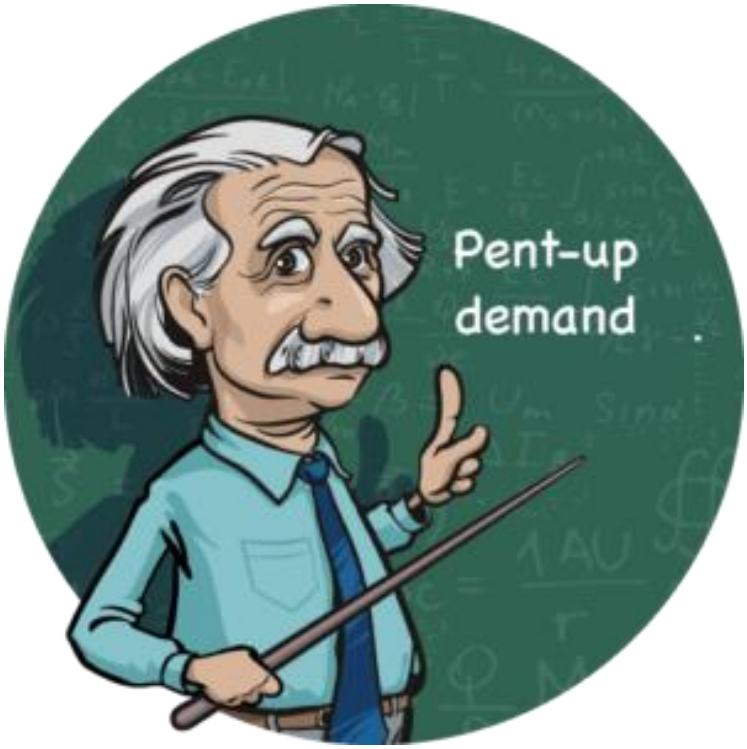
Like most people my age in the western world, if I wake up just one-half hour late on a weekday, I am totally messed up. My life is a series of interconnected tasks and objectives all unrealistically squished into a 24-hour day that could easily use an additional 10 hours. A perfect example of what I mean can be found in how timelines can impact my groceries. Instead of strolling through the isle at my local grocery store, I scroll through the store's online website pointing-and-clicking items into a digital shopping cart that doesn't even exist. When the actual food gets delivered to my home, I careful sanitize all items and even wash the fruits and veggies in a biodegradable soapy solution. Just one 30-minute delay in the morning can trigger a cascade of logistical problems for the balance of the day and culminate in my family having to "endure" frozen veggies at dinner time rather than fresh veggies. I know, it's a tough life. But this preface is an illustration of just how tightly compressed life in the modern world can be and a mystery as to how some people accomplish so much in a 24-hour day that is precisely the same length whether you live in Toronto or Tokyo.

Another mystery is the issue of the today's supply chain imbalances. Our investment team has never grappled over the issue of whether supply chain problems exist [they clearly do] and we have spent considerable time attempting to pin down how these problems impact client portfolios. But we aren't quite sure whether these problems will go away anytime soon. Supply chain problems are indeed everywhere: massive dislocations exist in the shipping container market, air cargo, trucking lines and railways. The result has created shortages of key manufacturing components, order backlogs, delivery delays and a spike in transportation costs and consumer prices. And not all of these issues were caused by COVID. Recall that sanctions and tariffs on Chinese companies by the Trump administration led Beijing to go after American farmers triggering a global trade war: "*If you tax my guys…I'll tax your guys more*". The trade war escalated to the point where firms had no choice but to stockpile inventory before tariffs or retaliatory tariffs were even implemented.

COVID did play a roll though and quite a big one because the global economy soon would go into lock down. Demand for goods vanished almost overnight and orders for ships plunged except that one that clogged the Suez Canal for some reason. This led to other problems down the chain like reductions in manufacturing and workers being furloughed by the thousands. Thanks to emergency fiscal stimulus programs and a vaccine, the global economy was soon turned back "on". Consumers flooded retailers with a tsunami of new orders, manufacturing restarted, and trade resumed. By late 2020, logistics problems and bottlenecks began to surface.



When there were not enough shipping containers or charters to go around, shipping lease rates skyrocketed. International deep-water ports such as the one in Long Beach, CA became congested, and the problem quickly spread to railway and trucking routes. The problem in trucking is so bad that if you can downshift a big-rig, you'd be well advised to put down this commentary and contact a logistics or trucking firm right now. So, as you can see, in any supply chain a problem in one link of the chain can spread until the chain is overwhelmed and ultimately broken. But the bigger, broader question here is why are stock markets by and large looking through all of these problems? One possible answer is that the economy is simply producing so much, that global supply chains cannot handle the volume. Another possible explanation is that the cash saved during the pandemic when opportunities to spend it were less frequent is now being deployed on goods like cars, televisions, home appliances, building materials, new furniture and clothing. Perhaps it is all that pent up consumer demand is now clogging up global supply chains.



Present supply chain strains do have their benefits though. As commercial real estate investors, we have taken advantage of the enormous demand for logistics assets in our 360 Degree Realty Income Fund. And many of our private equity holdings in areas such as applied artificial intelligence and cybersecurity are seeing their businesses flourish. Corporations are looking to make their operations more efficient and at the same time less vulnerable to cyber-attacks. But the same cannot be said for investments in other areas. Companies like Federal Express [FDX:NYSE] have experienced more variability in their share prices as they begin to buckle under the pressure of rising labor costs and communicate weaker outlooks to investors. Rival United Parcel Service [UPS:NYSE] has not yet reached a point of strain but could in the near future. Years of growth in e-commerce has been shoehorned into just 18 months compounding the problem and groups like FactSet are beginning to report a much higher level of corporate profits being impacted by supply chain problems. According to FactSet, three-quarters of reporting issuers in the latest quarter cited supply chain problems as **materially** impacting earnings and the fear is the problems won't go away in the near-term.

Our take?

If demand for consumer goods declines due to rising prices or if consumers pivot away from spending on durable goods toward services like travel, sporting events, concerts and restaurants then supply chain issues may indeed abate. Many economists we talk to such as John Williams and Dr. Woody Brock suggest that the US has already begun to lose its economic momentum after hitting peak growth [as a result of stimulus efforts] and pent-up demand being unleashed earlier this year. So, there are implications to portfolio sector allocations along with a renewed focus on the services.

One thing we know for sure, companies will have to look far beyond their corporate headquarters as they scrutinize every aspect of their production process. Those that take steps to implement better technologies in order to make their productions more efficient and flexible will represent superior investment opportunities in an economy that is stable or potentially regressing. Those that prioritize cybersecurity and cyber-compliance will also be rewarded with investment capital on better terms. And those companies who prioritize the needs of their customers including safeguarding their information will be richly rewarded.

The MacNicol Investment Team will always try hard to supply you and your family with prudent investment ideas that reflect not only our very best ideas but those of our wider group of external experts. They will help you realize your long-term investment objectives, without feeling like you must resign yourself to a life of only frozen veggies. What's more, we look forward to updating you on our progress with publications like this one and timely, relevant webinars that you are your family can benefit from. At MacNicol & Associates Asset Management, our "chain of command" begins and ends with you.

The MacNicol Investment Team

You call that a tantrum?

Inexperienced investors can be forgiven for having expected much more in the way of fireworks following last week's monetary policy meeting of the US Federal Reserve. A major market meltdown obviously did not happen, and we will explain why in a moment. We will also explain why we are even more worried now and continue to hold real assets such as gold bullion in many mandates that we run for investors. For now, let us begin with Fed Chair Jerome Powell and his announcement last week that the US Central Bank will reduce the size of its monthly bond purchases [which currently stand at $120 Billion per month] by $15 Billion per month. $10 Billion will be trimmed from Treasury securities purchases and $5 Billion will be reduced from purchases of mortgage-back securities. Mr. Powell stuck close to the script and offered little improvisation during his post announcement scrum with the media. A carefully choreographed and strategically timed series of lectures by certain of Mr. Powell's colleagues at the Fed reduced uncertainty and made Mr. Powell's commentary that much duller to listen to. Perhaps this was why aside from a slight dip in trading volumes on major exchanges last Wednesday the markets barely noticed.

One thing we *did* notice was that Mr. Powell remained committed to a "transitory" inflation narrative despite being presented with evidence that inflation is deeper rooted and problematic. We noticed because we are a bit more concerned about inflation than our peers, particularly when it comes to the damage it might do to the capital of our clients.

If Mr. Powell and his colleagues at the Fed are truly unconcerned with inflation, then they must have a great deal of faith in the underlying strength of the economy. Going from $120 Billion per month in monetary support to absolutely nothing in less than a year introduces overtures that suggest inflation is indeed quite a big problem. Perhaps this is why Powell and his colleagues were so nurturing and understanding to investors. I must say, it worked like a charm. But the subtle interplay between Central Bank forward guidance and policy intervention has major implications for not only financial assets but for *who* is trading them.

Frankly, many aspects of today's market resemble a casino. We find ourselves being propositioned all the more often by promoters of investment vehicles that are hardly road worthy and securitizations that barely meet the definition of the term. One recent encounter with a collateralized debt obligation [CDO] manager started off well but quicky devolved when we signed NDAs and got to open the hood for a look inside. No matter how fancy the packaging is CDOs stuffed with junk are themselves junk too. Yet, right before our very eyes, investors of all sorts cannot seem to get enough of the darn things regardless of how crappy the underlying debt might be. A second problem is the troubling number of potential and prospective investor we speak to who hold the majority of their wealth in a single stock or small grouping of well-known though frankly hyped momentum stocks. Our offices are located near a Peloton retailer and while we have absolutely nothing but praise for the bikes themselves, that stock got absolutely trounced by the market when management recently deviated from the script investors though they would hear. Such is life when you are priced-to-perfection.

Peloton

[Peloton is an interactive fitness company most well known for its pricey high tech stationary bicycles that feature high resolution computer screens and engaging workout apps. The company recently beat earnings expectations but got annihilated purely because forward guidance wasn't to expectation.]

It is quite easy for us to single out Peloton, the story is recent, fresh in our memory and a severe example of just how nasty the markets can be. But that really isn't our point. The point is this: just how many Pelotons are there out there and are stories like these the sign that we are nearing a market climax? The Fed and other Central Banks know they have their backs up against the wall: inflation is running rampant as economic growth is decelerating.

[Stocks are looking pretty good here…but we wonder…how many more Pelotons are there out there?]

Not over yet…

COVID is still a big problem in many parts of the world, and one can't help but feel that for many gains have been hard fought. With questions around global growth and recent delta variant shutdowns and China's zero Covid policy increased production might be viewed as problematic for equity investors in general and especially those daring enough to trade Chinese internet, communication, or real estate stocks. And then there is the rise of things like meme stocks and the idea that we are in the second year of social media as a source for investment research. We wrote about Reddit and Robinhood in an earlier edition of *The Monthly.* Back then we felt that social media democratizing finance and not in a constructive way. These social media outlets enable small investors to participate in the same game that big investors play all the time because they are able to leverage scale. Trust us, at the end of the day, insider trading, quid pro quos are all bad for markets. The problem isn't that Reddit and Robinhood exist, numerous investing website and financial market "chat rooms" have existed for years and years. The problem is that they channel retail investor monies into who were previously left on the sidelines into dangerously high-risk transactions in a scalable way.

[Wall Street Bets but we still prefer good old-fashioned diligence and research.]

There use to be a time when investors would meet with their money managers to build a roadmap to a more prosperous future. Today, most investors simply invest in things that go up or down and hope they can capitalize on at the right time or through the publication of the right Twitter "tweet". Wouldn't you call that gambling? We would.

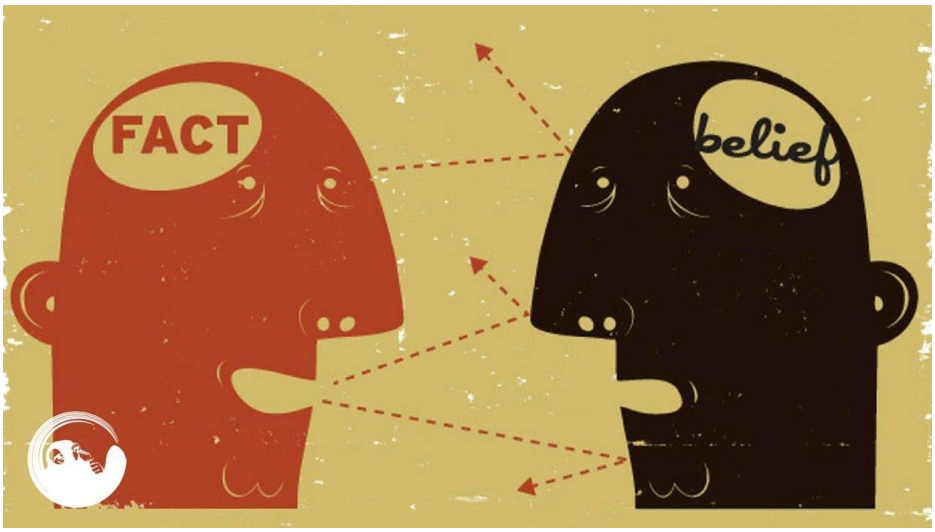
But my point with the Fed is as follows: they are mandated to support the economy as a whole, yet they do not. The main beneficiaries of Fed policies for the past 4 decades and especially the last 2 decades have been the top 1%. Wage growth for senior executives' dwarfs middle- and lower-class wages which in many cases have actually fallen. When the 1% gamble with the entire economy and lose, the lower and middle classes pay the price. The Fed doesn't work for taxpayers, it works for those who pay no taxes. And just as soon as they finish pumping up one bubble, they create a new one. A bubble of inexperience and untrained retail investors consorting with those of dubious character to move financial markets in a way that defies logic and reasoning.

Don't worry the real tantrum is yet to come and we'll hopefully be ready for it.

The MacNicol Investment Team

Behavioral Investing

Confirmation that one *really* tough exam program can help with investment biases…



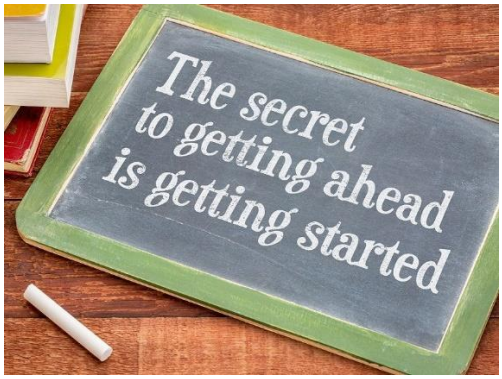
The bad thing about earning the Chartered Financial Analyst [CFA] designation is that the examinations are notoriously difficult to pass and vaporize a good portion of one's summer. The good thing about earning the Chartered Financial Analyst [CFA] designation is that all those hours spent studying a range of topics like the stock market, the bond market, accounting, economics, ethics, and investment psychology help you to become a better resource to your investors. I really enjoyed the CFA program's treatment of **behavioral investing.** Kernels of behavioral investing wisdom were dripped to us from renowned experts in the field and encouraged us to stay on top of it long after the final CFA exam was written. Oh, and by the way, I'm not biased at all: I can confirm that all of my family and friends liked me just that much *less* during my run through the CFA program…

But **confirmation bias** is a problem when making investment decisions and it's a condition that describes how people naturally favor information that confirms their previously existing beliefs. Already own a stock? Excellent. If you seek out information that *confirms* why you own the stock and ignore data that augurs poorly for it then you have a case of confirmation bias. Confirmation bias is a common problem, and it can potentially be detrimental to capital. Confirmation bias can skew the value of an investor's decisions based on their own

cognitive biases instead of something rooted in facts or data. Paying attention to information that *agrees* with our existing beliefs is less onerous than looking for information that challenges.

When you conscientiously make the decision to become more aware of your own tendency towards confirmation bias, you not only overcome hanging on to money losing ideas for far too long or falling prey to speculative bubbles…you view investments more objectively.

Where do I begin…



Start looking for information that may *disprove* your ideas rather than confirm what you want or already know. That is how you try to guard against confirmation bias. And if you have challenges taking that first step, consider having us help you through the process. At MacNicol & Associates Asset Management, we are always happy to provide you with an unbiased, no obligation portfolio assessment. And if our recent experience is any indication as to what you can expect with us, we'll probably start off by asking lots of questions. Questions like: why are you holding a sizable chunk of your portfolio in just a small handful of stocks or what is your exit strategy? It can seem strange to take this step in a generally buoyant market for stocks, but it can also help you down the line. Our firm can help you get less personal with your investments so that you can avoid confirmation bias and becoming a better investor.

The MacNicol Investment Team

Firm Wide News

MacNicol & Associates would like to take this opportunity to acknowledge the courage and bravery of all of our Nation's great veterans past and present and to thank them for the sacrifices they made to our country and the world.