September 2023

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 behavioral 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.

"Education is the passport to the future, for tomorrow belongs to those who prepare for it today."

- Malcolm X

The Numbers:

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Index:		**2023 YTD:**
S&P/TSX:		4.68%
NASDAQ:		34.1%
Dow Jones:		4.75%
S&P500:		17.4%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	5.11%	5.46%
5-Year Bond:	3.97%	4.41%
10-Year Bond:	3.70%	4.28%
30-Year Bond:	3.52%	4.38%

Economic Data:

- Bank of Canada holds rates steady at 5%
- Canada adds 40,000 jobs in August, unemployment rate steady at 5.5%
- China bans Apple i-phones for government agencies and companies
- Crude oil higher by 2.9% in August
- 10-Year Government of Canada bond loses 10.4% in August
- Weakening domestic demand in Europe (i.e., Germany) cool Eurozone growth outlook

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	26	21
P/B: Price-to-Book	4.3	3.6
P/S: Price-to-Sales	2.5	2.1
Yield: Dividend Yield	1.5%	1.4%

2023 Year to Date Performance, by Sector: Aug 31st, 2023

S&P/TSX Composite	4.68%
NASDAQ	34.1%
Dow Jones Industrials	4.75%
S&P 500	17.4%
Russel 2000 (Small Caps)	7.8%
MSCI ACWI ex USA	- 17%
Crude Oil Spot (WTI)	3.5%
Gold Bullion ($US/Troy Ounce)	2.7%
SOX Semiconductor Index	42.8%
VIX Volatility Index	-64.5%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

As of September 12, 2023 1:00 PM EST	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.365	$3,663	$(26)	-0.7%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3940	$3,587	$(102)	-2.8%
Raymond James	1.3761	$3,633	$(55)	-1.5%
Royal Bank	1.3830	$3,615	$(73)	-2.0%
Scotia	1.3930	$3,589	$(99)	-2.8%
TD	1.3908	$3,595	$(94)	-2.6%
Canadian Snowbird	1.3692	$3,652	$(37)	-1.0%
Spot Rate	1.3555	$3,689	$-	0.0%

September *Affect*…[1]

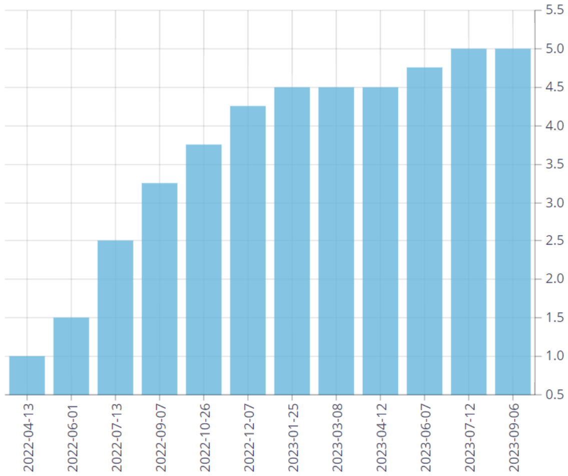
Septembers have traditionally received failing grades when it comes to their performance in the stock market. June and October are slackers too, but their failings somehow tend to be issued a passing grade by most investors. With school back in session, I decided to investigate September for you more academically, so I reviewed some quantitative analysis I received from a group at TD Bank. Over the past 50 years the S&P/TSX Composite index has returned on average *negative* 1.46% during September and that is a poor monthly return to average. Rather than assume that this September will result in a trip to the principal's office for investors, I thought it might be more constructive to think about September opportunistically. Admittedly, this will be tough, many of us have gone through pricey summers, but the good news is that disinflationary pressures from the housing market, the labor market and the things-you-put-into-your-car-or-boat-or-fridge market are on their way. Disinflationary pressures are supporting stock prices even as companies issue a more diverse array of earnings results. The moderation in inflationary pressures is also allowing a renewed focus on savings and on the cause-and-**effect** relationship necessary to make saving successful over the long-term.

[1] **Affect is usually a verb, and it means to impact or change. Effect, on the other hand, is usually a noun that you would use to indicate the result of a change. Because "affect" and "effect" are homophones (words that sound alike), they are often confused.**

Of course, there is no question that things continue to be expensive, and a few interest rate hikes will not solve all the challenges of inflation overnight. Most of the big-dollar inputs into Consumer Price Index (CPI) calculations such as housing, transportation and food and beverages remain at highly elevated levels, but they are beginning to either recede from extremes or stall their upward trajectory. Lower expectations for inflation going forward means central bankers can begin to feel as though they are holding inflation at bay.

[Tiff Macklem kept rates on hold last week and we feel there is a chance he does so again at the Bank of Canada's next policy rate meeting.]

The tailwind of lower inflation expectations means that future rates hikes are **likely** off the table, and this could be good for stocks even if stronger earnings growth would be better for stocks. For now, suffice it to say that central banks appear to be engineering a soft landing with some degree of success depending on the venue. We believe Tiff Macklem has an easier job ahead of himself than his American counterpart Jerome Powell. Both men have tightened rates forcefully with the bulk of Macklem's twists going into variable rate mortgages, their knock-on impacts in the rental market and then broader Canadian economy. Powell's tautening has created an as yet unresolved regional banking crisis impacting mainly rich venture capitalists and not ordinary Americans.



[The Bank of Canada's official policy rate stands at 5%]

Notably, we underscore that future rate hikes are **likely** off the table but that's certainly no guarantee. You may have heard that in Hollywood writers for many popular productions have gone on a strike, crippling new releases. At issue in Tinseltown is pay. The United Auto Workers union has also demanded a 40% pay increase over 4 years for its 150,000 plus members. Pilots for certain US air carriers are flying higher with their own increases. American Airlines pilots inked a new deal seeing their pay go up by 46% over 4-years (Delta's pilots will get a 30% bump). And supposedly UPS delivery drivers will take home pay and benefits that average $170,000. So, think **hold** more than **cut**. But now that entire quarters higher rates are now reflected in the economy - disinflationary trends are likely to slowly eat away at inflation rather than plummet us into a deflationary death spiral. Economically, higher rates are having their desired impact. But Maru Public Opinion found the mood about the Canadian economy soured over the summer, with only 33 per cent of people saying they believe the national economic outlook will improve over the next 60 days, down from 38 per cent in July and 41 per cent in the May.

Mortgages are doubtless one of the main issues on Canadian's minds. Bank of Canada researchers, Stephen Murchison and Maria Tenyenhuis recently released a paper where they note that as at the end of October 2022 about 50% of all variable-rate mortgages already reached their trigger rate. This represents about 13% of all mortgages. Murchison and Tenyenhuis go on to conclude that a high share of variable-rate mortgages borrowers has begun offsetting changes to other spending habits. And not all variable rate households will have had to increase their regular payments: some borrowers who took out variable-rate, fixed-payment mortgages before the pandemic have likely paid down additional principal relative to their amortization schedule with the decrease in variable rates during COVID. Maru's poll therefore takes the pulse of a parent who is feeling a little burnt out after the summer. Fortunately for investors, the markets seem technically well anchored, and any actual or perceived economic weakness is being discounted as minor or as temporary. Both the S&P/TSX Composite and the S&P500 are above their 50-day moving averages and breadth readings are improving. Broader participation by stocks would confirm in our minds that shares of financials, utilities and communications could performed well 18 to 24 months out. Investors will pay up for these companies when rates begin to come down due to higher dividend payments. The argument of why I should buy stocks today when I can get 5% on a GIC instead flies in the face of this month's quote from Malcolm X. Bankers have a long way to go before they signal the "all clear" on the inflationary challenges we have seen in the post pandemic world. In the near term, further rate hikes are potentially off the table, but that doesn't mean either the Fed or the Bank of Canada might not one day decide to go for one more knockout punch just for good measures. Whether or not that happens, we really do not know. But what we do know is this. Traditionally, September is a weak month for stocks - October also. But it is extremely unlikely in a historical context that either the S&P/TSX Composite or the S&P500 experience multiple loosing overall years. Despite a dubious track record, things look good: don't allow the September *affect* to lead you to implement the wrong effect.

Section 280E of the Internal Revenue Services (IRS) code…

We knew this day was coming and we knew we would have to address it with you one day. So here goes: the MacNicol Investment Team believes that cannabis has turned a major corner and transitioned from an amusing sideshow style investment (particularly in Canada) to a possible mainstream investment. The investing implications of ignoring cannabis are quixotic, foolhardy, and potentially at this stage a little narrow minded. Cannabis is a large, legitimate business in many parts of the world but its debut in the western world was cloudy. We feel things might finally be clearing up for the world's most notorious plant, and this could mean fun times for cannabis consumers and "funner" times for cannabis investors.

Section 280E

Section 280E of the US Internal Revenue Services (IRS) code is the piece of tax legislation that prohibits businesses from deducting otherwise ordinary business expenses from gross income associated with the "trafficking" of Schedule I or II substances, as defined by the Controlled Substances Act.

What is the controlled substances act?

The United States Controlled Substances Act is a 1970 piece of legislation signed into law by President Richard Nixon. The legislation is the statute that establishes US drug policy. Everything from the manufacturing, importation, possession, and distribution of drugs is governed by the Controlled Substances Act. The Act is easily understood. Drugs are grouped into one of five schedules based on whether they have a high potential for abuse and no accepted medical use. The assignment of drugs to the various schedules are controlled and enforced by two main agencies in the United States: the Food and Drug Administration (**FDA**) and the Drug Enforcement Administration (**DEA**). If you have ever watched the popular t.v. series *Breaking Bad*, you will already know that Dean Norris' character "Hank Schrader" played the role of a DEA Agent.

Drug Classification Chart

How Drugs Are Classified In The U.S.

Classification	Examples	Description
Schedule I	- Marijuana - LSD - Ecstasy (MDMA) - Heroin	Schedule I drugs as classified as substances that have a high potential for abuse and no accepted medical use and are not safe to use under medical supervision.
Schedule II	- Cocaine - Opium - High Grade Morphine - Oxycodone - Methamphetamines (i.e. Adderall)	Schedule II drugs are classified as substances that have a high potential for abuse, despite having an accepted medicinal use in the U.S.
Schedule III	- Low-Grade Morphine - Anabolic Steroids - Ketamine - Certain Codeine Mixtures	Schedule III drugs are classified as substances that have less potential for abuse than Schedule I or II but abuse can lead to moderate physical dependence or high psychological dependence.
Schedule IV	- Ambien - Soma - Valium - Darvon - Xanax - Darvocet - Rohypnol - Ativan - Zolpidem - Talwin	Schedule IV drugs are classified as substances that have less potential for abuse than Schedule III and has accepted medical use in the U.S. but abuse of the drug may lead to limited physical or psychological dependence compared to those of Schedule III
Schedule V	- Cough Syrup (less than 200 mg) - Lomotil - Motofen - Lyrica - Parepectolin	Schedule V drugs are classified as substances with limited quantities of certain narcotics that have less potential for abuse than Schedule IV and have accepted medical use in the U.S. with limited risk of physical/ psychological dependency.

Whether your hold strong personal views about cannabis or whether cultural or societal influences have helped shape your perspective on whether cannabis is “right” or “wrong”, it remains legal in many jurisdictions including Canada. But in the United States, at the federal level, cannabis continues to be a legal taboo. The world’s largest potential cannabis market only permits cannabis within the borders of certain states. Part of the reason why is cannabis’ status as a Schedule 1 narcotic. There are a wide range of arguments in favor of a US federal approval but the science of why cannabis should be rescheduled. The nuance is in the use of the words **not safe**. Not safe is medical speak for toxic and potentially lethal. You can absolutely overdose on cannabis, but you cannot *lethally* overdose on cannabis: neither the brain nor the heart has sufficient receptors for cannabis use to build up to a level of toxicity that would kill you.

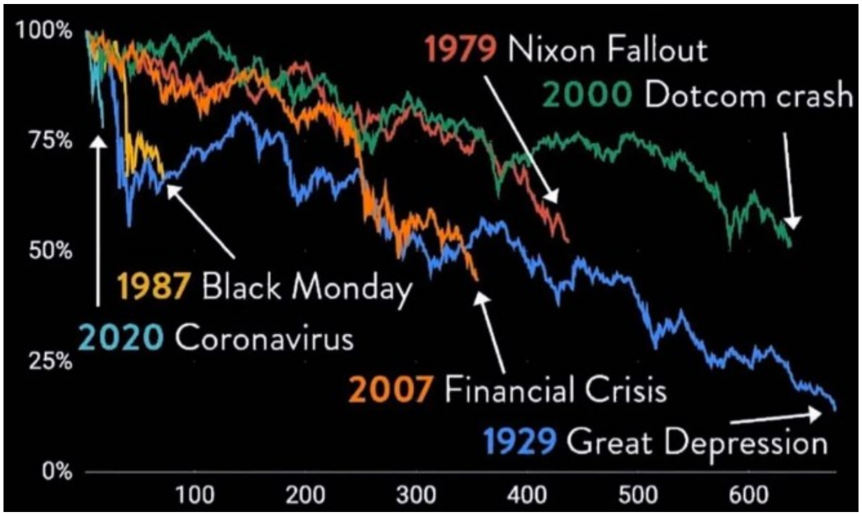
Drugs like Cocaine, Ecstasy and Heroin can easily kill you and in many parts of the United States and Canada authorities are sadly dealing with an Opiate epidemic. And think how many people have perished from alcohol. So there exists renewed focus on prioritizing enforcement action on the most serious offenders. A declassification however does not automatically make cannabis federally legal. That would require Congress to pass legislation creating the legal framework for cannabis across the entire United States along with approval by the Senate. For years, there have been efforts to try to pass the Secure And Fair Enforcement “SAFE” banking act. This would allow cannabis companies to open the same traditional business banking accounts at major banks that many other industries rely on. Cannabis retailers today have to hold substantial quantities of physical cash at their locations, and they become targets for armed robberies. Despite the slow progress on the federal legalization a transition from Schedule 1 to Schedule 3 would make cannabis procurement more profitable for MSOs (Multi-State Operators) due to the immediate tax benefits they could begin to realize. Tax benefits would benefit shareholders and would allow cannabis companies to invest more in their businesses.

[Xavier Becerra is President Joe Biden’s Secretary of Health and Human Services. Becerra is the most senior member of the US Government to formally recommend that cannabis be moved from Schedule 1 to Schedule 3 on the controlled substances list.]

In the Alternative Asset Trust’s own dedicated commentary, you have likely heard the term “MSA” before [Metropolitan Statistical Area] as it relates to real estate. A similar sound term you are likely to begin hearing much more about in the coming weeks is “MSO” [Multi-State Operators] or cannabis companies with operations in more than just one US state. MSOs will experience several strong tailwinds during the next 6 to 12 months because of upcoming catalysts such as the upcoming hearing on the SAFE banking act. SAFE will allow banks to offer services including credit card services to these companies in the cannabis business. Some industry talking heads figure listing to the NYSE or NASDAQ could usher in a new wave of buying on the part of institutional investors. And valuations are highly attractive. Tilray went public in 2018 and in those days, it only brought in $10 million in quarterly revenues despite having a market cap of around $20 billion. Contrast Tilray’s 2018 experience with companies such as Cresco whose quarterly revenue is nearly $200 million yet which boasts (laments) a market cap of $850 million. Many of these companies are trading at 1.5x their revenues.

The legalization of cannabis in the west was met with a wide range of emotional and financial outcomes. Although the MacNicol Investment Team avoided the malaise that ensued from pot’s early days as a legal consumer product and of some very anxious days on the stock market, we will admit to (now) taking a more serious look at cannabis in the near future. Many cannabis companies are still quite small and therefore quite vulnerable to take outs by big tobacco or big alcohol. Those companies that flourish on their own might someday pay big dividends or implement large scale share buybacks, which would be lucrative to investors. Many years ago, people would tell us that we would have to be “high” to invest in cannabis, and frankly, we probably would have agreed with many of them. But today, assuming the DEA takes Secretary Becerra’s formal recommendation seriously, we officially suggest you’d have to be “high” not to at least consider taking a second look at cannabis.

You remember these, don't you?



Most investors strangely remember stock market crashes more clearly than they remember recoveries. To illustrate the point let us share with you some figures that you probably already know and then roll out some more figures that might be harder to guess. During the first part of 2020 the S&P500 dove 34% as the then new COVID pandemic began transitioning into North America. 12-years earlier in 2008 the S&P plunged by 40% as the implosion of Lehman Brothers kicked off the global financial crisis. But what about the recoveries? Well in the case of COVID, stocks rose by 65% from March 1st, 2020 until approximately December of 2021. And after the global financial crisis had passed stocks rose by 26% in 2009 and an additional 15% in 2010. Provided your investment acumen wasn't truly atrocious and you had the discipline to stay put, you did recover a very good portion of your losses. But why is that so hard for many investors, even experienced ones to do?

Maybe its because of something behavioral psychologists call **availability biases**. Availability biases or heuristics as they are called are the tendencies of investors to make decisions based on recalling events or stories that had a lasting visceral impact on them. Watching former Lehman Brothers CEO Dick Fuld crack under the pressure of his own banks subprime implosion frankly impacted me more than earning my CFA designation. During Fuld's tenure as Lehman's top boss, he earned a war chest of total compensation, and a lot of that was in the form of Lehman shares.

Fuld's existing half billion fortune is a lot less than he could have been worth had he been able to cash out all of his stock before the Lehman evaporated. Fuld had been paid $889.5 million in salary and stock between 2000 and 2007, and at one point his stock options were worth a full $900 million. And hey, no jail time, so don't feel too bad for him. In any case, availability heurist says that the more sensational or thrilling a piece of news is, the greater the likelihood of its influence on our opinions and choices. Availability bias also magnify stock market volatility through social media outlets like Reddit or the one that fellow with the electric cars bought. Not that long ago, a group on Reddit called WallStBets used social media buzz to drive the stock of a sickly video game retailer (Gamestop) about six bucks at the start of 2021 to $469.42 on January 28 of that same year.

Of course, the central challenge with availability bias is that it can trick investors into assuming that if something is all over the news it is important. This assumption often leads to overreaction because investors base their decisions on information that *immediately* comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

There are several benefits to working with MacNicol and Associates as your go-to asset manager for prudent investment advice and thoroughly researched investing opportunities. But one of the biggest in my mind is the availability of a dedicated team that is 100% committed to directing your attention to what matters to your bottom line and not what the media happens to cover the most.

The MacNicol Investment Team

Firm Wide News

David & Diane had an exciting and happy weekend as their daughter Sarah got married on Friday night. It was a wonderful evening and everything went off without a hitch! Two weddings in three months have been busy, but of course, a very happy time.

The team at MacNicol thank our summer student Nigel Muggeridge for his help over the past few months. We wish him well as he returns to Toronto Metropolitan University where he is studying Business Management.