December 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.

"The best thing a human being can do is help another human being know more."

- Charlie Munger

The Numbers:

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Index:		**2023 YTD:**
S&P/TSX:		4.39%
NASDAQ:		35.9%
Dow Jones:		8.46%
S&P500:		18.9%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	5.03%	5.4%
5-Year Bond:	3.41%	4.12%
10-Year Bond:	3.30%	4.13%
30-Year Bond:	3.11%	4.23%

Economic Data:

- Bank of Canada holds key rate at 5%
- Crude Oil falls below $70 for the first time since July
- Canada's October trade surplus at $2.9 Billion vs estimates of $1.8 Billion
- Gold bullion cracks $2,000 per ounce and continues higher in early December
- US private payrolls increased by 103,000 in November, below expectations
- BITCOIN sharply higher in November and up over 165% in 2023

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	25	23
P/B: Price-to-Book	4.3	3.8
P/S: Price-to-Sales	2.5	2.6
Yield: Dividend Yield	1.5%	1.7%

2023 Year to Date Performance, by Sector: Nov 30th, 2023

S&P/TSX Composite	4.39%
NASDAQ	35.9%
Dow Jones Industrials	8.46%
S&P 500	18.9%
Russel 2000 (Small Caps)	5.2%
MSCI ACWI ex. USA	1.6%
Crude Oil Spot (WTI)	-4.1%
Gold Bullion ($US/Troy Ounce)	6.42%
SOX Semiconductor Index	45.3%
VIX Volatility Index	-74.1%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

As of December 12, 2023 09:00 AM	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3678	$3,656	$(23)	-0.6%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3945	$3,586	$(93)	-2.6%
Raymond James	1.3760	$3,634	$(45)	-1.2%
Royal Bank	1.3847	$3,611	$(67)	-1.9%
Scotia	1.3922	$3,591	$(87)	-2.4%
TD	1.3931	$3,589	$(89)	-2.5%
Canadian Snowbird	1.3627	$3,669	$(9)	-0.3%
Spot Rate	1.3593	$3,678	$-	0.0%

Told you…

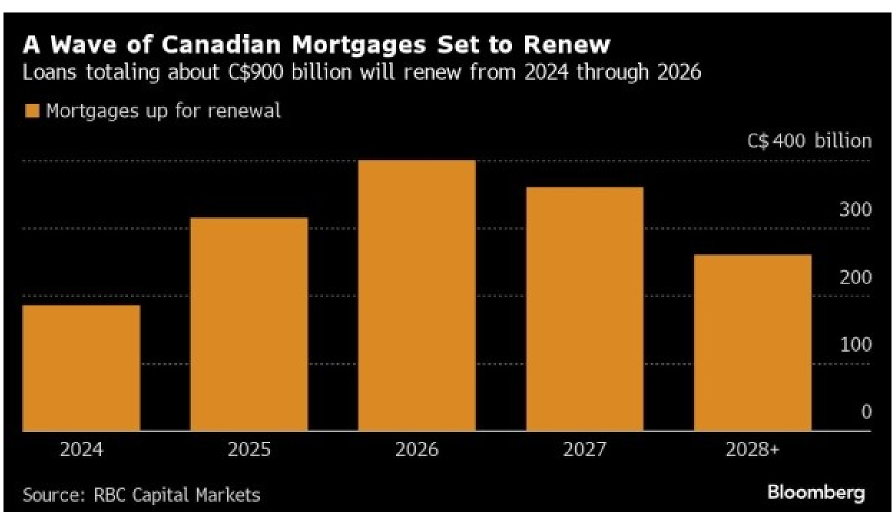
The late Charlie Munger once said, "*The best thing a human being can do is help another human being know more*", and we completely agree. Could one human who may benefit from knowing more be Bank of Canada Governor Tiff Macklem? Macklem's Bank of Canada (BOC) recently convened to offer Canadian consumers and businesses its view on the economy, inflation, and financial markets, and to administer their latest decision on interest rates. The decision on interest rates was self-explanatory: no change. But knowing why the BOC suddenly threw the idea of *further* rate hikes under the bus requires some digging[1]. In any event, for the time being this country's trend setting interest rate will remain at 5%. In his remarks, Macklem acknowledged that global economy momentum continues to cool, and this has caused inflation to ease further. Reductions in long-term inflation expectations caused a mini rally in the bond market, with long yields retracting from peak levels in early October. Canadian economic growth stalled, and consumption growth was near zero. Business investment was flat over the past year although government spending and new home construction boosted an otherwise lukewarm fiscal spending picture.

[1] In October 2023 the BOC mentioned that it was **too early** to think about rate cuts, and that one more rate hike during 2023 was still **on** the table.

In terms of the labor market, job creation has been weak, and vacancies declined further. This led to a slight uptick in the unemployment rate even as wages are still rising by about 4%. More visible job actions at the Canadian banks and other larger companies offer a slanted view on labor as they gain a disproportionate amount of attention from the media.

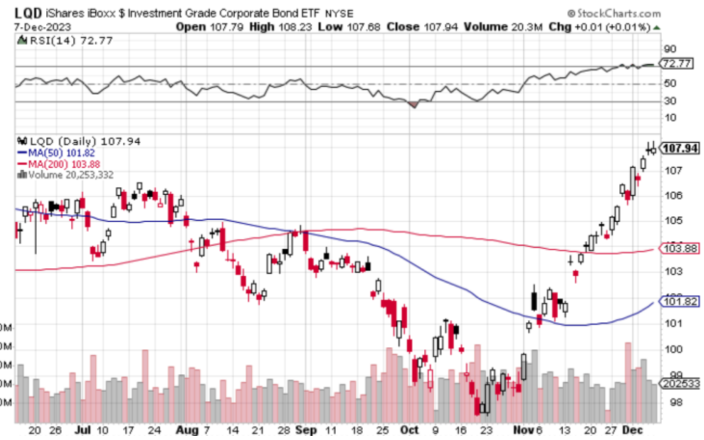
[Canadian Banks have let go 6,000 and some economists fear that's only just the start.]

With more people being let go, and fewer of those people being able to quickly find new work, the BOC suggests the economy is no longer characterized by excess demand, which supports the current monetary stance. Unfortunately, the cost of shelter has increased, and this reflects faster growth in rent and other housing costs along with the continued contribution from elevated mortgage pricing. Food prices also remain outrageously high to most Canadians. On balance though, inflationary pressures have been reigned in by more restrictive monetary policy, and though the BOC did not explicitly state that cuts to interest rates were around the corner, one gets the impression that they may occur sooner rather than later. Perhaps the greatest threat to Canadian consumers and businesses is the tsunami of mortgage renewals set to begin next year.



Canada Mortgage and Housing Corporation (CMHC) says that in 2024 and 2025, up to 2.2 million borrowers will be renewing their mortgages and this represents 45% of all outstanding Canadian mortgages. The CMHC goes on to suggest that resetting this mountain of renewing mortgages will be the worst interest rate shock Canadians will have ever seen, representing an additional $15 billion in payments, cumulatively.

Yet as far as stocks go, the MacNicol Investment Team believes investors should be able to make allocations to stocks with a degree of confidence. First, lower yields make valuations in pricey tech stocks less likely to implode. This is primarily a US concern, though Canada does have some publicly listed technology companies too such as Shopify (which was leveled when rate hikes began but has since made good progress towards a recovery) and Constellation Software, which barely noticed rate hikes occurring, and now sits valued at $70 Billion. A second play on cooling yields – and we discussed this a few months back – is the interest rate sensitives: banks, pipelines, telecommunication stocks, utilities and to a lesser extent the REITs[2]. For income-oriented investors with long time horizons, companies in these sectors can offer compelling valuations and compelling yields-at-cost. Further supporting our confidence in stocks are credit markets. Yield spread on corporate credit has come in (spreads balloon out when investors perceive corporate paper to be wildly unpredictable) and credit default swaps in North America are pricing in lower probabilities of default.



The two ETFs we sometimes check in with to gauge credit conditions are LQD and SJB. LQD seeks to track the performance of an index composed of US dollar denominated investment grade corporate bonds, which pitched higher in recent weeks as shown in the above chart on the left. SJB is designed to track the daily (inverse) exposure to an index comprised of junk bonds, which pitched lower in recent weeks as shown in the above chart on the right. Broadly speaking credit conditions are good, and corporate credit should provide investors with attractive coupons and the ability to gradually write-off the cost of such an investment over time.

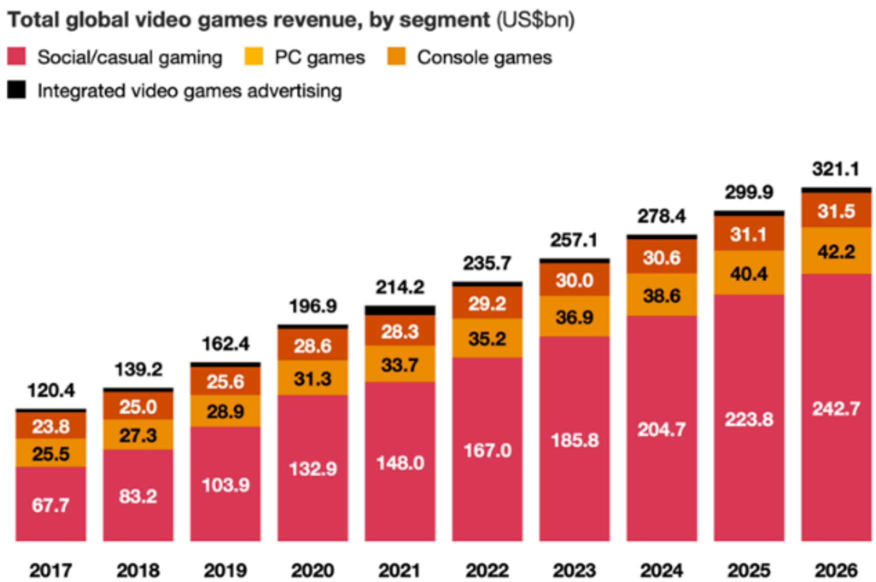
Technically, markets look very good: breadth is increasing (more stocks are joining the rally), sentiment is high (investors feel more bullish than bearish about stocks) and with respect to seasonality (November to January is a traditionally strong period in stocks).

Back in October, when Governor Macklem left the prospect for one additional rate hike on the table, we told you that it just flat out would not happen. Thus far we have been proven right. Of course, that could change, but if it does, it will likely be the result of the antidote for inflation (higher rates) becoming the root cause of inflation (higher rate mortgages choking people out) by a BOC that waits too long to cut. This is certainly a possibility that we hope we do not have to say we told you about.

[2] We do not dislike the REITs but as we have stated before, their values tend to oscillate, sometimes widely, above or below their Net Aset Value or "NAV". This is much less common in private real estate trusts. We concentrate on these in our Alternative Asset Trust.

Videogame of the century?

I think there is this perception that men and women who wear suits and who work in offices don't like to have any fun. But I can assure you that perception is not reality. Many of my friends (Doctors, Lawyers, Chartered Accountants) play video games and even though they would never admit to it to their patients or clients, the numbers don't lie. Video games have always been big bucks, and Price Waterhouse Coopers reckons that if you are one of the very few professionals who is reading this publication who does not play video games, you probably will be soon.



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

Modern video games have long since done away with the stereotype of a pimply faced teenager furiously jamming away on a computer keyboard in his parent's basement as he "slaughters" Aliens from a different world on the latest must have sci-fi game. Video games and the consumers who spend a fortune on them are these days much more discerning and sophisticated. Of course, each new generation of videogames is almost by definition more sophisticated: the newest games are developed with cutting edge technology and run on gaming consoles that could easily out muscle "supercomputers" from just two decades ago. But the games have evolved not just technically, the themes, storylines, characters, and writing have also evolved to the point where there now exist multiple genres of games to appeal to multiple types of gamers. There are several publicly traded videogame companies, more if you include companies that make the gaming consoles themselves such as Microsoft and Sony, which produce the ubiquitous X-Box and PlayStation gaming consoles respectively. And do not for a moment minimize the impact that console sales of the gaming consoles themselves can have either. As of September 2023, lifetime unit sales of **just** the X-box One console in North America are over 33 million, while in Europe, unit sales surpassed 12.8 million. Yet, if I had to own just one company related to videogaming it would have to be Take Two Interactive Software (TTWO*:NASDAQ). Importantly, I am not suggesting that you go out and buy shares of TTWO with your own money. But I am suggesting that if you have ever disapprovingly looked down your nose at videogames or the people who consume them, you might want to rethink that stance.

*too expensive to own right now. Needs the Balance Sheet and Earnings to improve.

Take Two Interactive owns Rockstar Games, the publisher (in videogaming we say developer) of some of the most highly successful video games in the industry. Rockstar's hit parade is a long one, but there is one title that towers high above all the others. In fact, this title towers over not just all other video games but other forms of media too. It is unanimously regarded not only as Rockstar's crown jewel but as one of the very best video games ever made. It is the controversial, the maniacal and the iconic Grand Theft Auto. Even people with absolutely no interest in video games have likely heard that name before, and for good reason. First released in 1997, Grand Theft Auto I and its four successors have gone on to achieve the sort of critical acclaim, sales success and controversy that most video games could only dream about. And its that last point, (the controversy) that actually propels sales rather than detracts from them…

US politician pitches a fresh new idea: Ban Grand Theft Auto

By Andy Chalk last updated September 23, 2022

A bill proposing a ban on GTA and other violent videogames was prompted by a rise of carjackings in and around Chicago.

COMMENTS

[Grand Theft Auto 5 protagonists Michael DeSanta, Franklin Clinton and Trevor Phillips are enigmas because they are fictional, morally reprehensible characters that make more money than actual criminals do.]

Sales are what transitions games like Grand Theft Auto from the obscene to the otherworldly. Grand Theft Auto 5 or GTA5 as it is more commonly known was released on September 17th, 2013, and its commercial success is only overshadowed by its legacy as a pop culture phenomenon. A decade after its release, GTA5 has sold 200 million copies and generated a colossal $8 billion in revenues. That figure, $8 billion, means that GTA5 has not only earned more money than the top grossing movie ever, *Avatar*, but more than *Avatar* and *The Titanic* and *The Lion King* combined. Even today, GTA5 is still one of the most popular video games worldwide, and thousands of viewers of the title regularly drawn on the video streaming platform Twitch.

Heir apparent…

At some point though, even the best-performing money machine needs a major overhaul. In November 2023, Rockstar's president Sam Houser said the first trailer for GTA5's sequel, GTA6, would come out in the beginning of December to celebrate the company's 25th anniversary. Following years of speculation, social media leaks, and gaming journalism hints, Grand Theft Auto 6 was finally and formally revealed in December 2023. Rockstar Games will finally reveal the trailer on Dec. 5 to what may be the biggest game release in a decade: GTA6. For the actual game of course, you will need to wait.

[The only thing more preposterous than GTAs penchant for crime, violence and sleaze is its ability to rake in profits for its developers.]

So, is an investment in Take Two Interactive Software in the cards for you or for us? That really depends on your definition of the word investment. Analyst consensus estimates have TTWO shares fully priced, and there's a very good reason for that: this is not a company known for making video games that are anything but total blockbusters. However, TTWO can also tug at one's investing heartstrings and render what is purely a business decision (to invest or not invest) an emotional one and this is rarely a recipe for success. At the end of the day, an investment in TTWO is ostensibly a call on the success of just one videogame, Grand Theft Auto 6. In the investment world, we like to say that past performance is no guarantee of future results, but the simple fact of the matter is that if GTA6 is even remotely as brilliant as its now released trailer portends it to be, shares of TTWO may only just be getting started.

Behavioral Investing: familiarity bias

Familiarity bias is when investors make investments in things they know (or think they know) such as domestic companies or locally owned investments. As a result, investors are not diversified across multiple sectors and types of investments, which can reduce risk. Investors tend to go with investments that they have a history or have familiarity with. In *Videogame of the century,* we shared with you the staggering success that Take Two Interactive Software experienced from Rockstar Game's Grand Theft Auto series of videogames. We also tried to share with you the staggeringly high level of risk involved in making an investment in an (already) fully priced stock that is banking on the success of a video game that hasn't even been released and could cost $200 million to produce. But then that is the intriguing duality of familiarity bias. Familiarity bias can occur in so many ways. You may resist investing in a specific company because of what industry it is in (modern videogames for example) or because the product it sells glorifies brutal violence and crime (like Grand Theft Auto does). Or you might be reluctant to accept the advice of your Portfolio Manager because something that was said is unfamiliar to you. Familiarity bias ultimately prejudices investors against the unknown, keeping their focus often too narrow to achieve their long-term investment goals. The main risk with stocks could make their portfolio undiversified.

At MacNicol & Associates Asset Management, we endeavor to be familiar with *you* and your long-term investing goals. That is how we can make innovative, forward-looking investment decisions for you while taking the time to educate you on how they will benefit your portfolio in the long run. Finally, with our complimentary no obligation portfolio assessment, we can tell you what we think of your more "familiar" other investments.

Firm Wide News

Annual reviews with you and your family are not only how we stay compliant in a heavily regulated industry, but it is also how we stay relevant to you. When our office contacts you for an annual review, please use this as an opportunity to engage with us about your savings. These reviews are important to us because you are important to both of us.

MacNicol & Associates Asset Management wish you and your families a happy, and healthy holiday.

We wanted to warn our Canadian investors of a few deadlines coming up as we end 2023 and begin 2024:

The First Home Savings Account contribution deadline is December 31st, 2023, and account holders can contribute up to $8,000 for 2023. Contributions are tax deductible for 2023.

The deadline for Tax Free Savings Account contributions for 2023 is December 31st, 2023, and account holders can contribute $6,500 for 2023. Account holders can also contribute up to $7,000 as soon as January 1st, 2024, as the annual contribution resets.

Finally, the 2023 Registered Retirement Savings Plan contribution deadline is February 29th, 2024, and contributions are tax deductible. The RRSP contribution limit for the 2023 tax year is 18% o0f earned income, up to a maximum of $30,780.

Contact us today to open a registered or unregistered account to meet your financial goals.