January 2024

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 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.

"If you don't believe it or don't get it, I don't have the time to try to convince you, sorry."

- Satoshi Nakimoto, the presumed pseudonymous person, or persons who developed Bitcoin, and created bitcoin's original reference implementation.

The Numbers:

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Index:		**2023:**
S&P/TSX:		7.56%
NASDAQ:		43.3%
Dow Jones:		13.5%
S&P 500:		23.9%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	5.05%	5.4%
5-Year Bond:	3.31%	3.91%
10-Year Bond:	3.24%	4.00%
30-Year Bond:	3.16%	4.20%

Economic Data:

- US adds 216,000 jobs in December
- US inflation rate up to 3.4% in December on higher rent and housing costs
- Canada's job growth mis-fires in December, jobless rate at 5.8%
- Chinese consumer prices deflate by a further 0.3% as 2023 comes to a conclusion
- Commodities lower in December excluding lumber
- Stocks globally mostly higher at year end

Valuation Measures: S&P 500 Index

Valuation Measure	**Latest**	**1-year ago**
P/E: Price-to-Earnings	26	23
P/B: Price-to-Book	4.5	3.8
P/S: Price-to-Sales	2.6	2.3
Yield: Dividend Yield	1.48%	1.7%

2023 Calendar Year by Sector: December 31st, 2023

S&P/TSX Composite	7.56%
NASDAQ	43.3%
Dow Jones Industrials	13.5%
S&P 500	23.9%
Russel 2000 (Small Caps)	7.2%
MSCI ACWI ex. USA	13.4%
Crude Oil Spot (WTI)	-9.9%
Gold Bullion ($US/Troy Ounce)	7.18%
SOX Semiconductor Index	45.1%
VIX Volatility Index	-77.5%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

As of January 18, 2024 08:30 AM EST	$5,000	Cdn		
Banks	**Rate**	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.3548	$3,691	$(8)	-0.2%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3880	$3,602	$(96)	-2.7%
Raymond James	1.3710	$3,647	$(51)	-1.4%
Royal Bank	1.3797	$3,624	$(74)	-2.0%
Scotia	1.3869	$3,605	$(93)	-2.6%
TD	1.3879	$3,603	$(96)	-2.7%
Canadian Snowbird	1.3431	$3,723	$25	0.7%
Spot Rate	1.3520	$3,698	$-	0.0%

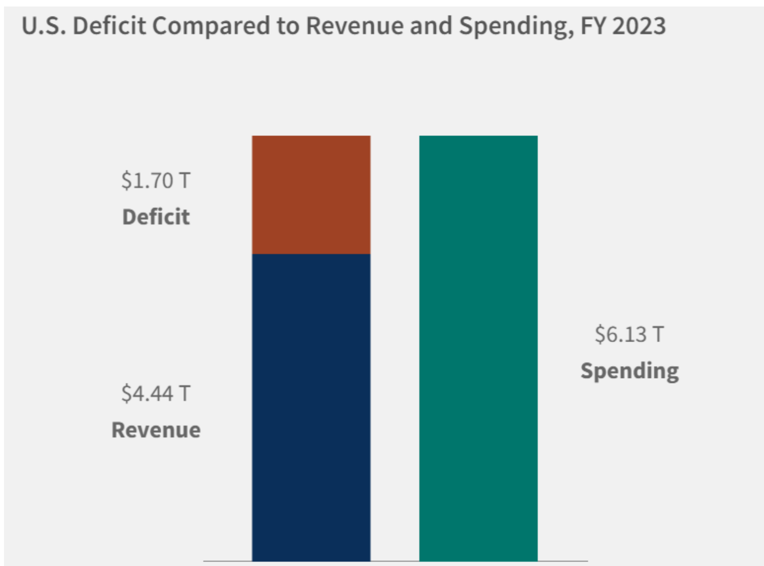
So *that's* why the stock market was up…

One of my favorite websites is https://fiscaldata.treasury.gov/ which is sort of a one-stop shop for American federal financial data. The U.S. Department of the Treasury and the Bureau of the Fiscal Services (BFS) created Fiscal Data to consolidate federal financial data into one easy-to-use website. "Old School" investors can still download data manually, one file at a time, from the Treasury Department and the BFS, but these days, it's just way easier to click up the fiscal data website. Easy, but evidently not that heavily visited by investors. You see most investors seem to be under the impression that stocks roared higher in the last leg of 2023 primarily because of the widely held view that the US Federal Reserve will begin *cutting* interest rates in 2024 thanks to reductions in inflationary expectations. We completely understand the rate cutting ruckus, but we believe it has created some commotion in the stock market that, for the time being, has led to a "melt up".

Who doesn't like a good rally in stocks?

But then who among that group knows what to do when the inevitable sell-off happens?

We completely understand the obsession many investors have with Jerome Powell and the US Federal Reserve. We have written about The Fed in the pages many, many times before. But if you look at how much money the Biden Administration spent last year, in conjunction with the way the Silicon Valley Bank situation was handled, there really was no way stocks particularly big ones weren't set up to do well this year. In short, liquidity was plenty.

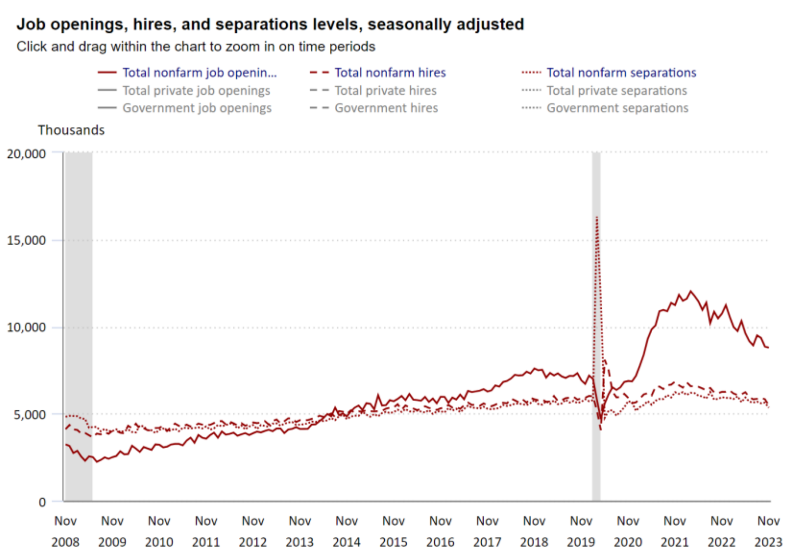


In 2023, the U.S. government spent $6.13 trillion while collecting total revenues of just $4.44 trillion. The resulting $1.70 trillion deficit – gargantuan but made that much more profligate when one considers that last year's deficit was $320 billion larger than the previous year's deficit – means the United States of America now spends nearly $880 billion a year on interest payments alone. That's $2.4 billion per day in interest expense or roughly $100 million per hour.

America's spending problem is so great that John Manley and David Dodge, now pasty old men, but in their heyday managing maestros of Canada's debt spiral in the mid-1990s, have opined on this issue in publications such as the Financial Post and the Global and Mail.

In the 1990s, I was a lot more interested in girls, sports and video games than the economy. But I remember our nation's trip down insolvency lane quite well. The problem with the United States is that like Canada in the 1990s, the Americans needed a major downsizing of their public sector and spending cuts that will affect most federal departments and programs. But I had a better chance of dating the prettiest girl, hitting a "highlight reel" home run or beating the most challenging video game back in the 1990s than the Americans will have at reigning in spending. For one thing, the nation's two major political parties cannot seem to agree on anything irrespective of whether the president is Republican or Democrat. And those debt ceiling debates seem to happen more often but with less sense that there is an actual plan to backstage to address the core spending issues that no politician wants to touch. For the time being, The Fed would appear to have been given its marching order: *"Apolitical or not, you figure out a way to start cutting rates Mr. Powell".* Yet the "jolt" the White House is presumably delivering to The Fed in lieu of having to take charge themselves with tax hikes and spending cuts may pale in comparison to the "jolts" the Bureau of Labor Statistics (BLS) might deliver to investors…

I firmly believe in two facets of the labor market. First, employers do not lay people off in anticipation of a recession, they lay people off *because* of a recession. And second, inflation is exponential for people who lose their jobs. Few economists, no matter how well trained, can argue that there are more important sides to the inflation debate than jobs. And so, in this edition of *The Quarterly*, I propose we all come out of the closest and pretend to be central bankers so insights into the timing of presumed monetary easing in 2024 and the potential impact this could have on financial markets. As reported last week, the number of employment openings in the United States changed only slightly as at the end of November 2023 and stood at 8.8 million. Over the month, the number of hires fell to 5.5 million while resignations, layoffs and other discharges fell to 5.3 million. Employees telling their employers to "shove it" represented 64% of total employment "divorces" but edged down compared to the previous month. Workers who were laid off or relieved of their duties in other ways were little changed compared to the previous month. The way to interpret this data is as follows. Think of quitters as people who lament structure and revel in the fine art of being lackadaisical. Fewer quitters suggest greater employment **rigidity**. And this makes complete sense since quitters tend to be *inversely* correlated with layoffs and discharges which are themselves associated with business cycle weakness.



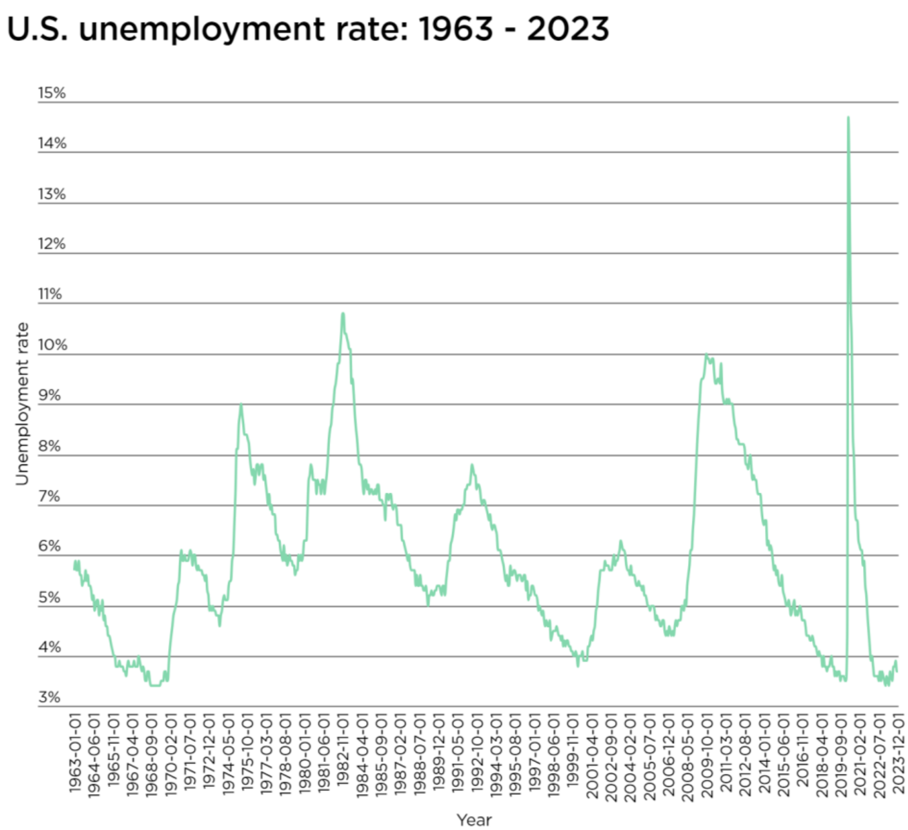
[If you are only going to subscribe to one website this year, make it www.macnicolasset.com. However, if you are only going to subscribe to

two websites this year, make them: www.macnicolasset.com and the webpage of the US Bureau of Labor Statistics (BLS). The BLS includes many interesting tables and charts, including the one displayed above.]

Now in the aftermath of the global financial crisis, quitters began resurfacing in or around 2010, and their numbers grew until the COVID happened because, obviously, you couldn't quit a job you weren't going to in order to take on a job someone else wasn't going to either. But as the economy rebounded from the pandemic quits reached an all-time high early in 2022 in what has been named "The Great Resignation". On the other hand, layoffs and other employment discharges fell before leveling out for a few years. As you will recall, layoffs and discharges skyrocketed because of the pandemic but are now making their way back to pre-pandemic levels.

To review: job openings did not really change much, neither did the number of people being laid off or involuntarily relieved from their working duties. Only the number of people telling their bosses to "take a hike" either rolled over slightly or resulted in workers begrudgingly saying "Alright, alright I'll come in 4 (or 5) days a week now". In our view, these results are entirely consistent with 2024 starting off the way it did in stocks which is to say lower. Late in 2023, it was almost universally accepted by market observers that the Fed and other central banks would begin cutting rates sooner rather than later in 2024. And there were a wide range of theories on why this would be the case. In Canada, a mountain of mortgages teeter on the precipice of refinancing to rates unaffordable to hundreds of thousands of borrowers. In the United States, and just to be clear we do not necessarily agree with this view, it is thought that the White House may be giving the Federal Reserve directives aimed at preventing the Republican party from re-inserting a certain real estate developer back into power.

But the potential for a policy mishap is unquestionably there and in case you feel we are living "in the moment" by harping on recent JOLTs reports, have a look at the longer running unemployment rate for the United States.



[As with monetary policy, one does not need an Economics Degree to see that the average unemployment rate for the United States is just under 6%. The *current* US unemployment rate sits at 3.7% some two hundred basis points below its long-term average.]

The MacNicol Investment Team has been unequivocal about our view on inflation: we believe inflation is public enemy number one to those with capital. But out of that view and in conjunction with the data we present on pages 3, 4 and 5, we believe that the ultimate policy mistake facing investors is the mistaken belief that The Fed will even be able to engineer the most Dovish of interest rate scenarios in 2024 without control of spending and a labor market that is as reluctant to material cool as Politicians are to reign in spending.

Watershed moment for the King of all Cryptocurrencies…

We started this edition of *The Quarterly* with a quote from Satoshi Nakimoto, the presumed pseudonymous person, or team who developed Bitcoin, and created bitcoin's original reference implementation. The original white paper "Nakimoto" published on BITCOIN, can be found right here: https://bitcoin.org/bitcoin.pdf and it was released on October 31st, 2008. Last Wednesday, 5,550 days (over 15 years) after that seminal paper that introduced the world to BITCOIN, the U.S. Securities Commission approved the first listed exchange traded funds (ETFs) to track bitcoin, in a landmark approval for the world's largest and most pivotal cryptocurrency. The broader crypto industry is something we are aware of here at MacNicol & Associates Asset Management. Our Investment Team has had two stints as crypto investors, sort of. Back in 2017, we made an investment in Alex Tapscott's blockchain start-up NextBlock Global[1]. Alex's dad Don was a big deal to us and to most: Don was awarded the Order of Canada in 2015 and has a wall full of degrees both honorary and the kind you get through brute force and merit. Alex on the other hand could have been a lot more careful. Tapscott junior settled with the Ontario Securities Commission over misleading statements to potential investors, with Tapscott paying $300,000 in fines personally and NextBlock paying $700,000 in fines plus another $100,000 to cover costs of the investigation into making false representations in a slide deck for potential investors. The deck wrongly said four people in the blockchain industry had agreed to be company advisors. Of course, that was news to Kathryn Haun, a board member of Coinbase, Vinny Lingham, CEO of Civic and shark on South Africa's Shark Tank, Dmitry Buterin, founder of BlockGeeks and the father of Ethereum creator Vitalik Buterin, and Karen Gifford, a special advisor for global regulatory affairs at Ripple who according to an article by Forbes magazine agreed to do no such advisory work.

[1] Even today the connection between BITCOIN and the Blockchain can be baffling, bewildering, and obscure to many consumers, businesses, and investors. Bitcoin is a decentralized digital currency (**decentralized** means "de-banked" or "government-free" money, which is NOT physically issued by a Central Bank or Government), often referred to as a "cryptocurrency". It exists on a decentralized network of computers, often called a blockchain, that keeps track of all transactions made using the currency through cryptography. Cryptography is the process of hiding or coding information ostensibly via computer so that only the person a transaction was intended for can consummate it.

There is no question about it, Alex could have been more careful. But what happened is a long way from malice intent or fraud, and Tapscott's true colors were on display after the fact. Alex Tapscott returned the initial investment to debenture holders — $20 million — plus an additional $28 million ***in profit*** from the investments. He also voluntarily declined the carried interest, or his share of the profits, that would have totaled $3 million. Imagine Sam Bankman-Fried, Do Kwon or Alex Mashinsky volunteering something like that? In any event, the experience left us shaken but not stirred. It also prompted us to study cryptocurrencies in greater detail and to remind us that, perhaps more than anything else, we are in the professional skepticism business. Bottom line, we made money and got out before crypto-crash No. 1 even happened. A year later, we were investors in Fred Pye's digital asset manager, 3iQ Digital Holdings. 3iQ remains an active portfolio company in the Emergence Fund. There is a deal in play that we are not at liberty to discuss though it will be a double if it closes.

Mainstream

Prior to the SECs approval, anyone wanting to own BTC would have to have a digital "wallet" or open an account at a crypto trading platform like Coinbase or Binance. Cryptocurrency proponents note that the development will "zap" BTC and other applications into the mainstream, and when you think about it, the inclusion of any asset, any asset, in an investment vehicle has been going on for decades. An ETF is an easy way to invest in something without having to directly buy the something you feel you need. The iShares MSCI Mexico ETF (EWW) allows anyone to invest in an index of Mexican stocks without having to be an expert on any particular company or sector of the Mexican stock market. ETFs can also be easily traded on stock exchanges. Although ease and logistics can make for appealing investment options, our study of any investments in the broader crypto industry have really been defined by credibility or perceived credibility. People will always try something new when they know it is legal and regulated (i.e. how many of you have tried cannabis products since, but not prior to, legalization?). After nearly 24 months of back and forth that has seen the price of BTC and other applications oscillate wildly along with the fame, infamy and fortune of many crypto businesses, the SEC's announcement will come as good news to many investors in the crypto market. Those in the know were expecting a greenlight for some time.

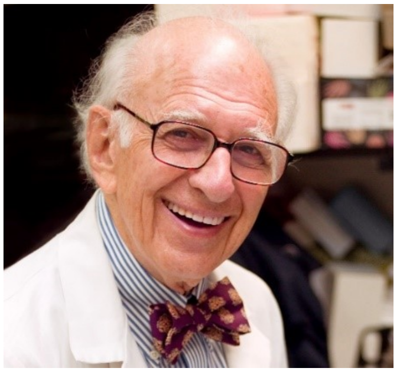
SEC Chairman Gary Gensler doubles over as a professor (and evidently a cartoon character) of global economics and management at the MIT Sloan School of Management, where he teaches courses on blockchain technology, digital currencies, financial innovation, and public policy. The + 70% movement in BTC since October of 2022 was driven by presumed regulatory approval and crypto investors who (correctly) speculated that the broad use of BTC in funds would drive up demand. BTCs price had sunk as low as $16,000 (CAD $23,000) in November 2022 after the bankruptcy of the crypto exchange FTX. With the official go ahead, large US banks have opined on target prices for cryptos most prized application.

Standard Chartered for example said the ETFs could draw in $50-to-$100 billion this year and possibly drive up the price of BTC to $100,000. To be sure, there is a lot of excitement over the approval, as there should be, but we would caution you to manage your own expectations as to inflows by jotting down the lower end of Standard Charter's range, as well as those of other banks who suddenly put out highly optimistic price targets. BTCs use large, regulated funds, however, may help stabilize crypto prices by broadening their use and potential audience. But that audience will also have to be careful, since an investment in cryptocurrencies, the funds that hold them or even the manufacturers that produce the funds themselves is not for everyone. What is more, BTCs vault from the depths of the cryptowinter to SEC approval could have follow-on impacts on other applications. The price of Ethereum, the second-most popular cryptocurrency, has also risen on the expectation that managers will create ETFs around it too.

At the end of the day, the MacNicol Investment Team has made money by dabbling in the cryptocurrency space. But our forays into a world of currencies that do not actually exist have been defined by stress and at times confusion, and that is without holding a single unit of BTC or Ether. If you take time to read Gary Gensler's message on the SEC website, you will come away from it feeling as though the United States has liberated a small part of its financial system. But similarly, there is a palpable sense of worry on the part of Gensler and his colleagues who fear that all might not necessarily be well when it comes to BTCs act on its biggest stage yet. For our part, we will continue to review the space and make select "scaredy cat" investments that eventually will make some money but not before one heck of a digital roller coaster ride.

Behavioral Investing: like a *slug* to your chest…

Nobel Prize winning scientist Eric Kandel made groundbreaking discoveries into the way memories are formed and stored by cells in the 1970s and 1980s. Kandel is *the* guy who advanced our understanding of how cells called neurons and molecules with funny names could be tied to feelings and in the world of neuroscience he is a giant. Several neurophysiology textbooks the University of Toronto uses in its undergraduate and graduate programs have Kandel's name stamped on the front cover.



Kandel knew that the *human* brain was a complex jumbled up mess of "wires" called neurons that resembled our used computer parts bin here at the firm. Old laptop cables, telephone lines, charger cables of half a dozen varieties, they are all there squished together in a gigantic ball of chaos that would take an entire day to untangle, and that truly does resemble a human brain.

For this reason, Kandel, like other neuroscientists, concentrated his studies on Aplysia. Aplysia is a sea slug that grows to be about a foot long and which has around 20,000 neurons (versus 100 billion for the human brain). So Aplysia are the perfect lab animals for brain researchers hoping to isolate a crucial connection between a cell or molecule, and a memory or feeling. In one of Kandel's experiments, he conditioned Aplysia to release a toxic cloud of chemical deterrents like how it normally would under predation but instead with certain signals that did not actually involve Aplysia being killed and eaten.

[This is Aplysia releasing a toxic cloud of chemicals.]

The experiment allowed Kandel to examine the physiological and chemical changes of Aplysia's neurons to its behavior and in so doing augment his understanding around how memories are made. Last month, we talked about how outrageously violent video extraordinaire Grand Theft Auto's 6th iteration was officially confirmed through the release of a now viral trailer from developer Rock Star games, and how the game's penchant for crime, violence and sleaze would very likely make shares Take Two Interactive Software (Rock Stars owner) that much more sought after as additional details and trailers get released. The first GTA6 trailer, media coverage and hopefully our article triggered memories in human brains of the whole slug-to-your-chest world of gaming that clearly returned to its own toxic ways. Grand Theft Auto 5 (GTA6's predecessor and one of the most widely regarded video games ever and by far the best selling) and Grand Theft Auto Online experienced a significant surge in player activity since the release of the first trailer of GTA6 on Dec 4th. Based on data collected from a group called Steam, player activity in GTA's sketchy but totally fictional criminal underworld increased by 50% even though Take-Two **has not provided a precise release date** for GTA6.

The message is quite simple: you might not like video games, and you certainly might not like violent video games but if just one trailer could trigger memories of the joy of no-consequences-attached criminality, then perhaps it is time you consider thinking about video games and the people who enjoy them differently. Remember, the profits you make in a video game are fake, the ones you make in a portfolio are real.

The MacNicol Investment Team

Firm Wide News:

MacNicol & Associates Asset Management is issuing a friendly reminder that the 2023 RRSP contribution deadline actually falls on **February 29th of 2024**. The maximum deduction limit for 2023 RRSP room is $30,780 which would require earned income of approximately $170,000 in 2022, or the carrying forward of previous year's unused contribution room. Please reach out to us to ensure you are getting the maximum benefit from your RRSPs.

MAAM would also like to point out that with the transition to 2024 you are now able to add $7,000 to your TFSA (Tax Free Savings Account) plus any withdrawals made in the previous year.

Finally, for families with children under the age of 18, those individuals can also make a $2,500 contribution per child to a RESP (Registered Education Savings Plan) to maximize the 20% CESG Grant of up to $500 per child.

MacNicol & Associates Asset Management is pleased to announce the expansion of its work in the area of helping charitable organizations meet their long-term investing goals". "Through a partnership with Canada Gives, MacNicol & Associates Asset Management will now manage a broader range of donor advised funds and help Canada Gives further its charitable mission".

David MacNicol, President and Portfolio Manager was quoted as saying:

"We are delighted to bring our investing expertise to the Canada Gives organization and we look forward to complimenting the very fine work they do in the area of Donor Advised Funds".