

January 2022

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.

“I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years.”

- Warren Buffet

The Numbers:

<u>Index:</u>	<u>2021:</u>	
S&P/TSX:	21.7%	
NASDAQ:	21.4%	
Dow Jones:	18.7%	
S&P500:	26.9%	
<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	0.17%	0.05%
5-Year Bond:	1.26%	1.26%
10-Year Bond:	1.43%	1.51%
30-Year Bond:	1.68%	1.91%
<u>Economic Data:</u>		
<ul style="list-style-type: none"> • US August jobs reports badly misses estimates • Crude oil lower in August but avoids hitting \$60 • Stocks globally higher in August • Canadian election in full swing, CAD/USD choppy in August and down most of the summer • Gold largely flat in August following earlier in the month declines 		

Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	35	34
P/B: Price-to-Book	4.8	3.5
P/S: Price-to-Sales	3.3	2.3
Yield: Dividend Yield	1.3%	1.9%

2021 Calendar Year Performance, by Sector: Dec 31st, 2021

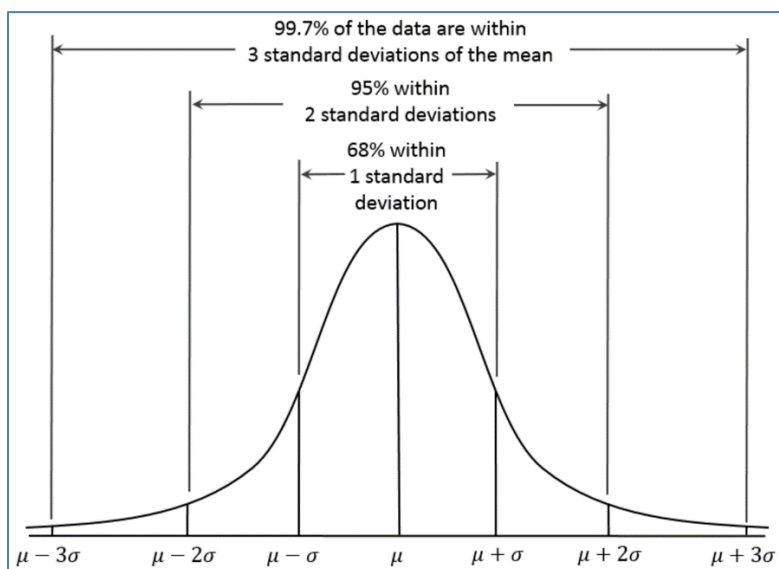
S&P/TSX Composite	21.7%
NASDAQ	21.4%
Dow Jones Industrials	18.7%
S&P 500	26.9%
Russel 2000 (Small Caps)	13.7%
MSCI EAFE	8.8%
Crude Oil Spot (WTI)	55.8%
Gold Bullion (\$US/Troy Ounce)	-4.0%
SOX Semi-conductor Index	39.7%
VIX Volatility Index	17.3%
Source: Canaccord Genuity Capital Markets & Thomson Reuters	

Foreign Exchange - FX

As of March 9 , 2021 1:00 PM	\$	5,000	Cdn		
<u>Banks</u>	Rate		<u>Buy USD</u>	<u>Cost</u>	<u>% Difference from Spot Rate</u>
CIBC	No Public Rate Posted Online				
Interactive Brokers		1.2648	\$ 3,953	\$ (1)	0.0%
Laurentian Bank	No Public Rate Posted Online				
National Bank		1.2775	\$ 3,914	\$ (40)	-1.0%
Raymond James		1.2800	\$ 3,906	\$ (48)	-1.2%
Royal Bank		1.2904	\$ 3,875	\$ (79)	-2.0%
Scotia		1.2955	\$ 3,860	\$ (94)	-2.4%
TD		1.3002	\$ 3,846	\$ (108)	-2.8%
Canadian Snowbird		1.2775	\$ 3,914	\$ (40)	-1.0%
Spot Rate		1.2646	\$ 3,954	\$ -	0.0%

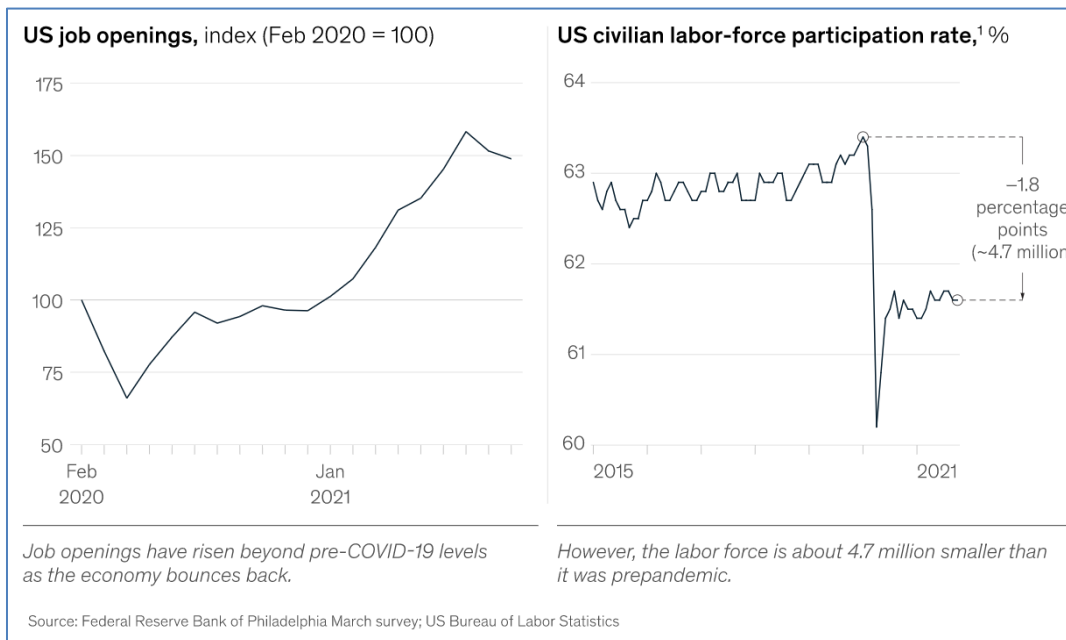
Approximately normal...

Happy New Year! I truly hope you had the opportunity to enjoy some quality time with friends and family this holiday season and whether it was virtual or in person I do hope you are keeping safe and staying healthy. I thought I would start 2022 off for us with a refresher lesson in statistics. The **Central Limit Theorem** states that if you have a population with a mean μ and a standard deviation σ and take sufficiently large random samples from the population itself, then the distribution of the samples you've plucked will be approximately normally distributed.



[Greek letters are common in statistics and the term “normal” means that if you plot your results on a graph, the graph would approximate the shape of a bell curve: some of us exercised too much over the holidays, some of us didn’t exercise enough...but on average the majority of us exercised the *approximate* right amount.]

In many ways, 2021 was *approximately* a normal year in financial markets but that only applies because 2020 was such an outlier. Speaking into a computer monitor is (now) about as intimate a setting as many of us are likely to get and just as many editions of *The Quarterly* have by this point been drafted on a kitchen table in an office in downtown Toronto. Yet, when our investment team looks back at 2021, we are hard pressed not to ignore the extent to which many of the same trends observed in 2020 such as rising inflationary pressures, excess valuations and geopolitical risk carried over into 2021. Fixed income investments were weaker in 2021 and this is still another trend we see continuing in 2022. Well-choreographed reductions in Central Bank bond buying programs pushed nominal interest rates and a reduced money supply drove the prices of many commodities to record highs. Industrial metals such as Aluminum and Copper were higher by 41.1% and 25.6% during 2021 and more specialized metals, like Cobalt, were higher by well over 100% during the same time. Energy prices were also higher in 2021 with crude priced at various global hubs up 51-55% and more refined fuels like diesel and jet fuel higher by nearly 60%. Agricultural commodities along with fertilizers and textile-based commodities like Cotton were all significantly higher in 2021. Nagging injuries in global supply chains, which began with global trade wars and got aggravated by COVID lock downs and labor market shortages only made the problems worse.



[Jobs are available but not everyone can pilot a commercial aircraft or downshift a “big rig” and this dislocation has caused labor demand to exceed supply in many segments of the economy with the resulting impact on private sector being a near doubling in nominal wage growth compared to its “normal” pre-COVID pace. A contraction in the labor force and ongoing COVID and supply chain problems means prices are on the rise.]

Despite the continuation of many of the trends we observed in 2020 during the past year, the dawn of 2021 did mark a period of change. For instance, during 2021 more investors chose to turn to social media for ideas on where to invest. Social media worked well for sharing and for collaborating and online investment website have of course been in existence for years. Social media’s wider and more interactive interface was a natural fit to rapidly changing financial markets. Before too long, the social media accounts of certain users became much more popular than others, achieving what is termed “influencer” status. “Experts” in the field of investing were soon judged by the relative size of their social media “footprint” rather than by experience or accreditations.

The combination of more investors furloughed at home and the dramatic rise in popularity of investment social media caused many to invest in high growth companies with barely a lick of earnings. More brazen were social media influencers who were indeed closely connected to publicly traded companies and whom used their official corporate vantage points in conjunction with their social media accounts to blend together a very opaque version of mosaic theory¹ through a technique of “reverse” scuttlebutt² whereby pieces of information that *alluded* to the release or material non-public information about a company were gradually dripped to other social media users on the same network enticing them to buy the stock with their own investment capital. While this happened, the influencers were frequently vacating their own personal holdings of the stock or exercising warrants to obtain shares in the company at a highly competitive prices and then flooding the market with sales once the shares were registered. This technique is known as a “pump and dump”. More brazen still were influencers who ganged up with other influencers to create short squeezes – a process where shares of a company widely held by short sellers begins to climb unexpectedly [unless you were on the right social network that is]. The condition plays out as a significant measure of the short sellers coincidentally decide to cut losses and exit their positions. The strategy was perceived as democratizing the world of investing by placing smaller, retail investors on a pari passu with established investors like Hedge Funds in New York and Greenwich Connecticut. Sadly, many retail investors were hurt and we fear the worst may be yet to come.

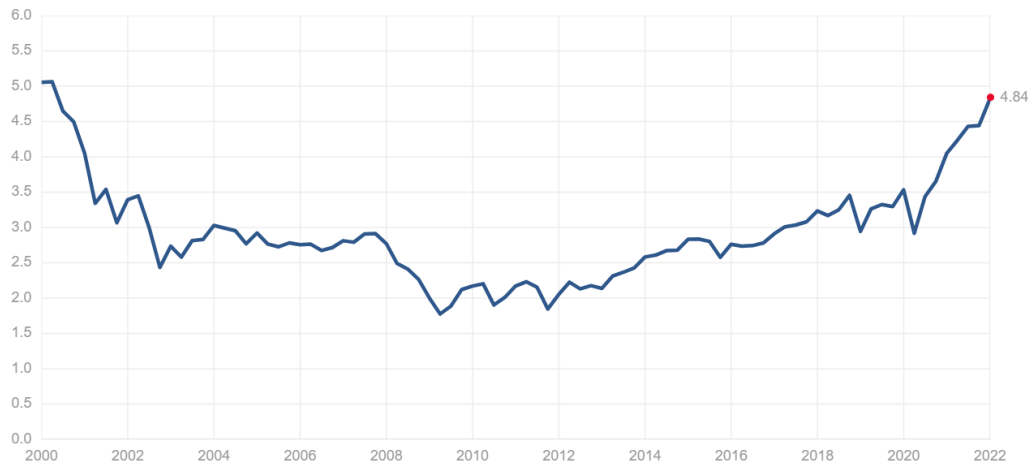


[Billionaire Hedge Fund Manager David Tepper warns people that it didn't end well in 1999 either.]

2021 also saw a change in the way political agendas or cultural divisions impacted investing. We saw ESG (which stands for Environmental, Social, and Governance) in a whole new light with our webinar on how it impacts commercial real estate investment. And in general, we saw 2021 as a year in which many of the longer-term secular trends that were already in place rolled-forward by an anecdotal number of years...say 5. But for many years, sociological and economic patterns have been due for a re-rating. Gargantuan global debt levels, generally poor job satisfaction levels and bruised environmental relations are each linked in their own way to inflationary pressures. Yet financial markets looked past many of these issues. Our own Senior Portfolio Manager, Ross Healy, notes in his upcoming book that not only is the S&P500 index now well over 4x its own book value but that the last time it was this high, the index crashed for over 18-months and then did little more than go sideways for four years.

1. Mosaic Theory is an approach to financial security analysis that involves the analysis of a variety of resources, including public and non-public material and non-material information, to determine the underlying value of a security.
2. The scuttlebutt method makes conclusions about a company by piecing information together using firsthand knowledge from discussions with employees, competitors and industry experts. Both the mosaic theory and the scuttlebutt method gather small pieces of non-material information and add them together to form

a material conclusion.



[We always include the Price-to-Book value ratio in every edition of *The Quarterly*, but we only look back a year, hardly the right perspective with which to view equity valuations.]

We are beginning to see a market that is exhibiting more definitive late-stage dynamics. While this does not prove there will be an imminent 2022 stock market crash or recession, we feel that the simple shift in the market's regime from one driven by the momentum of cheap money to a more methodical one will catch many investors looking the wrong way and experience *below* average returns. Of course, we aren't statistics Professors here at MacNicol & Associates Asset Management, but one thing we do know is this: if we took a simple random sample of *our* investors, we know that some would hold more equities, others more cash and still others more alternative assets but on average, each of these investors would be well positioned for whatever lies ahead thanks to our safe harbor approach to investing. The Central Limit Theorem allows one to make approximations about the world using the Laws of mathematics and we accept that; we just don't want you to think that to us you are just another statistic.

The MacNicol Investment Team

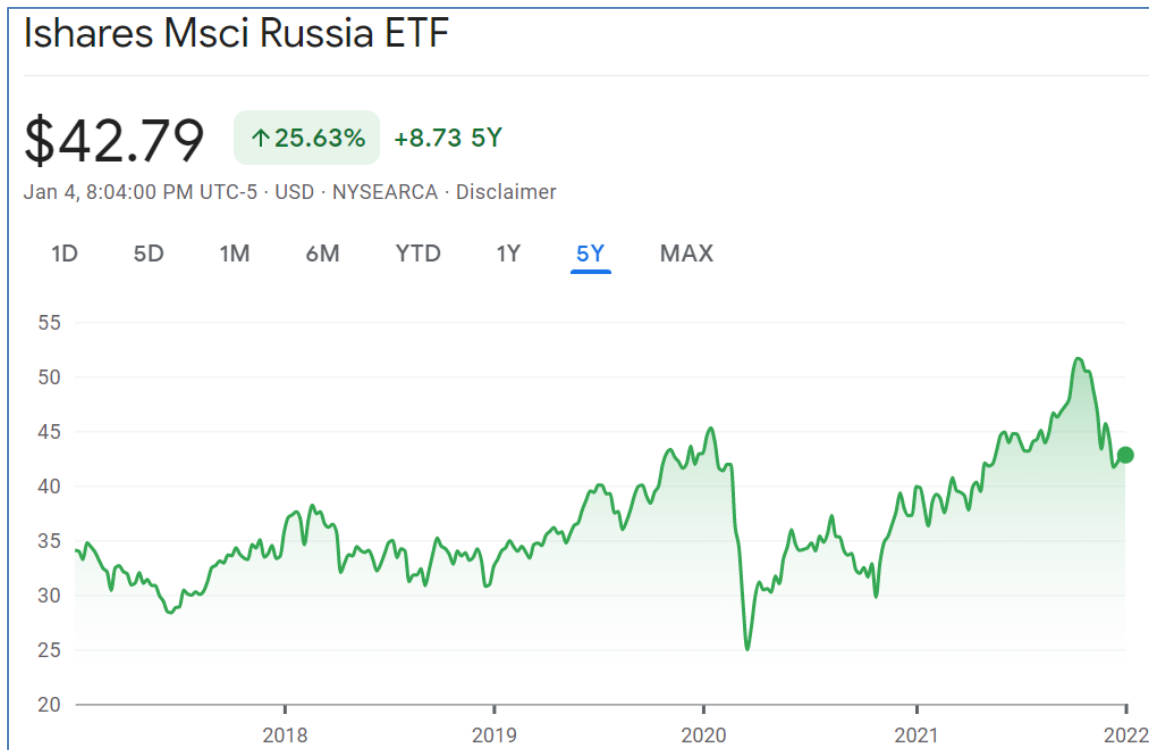
Oh, those Russians!



I'll be honest. I never truly appreciated just how big Alexander Ovechkin was. The most prolific goal scorer of the 21st century likes to joke that he weighs "260 pounds...same as always". 260 pounds is of course a joke since it would make Ovechkin one of the biggest NHL players ever. Ovechkin's real-world competitive weight is probably somewhere in the mid-230s, still a rarified weight for such a rarified goal scorer.

The Russian hockey legend also stands 6 feet 3 inches, which means he is bigger than Connor McDavid and the fellow from Brantford who has scored more than anyone else ever and who reigned terror every time he and his team from Edmonton came to Toronto in the 80s. The only comparably sized scoring “machine” I can think of was Mario Lemieux, but Mats Sundin is obviously right there too. Russian hockey players, just like Russian Politicians have always possessed that unique trio of traits [size, speed and skill] that coaches love, opponents fear and investors just can’t resist.

Vladimir Putin, in addition to being one of Europe’s longest serving leaders, has been known to carve up the ice from time to time in his own right. Of course, falling down as he waves to the crowd does little to preserve the KGB “tough guy” image. Still, one cannot help but be impressed by a sixty-six year old that can score six (6) goals on any given night. We have never taken Russian people, politicians or hockey players lightly at this firm. But we have also held off on being partnering up with our “comrades” to the east when it comes to investing.



[Russian stocks have done okay over the past 5-years, and they climbed out of COVID surprisingly well. But so have many markets. Recent months haven’t been so good.]

Russian stocks have fared well in a post COVID world, but most cyclical markets have also done well. Canada has tons of cyclical value stocks in the resources space many of which are attractively priced. Canadian Portfolio Managers do not need to look too far to find an energy company or a company with mining operations. And while looking at Russian stocks from time-to-time is something we all do; one cannot help but feel that making an investment in this market would be a lot like Bill Browder’s novel *Red Notice*.



[Russia has been bulking up its military to the point where they no longer need an invitation to send troops to numerous “hot points” around the world, and this has created if nothing else tension.]

With Russian stocks down, and American stocks are up the die-hard capitalists among us would say this clearly proves the inescapable superiority of democracy over communism. It may, but only in the short term. We feel it proves that Western investors have placed an awful lot of faith in negotiations between Mr. Putin and Mr. Biden ending extremely well. The Russians and the Americans aren't at War. They never (really) have. Around World War 1, American troops (under British command) did invade Russia during that nation's own civil war, and cold or proxy wars have been “fought” previously. But the fact is Russians and Americans were more like two opposing hockey enforcers just “eyeing” each other on the ice. Modern superpowers of course do not stoop to the level of lesser powers and engage in wars. Instead, they insert their troops into smaller countries adjacent to either lineal enemies or nations who consort with lineal enemies. And thus, the performance of Russian stocks are something of a proxy of their own.

It could be argued that Russian equities exhibit weak technicals by chart followers and those observing trends. But the fundamental composition of Russian stocks is really quite good. 41% of the Moscow Stock Market Index is comprised of energy companies, and we have already mentioned how well the energy space has performed. A fifth of the Russian market is materials companies, which we think more investors (mainly Americans) will consider. Just not from the Russians...

A stellar outcome between the Russians and the Americans is by no means assured. President Putin insists that treaties between his country and other NATO members be written. The Americans and allies in Europe of course prefer “on going” dialogues that perhaps do not take into consideration the seriousness of Russia's demands which go back as far as February 1990 when America agreed not to advance one-inch eastwards. The American's have left Afghanistan however NATO's buildup of forces and equipment not only in Ukraine but in other countries bordering on Russia has reached levels that threaten Russia's security. Russia's military build-up supposedly along the Ukraine border, its diplomatically “cozy” relationship with China and dealings with Iran in which the two supported the Syrian government of Basher al-Asad.

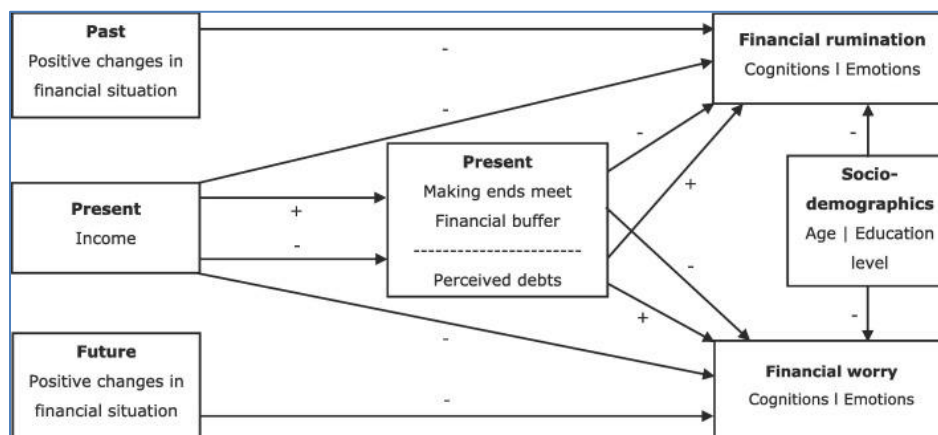
The Americans are engaged in their own talks with Iran – and I wouldn't call those talks constructive. With China, the Americans need to be careful. America's biggest threat isn't COVID or domestic social issues around justice and equity even though they are indeed problems in their own right. Instead, the concern should be Russian and Chinese partnerships that threaten to displace the US dollar's status as the world's reserve currency. China's economy, Russia's increasing military visibility and the plentiful aggregate gold reserves the two have mean that reluctantly accepting transactions in US dollars is not always necessary. If you think Saudi oil executives would turn down large scale oil purchases by the Chinese, should they opt to pay in Yuan, you'd be wrong. But in constantly moving troops and equipment to countries bordering on Russia the Americans risk Russia deploying their forces closer to America's shores and within Eurasia to get the real attention of NATO. Such an outcome will prove costly for global equity and commodity markets and perhaps Russian investors have simply figured this out first. If stocks Russian stocks could talk, I imagine they might tell me the following:

“Comrade...Alexander Ovechkin is a bigger and better hockey player than you could ever imagine, and your lack of appreciation is nothing more than Western ignorance”. “And President Putin has been in power a long time, but he is beginning to lose his patience, we care not for American money or American stocks, now go back to Toronto where you belong”.

The MacNicol Investment Team

Investment rumination

Post-holiday depression is something many people struggle with, and it tends to reach an apex shortly after New Year's Eve. Sometimes known as the “holiday blues”, the National Alliance on Mental Illness indicates that those with existing depression are particularly vulnerable to challenges during this time. And beyond the sobering reality of self-imposed resolutions like weight loss, smoking cessation finances are a frequent trigger for the worry and rumination that can lead a person to feeling lousy. Significant segments of the population in developed countries worry and ruminate about their finances **all the time** with serious psychological consequences such as lower feelings of well-being and impaired decision making. Luckily, two University of Wageningen Professors Gerrit Antonides and Ernst-Jan de Bruin investigated the antecedents of financial worry and rumination in their 2020 paper *Determinants of Financial Worry and Rumination*, which was published in the Journal of Economic Psychology.



[Gerrit Antonides and Ernst-Jan de Bruin, in their 2020 paper *Determinates of Financial Worry and Rumination*, demonstrate how working hard, investing wisely and paying off one's debts are truly the best ways of dealing with financial worries.]

Professors Antonides and De Bruin used confirmatory factor analysis to demonstrate that: income, past positive changes in one's finances, financial buffers, and age can better help one cope with financial worry and the rumination that can be more common after the holidays. Antonides and De Bruin's work into financial worry does not conclude that you'll **never** worry about money if you work hard, invest wisely and pay down your debts. But it does confirm that when such episodes do occur you will be better equipped to manage them in a constructive way. As an Independent Asset Manager, we feel uniquely qualified to help you with your investments in a constructive way, often by simply helping you sort through the statements you receive from another manager or bank. Our strength in applying a disciplined process that inspires confidence before and after the holidays, or any other time of year, is backed by a team that is absolutely dedicated towards supporting your investment goals.

Sometimes just talking to us or attending one of our webinars can put your mind at ease so log into our website www.macnicolasset.com or call us today at (416) 367-3040.

Firm Wide News & Planning

MacNicol & Associates is pleased to provide a brief reminder of key planning topics now that we are into a new calendar year:

Please be advised that the RRSP deadline this year which falls on **March 1st**, which means that you have until this date to contribute up to the maximum 2021 RRSP limit of CAD \$27,830 provided you have the required contribution room. Please also note that this level of contribution would require earned income of \$154,611 during 2020. Please be in touch with Edward or Naima at (416) 367-3040 should you want to fund your RRSP prior to the March 1st, 2022, deadline. For Incorporated clients and physicians, this is less relevant as many have chosen to optimize deposits to your corporate portfolios instead of into an RRSP for potentially greater flexibility in the amount and timing of withdrawals in retirement.

Beginning this year, [i.e., 2022] the RRSP **maximum** contribution limit will be changed to \$29,210 and you can establish a monthly RRSP deposit program equal to \$2,434.16 per month in order to obtain maximum tax deduction value next year.

Also in the new calendar year, clients are also able to add \$6,000 to their TFSAs (**plus** any withdrawals made in a previous year) and again you can speak with Edward or Naima if you would like help with this or if you would like to fund your TFSA with a transfer of a non-registered portfolio from another institution or bank.