

December 2024

## 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.

*"I think you only really feel like an outsider if you've been an insider".*

Sade Adu

The Numbers:

<u>Index:</u>	<u>2024 YTD:</u>	
S&P/TSX:	22.4%	
NASDAQ:	28.0%	
Dow Jones:	19.2%	
S&P500:	26.5%	
<u>Interest Rates:</u>	<u>Canada</u>	<u>USA</u>
90-Day T-Bill:	3.3%	4.4%
5-Year Bond:	2.8%	4.1%
10-Year Bond:	3.0%	4.2%
30-Year Bond:	3.27%	4.4%
<u>Economic Data:</u>		
<ul style="list-style-type: none"> <li>Stocks outside of France, Italy, Japan and India higher during November</li> <li>Commodities mixed with energy and lumber higher and metals lower</li> <li>BTC higher by 33% in November alone</li> <li>Bank of Canada cuts rates in what is thought to be the final rate cut of 2024</li> <li>November US non-farm payroll figures suggest, but do not guarantee, a final cut to the Fed Funds rate in December</li> </ul>		

### Valuation Measures: S&P 500 Index

<u>Valuation Measure</u>	<u>Latest</u>	<u>1-year ago</u>
P/E: Price-to-Earnings	31	25
P/B: Price-to-Book	5.3	4.4
P/S: Price-to-Sales	3.2	2.7
Yield: Dividend Yield	1.2%	1.5%

### 2024 Calendar Year by Sector: November 30<sup>th</sup>, 2024

S&P/TSX Composite	22.4%
NASDAQ	28.0%
Dow Jones Industrials	19.2%
S&P 500	26.5%
Russel 2000 (Small Caps)	0.28%
MSCI ACWI ex. USA	1.60%
Crude Oil Spot (WTI)	3.8%
Gold Bullion (\$US/Troy Ounce)	22.1%
SOX Semiconductor Index	-5.08%
VIX Volatility Index	-24.9%
Source: Canaccord Genuity Capital Markets & Thomson Reuters	

## **Foreign Exchange - FX**

As of December 23, 2024, 10:00 am est	\$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.448	\$3,453	\$(13)	-0.4%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.4770	\$3,385	\$(81)	-2.4%
Raymond James	1.4580	\$3,429	\$(37)	-1.1%
Royal Bank	1.4685	\$3,405	\$(61)	-1.8%
Scotia	1.4719	\$3,397	\$(69)	-2.0%
TD	1.4676	\$3,407	\$(59)	-1.7%
Canadian Snowbird	1.4173	\$3,528	\$62	1.7%

## ***A token of wisdom...***

We recently caught up with RealVision boss Raoul Paul. Raoul is a bit of a crypto wizard and, as we discovered, he is also quite aware of the state of the world around him. For those reasons, when Raoul suggested that the incoming Trump administration was unequivocally bullish for things like BITCOIN, the blockchain and tokenization, we took detailed notes and then did some digging of our own. As more assets like homes and businesses, trademarks and various forms of artistic content become tokenized on the blockchain the investment implications for a patented approach towards things like digital wallets, digital asset exchanges, remittance and payment providers and government services become clear. Less clear in our opinion is whether the incoming Trump administration's pedal-to-the-floor has already been priced in.

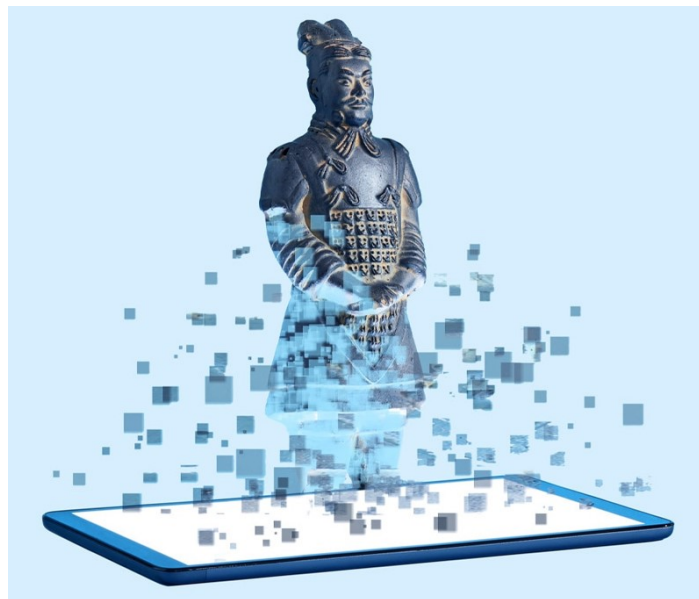


[Outgoing US Securities and Exchange Commission Chair Gary Gensler (right) was viewed as a crypto-unfriendly regulator. Surprisingly, Gensler taught a blockchain course at the Massachusetts Institute of Technology, and there was never really any question as to where he stood on digital currencies. But Paul Atkins (left) is viewed not just as a “friend” of the space but an advocate for it.]

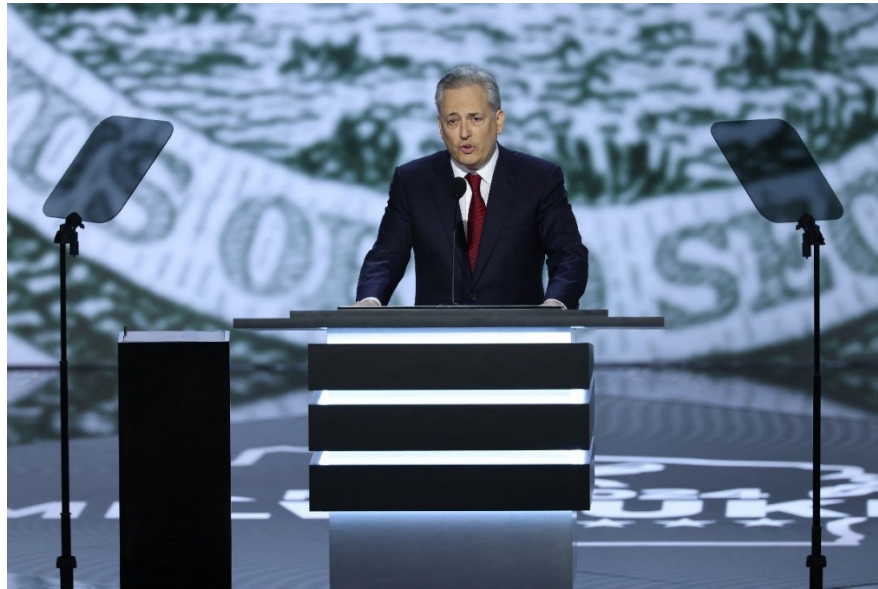
Trump named Paul Atkins, who is viewed as an advocate of looser regulation of digital assets, as his pick to lead the US Securities and Exchange Commission. In an announcement on Truth Social, Trump described Atkins, the

CEO of Patomak Partners, as a “proven leader for common sense regulations”.






Trump also said, “He believes in the promise of robust, innovative capital markets that are responsive to the needs of investors, and that provide capital to make our economy the best in the world”. Perhaps Trump’s strongest endorsement was that America *needs* crypto to become greater than ever before. It’s hard to get your head around just how bullish this is for digital currencies, the blockchain and tokenization. Trump clearly wants America to not only dominate the global capital markets but the global market for digital commerce period. Since most of you are by now familiar with Bitcoin let us now focus on tokenization itself. We still don’t think people understand what tokenization is. Tokenization is the process of creating a digital representation of a *real* thing. Since the digital tokens represent a real thing, each have their own individual numerical character, which cannot be altered without everyone on that particular block of the blockchain knowing, tokenization can also be used to protect sensitive data or to efficiently process large amounts of data. Think of your favourite golf club, cottage property, gun, sports car or warrior statue digitally “leaping” out of your smart phone or tablet. Then think of the digital token associated with the actual golf club, cottage property, gun, sports car or warrior statue as a digital mechanism that prevents ownership of the real McCoy from being unlawfully transferred to a third party.



But tokenization not only has business use cases in protecting asset ownership. Payment tokenization is a security system that replaces sensitive payment information [for example your name and address] with a random set of numbers or characters [i.e. the token] which is a unique transfer. This process keeps payment data safe during transactions by preventing the actual client information from being accessed, used or stored. Generating specialized tokens for a bundled asset can be configured to track the bundled portfolio with a smart contract. The bundled portfolio can include one or more non-currency assets, and it is especially applicable to preventing counterfeit ticketing for sports or music events, particularly when a “group” of tickets is transferred to a new group. Product Authentication is a digital solution offering verifiable certificates of authenticity for jewelry, watches, and collectibles, enabling comprehensive tracking and transparency. This technology enhances consumer trust by providing detailed provenance and digital verification across multiple product lines. Atkins’ proposed appointment with the SEC is certainly bullish for cryptocurrencies but the fellow on the following page, David Sacks, might just be even more bullish for cryptocurrencies.



David Sacks is the former Chief Operating Officer of PayPal [PYPL-NASDAQ]. Trump wants Sacks as his new "White House A.I. & Crypto Czar," [not an official title of course] in what is widely viewed as another step towards overhauling several stale and moldy aspects of the US financial system. Trump's highly accepting stance on cryptocurrencies and the blockchain should support US tech stocks like [NVDA:NASDAQ] and [IBM:NASDAQ] but it should also re-hydrate shares in companies that are more directly involved in the sector itself such as [COIN:NASDAQ], [RIOT:NASDAQ], [HUT:NASDAQ] and [HMBL:OTC]. To ensure Trump receives proper advice, a Presidential crypto advisory council will be formed, and it will be stationed at the White House. Leadership teams from companies like Ripple, Kraken and Circle will literally be just down the hallway from the President and in position to support the 78-year-old on his quest to more fully digitize the world's largest financial system. President Biden was not a crypto friendly President. President Trump pledges to be the opposite, and the first ever Presidential advisory board dedicated strictly to crypto is quite the commitment to that pledge. What investors must realize is that America is yet not a crypto friendly country when compared to places like Germany, Hong Kong and even Canada. But how much of all this digital goodness is already priced in? Well as you can see below the world's top 5 applications have risen by between 60 and 230 percent over the past 12 months and that is quite the move for any asset class digital or actual <sup>1</sup>.

Rank	Ticker	Name	Price (\$)	Market Cap (\$M) ▼	24H Volume (\$M)	1H (%)	1D (%)	1W (%)	1M (%)	1Y (%)
1	BTC	 Bitcoin	95,811.06	1,896,455.06	131,058,435.09	-1.94	-1.76	-2.98	7.94	131.05
2	ETH	 Ethereum	3,568.68	429,829.15	134,033,416.49	-3.12	-6.42	-7.16	5.68	62.04
3	XRP	 XRP	2.04	116,778.46	112,759.58	-6.53	-14.06	-13.41	229.03	230.32
4	SOL	 Solana	208.03	99,044.66	4,846.04	-3.92	-6.92	-9.34	-6.46	203.68
5	ADA	 Cardano	0.95	34,106.41	1,296.26	-5.48	-14.30	-19.84	55.30	64.83

<sup>1</sup> Cryptocurrencies are officially considered applications because they are used through software applications called cryptocurrency wallets



and because they do not exist in reality such as the twenty dollar bill you have in your jeans right now.

We are a big fan of Raoul Paul but many layer 1 and 2 applications have moved quite a lot in a short period of time, effectively pricing in the incoming Trump administration's open-mindedness to decentralized currencies.



The big question for investors therefore is does the current sentiment in the world of digital currencies resemble the Dot.com bubble of 2000? There was ample reason for excitement among crypto investors, crypto capitalists, and pro-crypto donors who gave hundreds of millions of dollars to pro-crypto politicians ahead of November's election. Investing in Trump's victory and the defeat of some prominent crypto skeptics has already paid off. But will they continue to pay off in the future? Remember the SEC has attempted to sue numerous crypto firms, including the crypto exchange Coinbase and the digital-payment network Ripple. And the space is still reeling from the fall out of the FTX fraud and others like it.

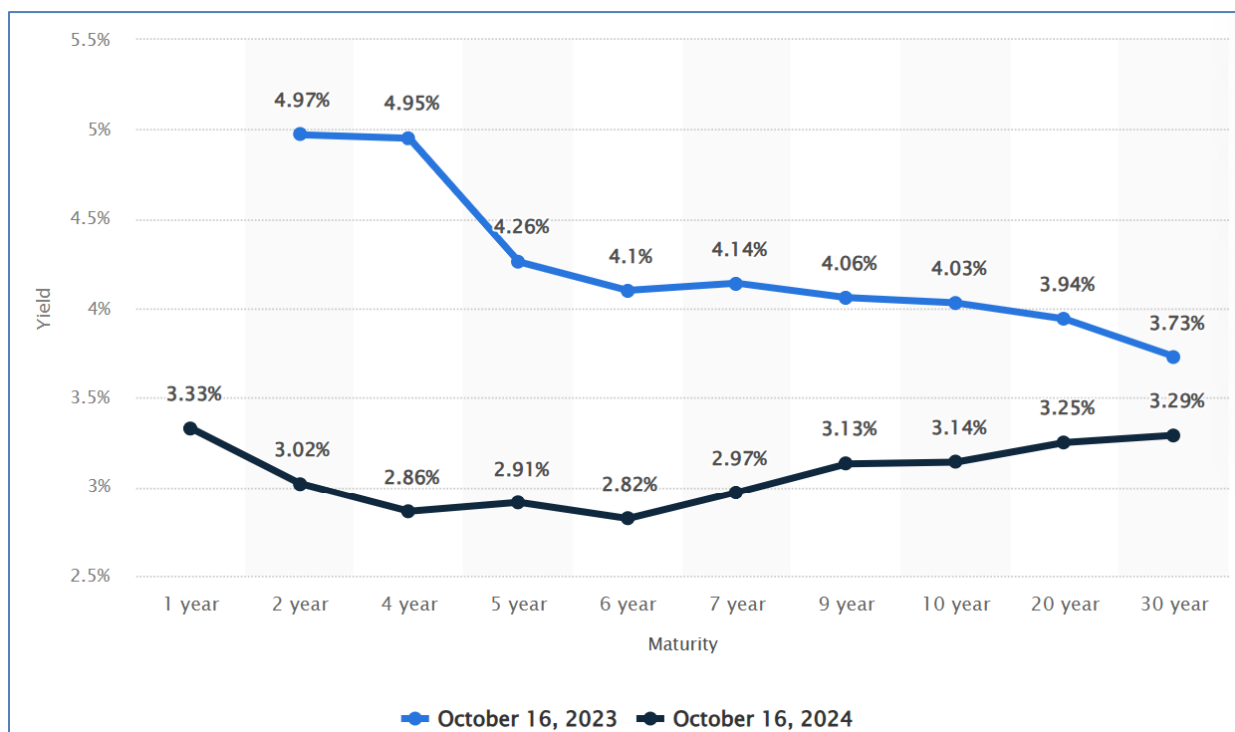


For our part here at MacNicol & Associates Asset Management we believe that it is extremely unlikely that cryptocurrencies, the blockchain and tokenization suddenly retreat or vanish. For many, there is quite simply no turning back and there are just too many transactions and tokenization events already underway. As a token of our affection, and advice, we leave you with this: as an investor you almost have to have exposure to this important part of the financial system but be careful how you do so as the volatility in digital currencies can make airline stocks look like utilities by comparison.

## The MacNicol Investment Team

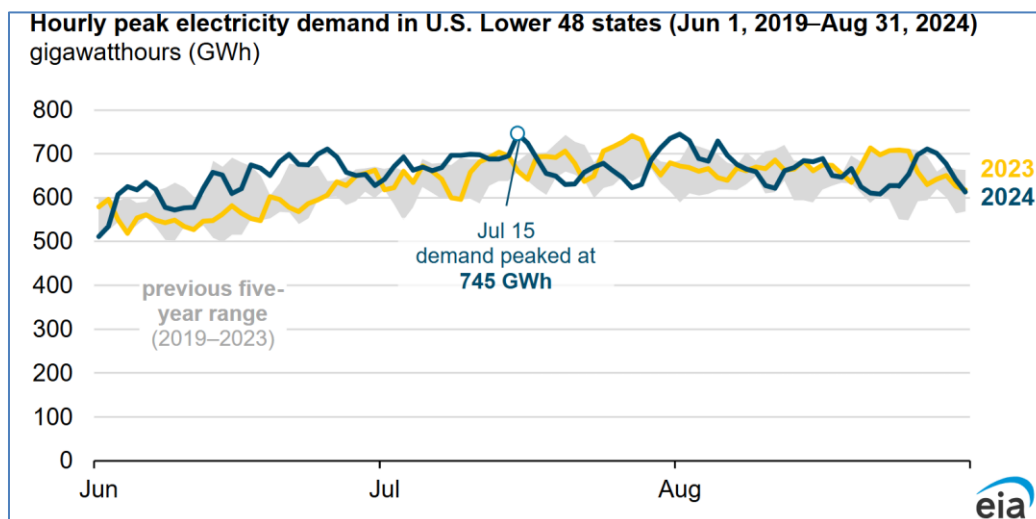
### Still magnificent?

Back in mid-November, it was hard not to notice the underperformance of the “Magnificent 7” versus the broader S&P500. That gap has since narrowed but not closed and so for direction on what the markets might have in store for investors next year, we harked back to our views this time last year. During the holiday season of 2023, we wrote that although we believed the market could soldier forward despite what was a mixed geopolitical picture as well as a mixed interest rate picture and a mixed economic picture, it could not do so alone. Boy, were we wrong about that? Since then, rates have simmered down, which is a major tailwind for stocks and, not surprisingly, the market has once again been led by growthier technology stocks. Still the participation in the market has broadened to include other sectors and stocks beyond these. This is certainly a positive for Canadian investors. Canadian stocks are undervalued mainly due to index composition. Canadian stock markets are rich with forests, minerals and energy but lack the more provocative and growthy-albeit-expensive technology stocks you can easily find in the United States. Constellation Software [CSU.TO] and Shopify [SHOP.TO] are two gigabyte rich tech names most Canadians will know, and indeed shares in both companies have helped give the S&P/TSX a more muscular, chiseled appearance. But even though all of this is true, added “oomph” that the Bank of Canada and Federal Reserve have provided by both being well into their rate easing campaigns, which has historically been a significant tailwind for stocks, is remarkable. Also remarkable is that despite the widely publicized performance of tech stocks in general, the S&P/TSX has been the clear winner in developed market equities over the last 30, 60 and 90 days. Simultaneously, the yield curve (which we cover in numerical format on page 1) continues to un-invert with optimistic expectations for future growth prospects for traditional S&P/TSX cyclicals such as consumer discretionary, energy, materials and industrials.



[Yield curve “dis-inversion” is clearly well underway. It cannot be said that the yield curve is back to “normal”, but things are improving.]

Of course, if this all feels a bit familiar, it should. Investors have traditionally rewarded clarity and smoothness with higher valuations. The transition to areas of the market that represent better value such as the banks [ex-TD], utilities and pipelines is already well underway and should continue long into 2025. However, US equities will remain a fixture in portfolios of Canadian clients for some time to come. The MacNicol Investment Team expects that tech, and AI will continue to dominate discussions involving investment strategy or allocation decisions. Also like to dominate discussions are those involving industries related to tech and AI. For instance, the sheer amount of electricity generation that will be required to power data centers over the coming years is bound to draw attention from infrastructure investors, and we haven't even mentioned electric vehicles. American power demand could grow for the first time in years after being essentially flat. While single digit growth in electrical demand may not sound all that electrifying, the gargantuan size and leviathan power needs of the United States will require billions spent on new power generation, transmission, and distribution across American States and Canadian Provinces.



[The US Energy Information Administration shows American demand for electricity did a whole lot of nothing pre-COVID and in the post pandemic years that followed.]

Conventional electrical utility providers and the makers of power equipment manufacturers, as well as uranium companies, renewable power/natural gas producers and pipeline operators will be laughing all the way to the bank. Fortunately, Canada has a wide range of investment opportunities in this sector and Canadian investors should take note. One item recently discussed at our Podcast with Shark Tank alumni Bruce Croxon was innovation and productivity – two related and extremely positive long-term tailwinds for tech and related electrical energy demand. Of course, we believe innovation and productivity will continue to be led by America however we also see Canada benefitting from this if the government introduces better policies and incentives to increase capital investments, which Croxon believes they almost must at this point. But productivity enhancements often get less attention than other economic variables (speed or lack thereof and a considerable lag are why) even if they increase long-term economic and corporate margin growth *without* creating dangerous inflationary pressures.

## Asset Mix

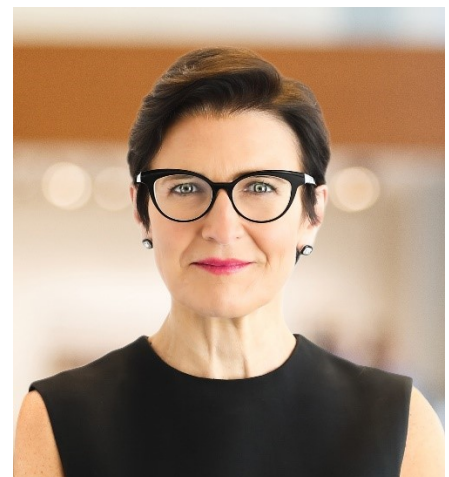
We like stocks and maintain an overweight position in equities in most client accounts. Canadian equities are in general our preferred investment not only due to more attractive valuations but because of the potential for a new government in 2025, which could improve business confidence and better commodity prospects.



As we wrote last month, President Trump's potential tariffs do indeed complicate things for Canadian [and Mexican] investors however we think what the media is reporting in terms of extremes will more likely be protracted negotiations. We also do not see material risks to Canadian financials since they are mostly domestic with large and many U.S. businesses. US investment banks also pose opportunity as the 1-2 punch of lower regulation and lower monetary tightness are likely to stoke a profitable M&A boom that was on hiatus during the Biden administration and during the period of higher rates. When it comes to Europe, we have talked about travelling there personally but we avoid the space as investors. Europe's problems are not only geopolitical. Morbidly sluggish growth and productivity problems particularly in the continent's largest economy [Germany] have made investing in Europe more of a gamble than a calculated risk. From the perspective of Emerging Markets, India is still the wisest long-term bet given its outsized growth prospects but continues to battle a longstanding corruption problem. And when it comes to China, we mentioned in detail last time at the world's largest emerging market economy by far, has interesting recovery potential given more serious stimulus and housing recovery measures from authorities but needed to be clearer about what the measures were intended to achieve, and how they would be monitored.

### Earnings & mergers...

Transitioning to earnings, we understand that earning per share estimates have risen both in Canada and the United States on a consistent basis. And Trump's proposal to cut corporate taxes by 5% will be broadly constructive to S&P500 earnings per share. Additional tax incentives for companies that produce goods in the United States will not only help America great again, but make it profitable. This could also help large Canadian companies with sizable operations and assets in America. The prospect of less regulation, especially in antitrust merger enforcement which could help provide added support to 2025 EPS estimates for the S&P 500. We were recently reminded by one of you that Citigroup Chief "hack and slash" Officer Jane Fraser recently "graduated" over 340 new Managing Directors at her company's investment banking division. More "MDs" equals more deals when the regulatory environment loosens up. Citigroup even advertised the new suits on their website in case you happen to be looking at buying out or merging with a competitor.



**[Citigroup graduated a ton of new Managing Directors and that is very good news if you are a CEO, CFO or just someone that happens to own a ton of stock in a target company.]**

So, what does all of this mean? Well to put things in perspective, we believe that although stocks have done



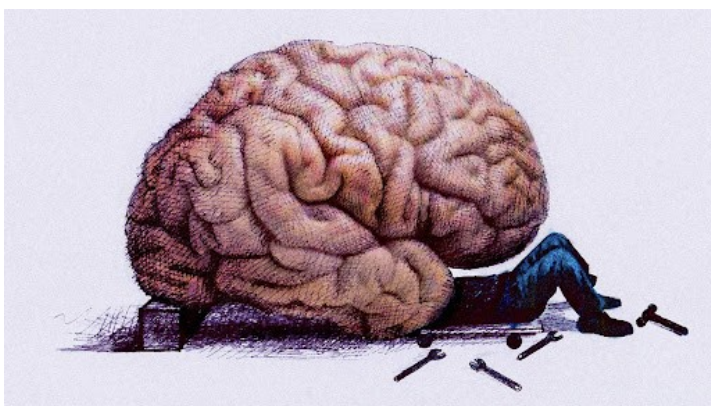
extremely well, they potentially have a way yet to go. The MacNicol Investment Team believe that the first opportunity to apply the brake pedal for the S&P/TSX will be in or around 26,300 points.

As far as our target for the broader S&P500 we feel reasonably comfortable leaving you with a figure of 6,500 points in this publication. There are indeed forecasts of 7,000 to 7,500 already in the public domain however in keeping with our safe harbour approach to investment, we prefer to speak quietly and carry a big stick.

### Speaking of that big stick...

For those of you new to our company we firstly thank you for the trust you have placed in our investment acumen and judgement. There is no higher award a Portfolio Manager can receive than the opportunity to help more investors with their investments. However, if you or someone you know is feeling concerned that too much of the euphoria has already been priced into markets, we have a solution for that. The new **MacNicol Safe Harbour Fund** has already been deployed and stands ready to provide portfolio insurance against the risks you can see and those that you can't.

**Behavioral Investing: the ability to understand something immediately, without the need for conscious reasoning, and why that ability is horrible when it comes to your portfolio.**



According to Morningstar over the past ten years the average US mutual fund delivered a return of around 7.3% for each year until the end of 2023. Unfortunately, the individual investors in those funds only earned an average of 6.3% percent during the same period.

### Nope, it's not the fees...

Fees are certainly one aspect of investing, but if you think fees are the **main** explanatory variable in the Morningstar study, you're wrong. You see fees were already considered because the team at Morningstar stripped them out to get a better understanding of *why* investors were missing out. And investors were indeed missing out and have been for years. Of course, a 1% performance gap is hard to notice. Hard to notice that is over extremely short periods of time. Losing out on a 1% performance gap, when compounded over ten years, can have a material impact on your relative wealth position. Consider \$1 million compounded annually, at 6%, over 10 years, with no money contributed to or taken from the original million dollars. At the end of 10 years, the million-dollar capital investment would have grown to \$1,790,850.

Now consider \$1 million compounded annually, this time at 7%, over 10 years, with no money contributed to or taken from the original million dollars. At the end of this 10-year period, the million-dollar capital investment

would have growth to \$1,976,150. The difference in this case is obvious: you would have \$185,300 less if you compounded your money at 6% instead of 7%.



Now this of course is the **behavioral** investing section of *The Monthly* and not the mathematics of compounding section of *The Monthly* so we thought we would dive into what the Morningstar study had to say on what individual investors were thinking when they fell short of the hurdles the very funds they were in surpassed.

For all its complexity and splendor, the human brain learns in a manner like other brains, which is to say through reinforcement. “Oreo” (my dog) obeys a command, he gets a treat. “Oreo” disobeys a command, you know the rest<sup>1</sup>. But the *main* reason that individual investors often miss out is poor timing. According to Morningstar, you would have received over a 7% yearly return, on average, if you had just bought a fund in January of 2014 and held your nose until December 2023. Of course that is not what the average investor did. The typical investor bought and sold the funds at specific times. Many investors buy a fund when it has been performing well for a while, and then sell it when its performance has just been bad. In other words: buy high, sell low. The general population’s intuition is not well adapted to financial investments. If you listen to your gut, you will always feel bad when investing. If the market goes down, you feel bad because you are losing money, so your decisions were obviously poor. And if the market goes up, you feel bad because you could have invested more, or in better stocks, so you are missing out and your decisions were also poor.

That is where working with an experienced team like ours can help. First, our separately managed account solutions and investment funds are well diversified and intended to be all-in-one holdings. They span several different asset classes and are rebalanced regularly. Second, be focused (simple) and do not allow yourself to become fooled by the latest investment product at the peak of a market cycle. Finally, don’t aim for the stars, aim for the efficient frontier. You always want to be generating attractive risk-adjusted returns not whatever returns are possible.

### The MacNicol Investment Team

The MacNicol & Associates Asset Management team wish you and your loved ones a happy and healthy holiday season. We hope you had a great 2024 and wish you all the best in 2025.