September 2021

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 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.

"*It's tough to make predictions, especially about the future*."

- Yogi Berra

The Numbers:

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Index:		**2021 YTD:**
S&P/TSX:		18.4%
NASDAQ:		17.4%
Dow Jones:		15.8%
S&P 500:		20.1%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	0.15%	0.04%
5-Year Bond:	0.82%	0.82%
10-Year Bond:	1.24%	1.38%
30-Year Bond:	1.80%	1.98%

Economic Data:

- 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

Valuation Measure	**Latest**	**1-year ago**
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: Aug 27th, 2021

S&P/TSX Composite	18.4%
NASDAQ	17.4%
Dow Jones Industrials	15.8%
S&P 500	20.1%
Russel 2000 (Small Caps)	15.3%
MSCI EAFE	9.4%
Crude Oil Spot (WTI)	42.5%
Gold Bullion ($US/Troy Ounce)	-4.8%
SOX Semi-conductor Index	22.7%
VIX Volatility Index	-28%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

Foreign Exchange - FX

As of Sept 9, 2021 11:00 AM	$ 5,000	Cdn		
Banks	Rate	**Buy USD**	**Cost**	**% Difference from Spot Rate**
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.2642	$ 3,955	$ 5	0.1%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.2784	$ 3,911	$ (39)	-1.0%
Raymond James	1.2820	$ 3,900	$ (50)	-1.3%
Royal Bank	1.2919	$ 3,870	$ (79)	-2.1%
Scotia	1.3043	$ 3,833	$ (116)	-3.0%
TD	1.3013	$ 3,842	$ (107)	-2.8%
Canadian Snowbird	1.2706	$ 3,935	$ (15)	-0.4%
Spot Rate	1.2659	$ 3,950	$ -	0.0%

Predictions, predictions…

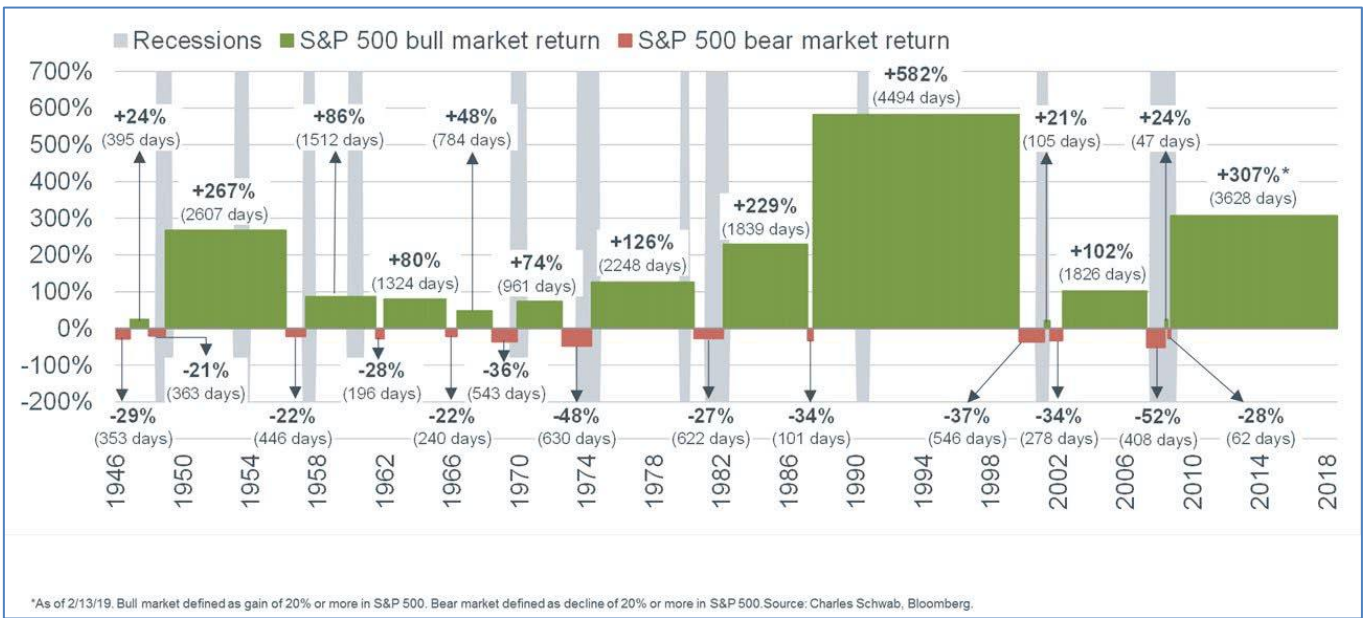
Cash, Gold and Alternative Assets are prominent holdings in MacNicol portfolios unconstrained by investor-specific limitations. Each of these three asset classes play an important part when stocks are at all-time highs. All-time highs that happen to coincide with three near-term head winds that could antagonize returns going forward. A fourth COVID wave, slowing global growth & regulatory challenges in China along with much more noticeable inflation are things investors really do not want to hear about. Despite these near-term risks, our view continues to be that certain equities offer investors superior long-term value and – depending on the sector – attractive risk/return tradeoffs.

18 months ago, the world experienced a shock and awe style recession driven by a global pandemic that swallowed large portions of the economy through government mandated closures. Financial markets reacted quickly, careening lower in a malaise that drew parallels with the dot.com bubble burst and the global financial crisis. Unlike the tech wreck or the global financial crisis, COVID 19 was a healthcare crisis that became a fiscal crisis that in turn became a monetary crisis. While quick to plunge markets were also quick to recover: it did not take the scientific community long to find a COVID 19 vaccine. Public health experts quickly devised procedures to better contain outbreaks when they happened and though fatigued, many of us are more "COVID smart" even if some still have some learning to do. Fiscal and monetary policy makers stepped in quickly, providing financial aid and liquidity as needed. And so, equities rallied and rallied strongly since March of 2020. But the question is where do we go from here? The potential headwinds the market faces are no joke but our outlook at MacNicol is cautiously optimistic thanks to robust consumer demand, low rates and highly accommodative monetary policy that continue to offer ample liquidity to families and businesses.

With more of us set to return to work and school, investor attention will shift towards portfolios and worrying about whether the markets have gotten a little bit ahead of themselves this Summer.

Bears: scary, present but a lot less common than people might suspect…

In the table below, Charles Schwab and Bloomberg offer us a historical look at full blown Bear markets.



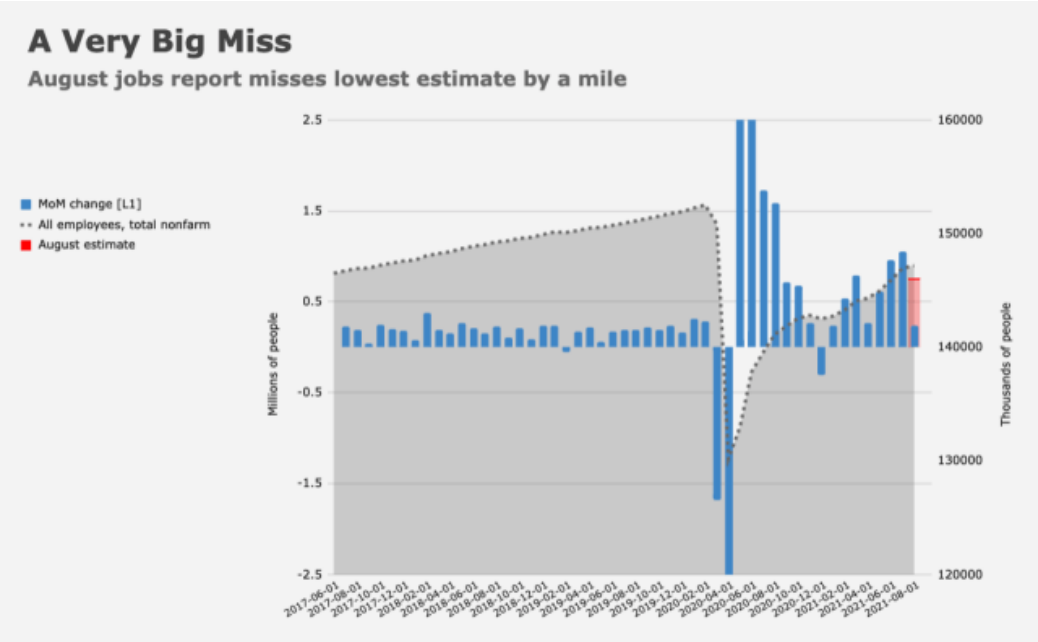
[We believe the secular bull run in equities continues but not before a brief pause, a pause but not a bear market.]

No one, ourselves included, knows exactly when the next bear market will hit nor how severe it will be. But if you accept the view that the secular bull run in stocks will continue so long as bond yields remain suppressed, then you also have to accept that the next **major** bear market is likely quite a while from now. Since the COVID collapse, we are only a year into the latest bull run, and if past history is any guide, markets have ample runway ahead of them.

Another aspect of bear markets is those most widely expected to happen rarely do. Instead, markets engage in financial dualism where those who cannot commit to a long-term investment plan due to the constant presence of short-term "noise" are doomed to suffer at the hands of inflation.

Delayed exit…

One thing we hear is that the upcoming fourth wave of COVID will lead to a recession. Most economists we have spoken with or interviewed for our business, do not contemplate a recession in the near-term even when factoring in things like the ghastly jobs report miss this August.



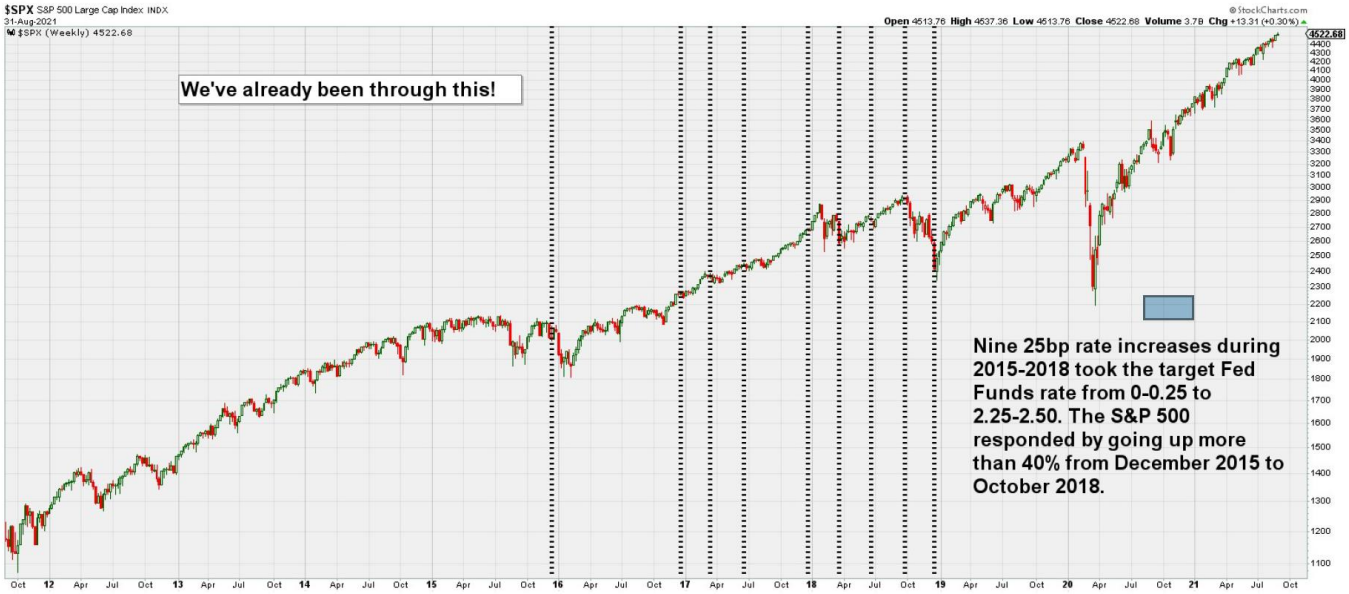
[Even by the politest of adjectives, the August jobs report was pretty bad.]

Bad news is good news again…

Consensus estimates of 725,000 jobs and a lower bound of 400,000 jobs mean the ornery labor market threw many of us for a loop this Summer. Perhaps low hanging fruit in the economy have been picked. Or perhaps August's jobs report is the "Canary in the Coal Mine". But it doesn't feel that way to us. There is a basic lack of logic around employers laying off people "just in case". No one turfs workers because there *might be* a recession [employers lay people off *as a result of* a recession not *in anticipation* of a recession] and even if companies did so, the flexibility of the Fed to adjust the pace at which is tightens the money supply allows investors to look through train wrecks like August's jobs report.

Okay but what about a tapper tantrum?

Andrew Adams, a technical analyst we follow regularly shared this chart in his most recent edition of *Charts of the Week*. Technical analysts are great friends to add to your analytical tool shelf because they look at the market visually and formulate decisions based on **what** not ***why***. Aside from the initial onset of tapering, I would not describe 2016-2018 as much of a tantrum. Tightening in 2017 and 2018 actually accelerated share price gains in stocks and made people wonder whether rate hikes in and of themselves are all that bad.



[The financial media makes it seem like the idea of Fed tapering is something new. But it isn't. As technical analyst Andrew Adams points out in the graph above, we have seen it before. The start of a tapering was a bit of a slap, but subsequent hikes actually encouraged equities.]

But should the news get worse, the Fed and company will roll out a more dovish taper schedule. In Europe, for instance, the idea that the ECB's hawkish banter is more bark than bite has helped shares of most British, French and German companies rise in 2021 and US futures have exhibited a tendency to drift higher even on news from Europe. Japanese shares extended a rally sparked not by the political departures but by the idea that liquidity courtesy of the Bank of Japan, would make the departures a bit more enjoyable. I get the sense that we could see the return of terms like "cross currents" …

[I haven't used the term "cross currents" in a while. Maybe I'll just go with?]

Asian Markets: Regulatory Risk

Regulatory grumblings in China are far from new. The latest batch of bullied bureaucracy from Beijing saw the price of after-school tutoring set at a government rate. Institutions offering courses on compulsory education will need to set standardized pricing as dictated by local governments, the National Development and Reform Commission recently said. Any price increases on top of that standard level are capped at 10%. Separately, Zhang Gong, head of the State Administration for Market Regulation, said that monopoly risks are rising thanks to the rapid integration of offline services into the virtual sphere. The "disorderly expansion of platform companies" hurts competition, undermines the interests of small companies and hurts consumers. Just for good measures, Zhang tossed in that China "firmly opposes" the "disorderly expansion of capital". Luckily Liu He [China's Vice Premier] promised that Beijing will safeguard the interests of the private sector. During remarks for a digital economy expo, Liu said "The principles and policies for supporting the development of the private economy have not changed… and will not change in the future". I'm still miffed on what specific policies Liu had in mind that were "supportive" of the private economy. China's recent interactions with: Alibaba, Tencent, Didi, Meituan, the entire Chinese EdTech sector and every other firm swept up in Beijing's "wealth for all" crack down, were long on "do this or else" and short on "support". Back in North America, there is still no consensus on what the expiration of pandemic unemployment programs will mean for workers and employers alike. At the very least, expect significant near-term volatility in private payroll releases and a market keen to hopefully look through them. Remember too "hot" of a jobs number and any hopes of a delayed exit from tapering taper. The Delta variant is softening data and easing any fears of overheating, without really challenging the re-opening theme because everyone thinks it is transient and if more lingering, likely to be offset by further delays in monetary policy normalization.

To summarize, the MacNicol Investment Team likes stocks, but not to the extent that we would feast on them without being picky. We also feel that though the odds of some type of correction or reassessment of risk premia during the fourth quarter of this year are likely [primarily due to the head winds we sited earlier]. However, we do not subscribe to the idea that the next Bear market or recession is around the corner. Monetary policy and for that matter fiscal and healthcare policy have been sharpened under COVID and we feel fear mongering newsletter writers calling for as much are pandering to investors basic desire to be of all things: entertained.

Timber!!!

Earlier in the year, I accepted a phone call request from a younger fellow contemplating a career in the investment world. The request came in from a junior colleague of mine who in turn met this chap through some type of alumnae association thing at his University. I was glad to do the call and frankly flattered that someone that young would consider working in this field and value what I had to say. We got talking about stocks rather quickly and when the subject of what he should do to supplement his more formal University studies came up, I suggested picking a sector of the market to study in great detail, and to invest in personally in order to create a financial incentive feedback loop. He thought this was a great idea and asked whether he should focus on something hot like BITCOIN or a far away emerging market like Cambodia, Vietnam, or Laos. I ended up telling him the following: "*Listen, if you want to study something hot then make it floorboards or framing materials".* Well, you can imagine the long [silent] pause that followed. He can be forgiven for having no idea what I was talking about…

Earlier in the year, few things were even close to being as hot as lumber prices in North America. So, chopping into reports from companies like Canfor (**CFP.TO**), Interfor (**IFP-TO**), Stella Jones (**SJ-TO**) and West Fraser Timber (**WFG-TO**) seemed to make good sense. During the12-month period to May 2021, lumber prices experienced a wild ride that saw prices quadruple. Producers were literally drowning in cash as sapling sized interest rates [caused by the pandemic] and a desire to live in a single-family home in the burbs [also caused by the pandemic] *and* a desire to renovate your house rather than sit around all day doing nothing [also caused by the pandemic] led to a forest of do-it-yourselfers and professional trades people clamoring for a chance to find wood. The heights lumber reached caused sawmills to greatly ramp up production and make investments in higher cost production oversupplying an industry that by late summer was already beginning to slow. The supply/demand imbalance caused inventory levels to rise to the point where today, lumber markets are viewed as oversupplied relative to underlying demand. Futures prices on lumber measured in thousands of board feet, have splintered from a 2021 high of US $1,700/tbf back in May to US $470/tbf today. So bad is the hangover that we are beginning to see production shut in so that first half profits are not completely thrown away on second half operations.

CONIFEX

Conifex Temporarily Curtailing Mackenzie Lumber Production

August 20, 2021 07:00 ET | Source: Conifex Timber Inc

VANCOUVER, British Columbia, Aug. 20, 2021 (GLOBE NEWSWIRE) -- Conifex Timber Inc. ("**Conifex**") (TSX: CFF) announced today that it has made the difficult decision to temporarily curtail lumber production at its Mackenzie, British Columbia sawmill for two weeks commencing August 23, 2021.

"A combination of record high delivered log costs and the unprecedented collapse in lumber prices has necessitated a temporary curtailment for two weeks. We regret the impact this may have on our employees, their families and the community," said Ken Shields, Chairman and CEO.

Our bioenergy operations will remain uninterrupted.

For further information, please contact:

Winny Tang	Kristen Stinson
Chief Financial Officer	Vice President & General Manager, Corporate Services
(604) 216-6821	(604) 216-6835

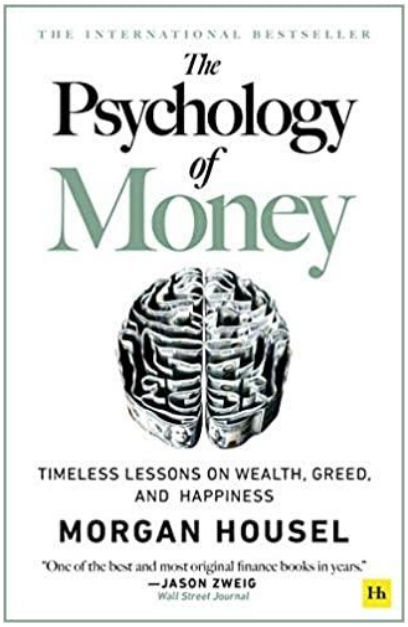
[Conifex Timber announced curtailments in production at its BC sawmill. We doubt Conifex will be the lone producer trimming mills.]

The "key" level to watch is US $600/tbf. Most Canadian producers in BC's beautiful interior have cash costs at their regional mills of approximately US $550/tbf and are now operating at a loss. What makes BC's interior so special apart from the beauty is that the region accounts for roughly 15% of *all* of North America's lumber. Though lumber was figuratively "on fire" in the 12-months to this past May, the more dangerous topic of forest fires has done little to help falling prices. There is simply too much lumber stockpiled and the building boom has come and gone. With homeowners and trades people almost apathetic towards building materials at this point. West Fraser Timber is still on a role for the time being, Canfor and Interfor are literally just treading water at this point and Stella Jones is off its highs for 2021 and down for the year.

I'm not entirely sure what advice the young fellow I spoke with earlier ended up taking, but I hope it was that the key to investing seems to be knowing what you invested in and why and hedges your bets through prudent diversification.

I'll conclude by saying for any aspiring money managers out there who think the materials sector is too "old school" or lacking in excitement just make sure you don't get hit by a falling tree.

The Psychology of Money - Behavioural Investing



Morgan Housel is a partner at a collaborative fund and a former columnist at the Wall Street Journal. Morgan is a 2-time winner of the Best in Business Award from the Society of American Business Editors and Writers, winner of the New York Times Sidney Award, and a two-time finalist for the Gerald Loeb Award for Distinguished Business and Financial Journalism. In addition to penning the widely read and widely regarded, *The Psychology of Money*, Housel has an incredible ability to imbue upon his audience lessons of finance with clarity, grace and flair. Stocks, bonds, personal finance, and business decision making are all too often taught in analytic based framework suffuse with quantitative rigor and math-based data and formulas that tell us exactly what to do. Sadly, in the real-world, people rarely make financial decisions on a spreadsheet. They make them with the precious few hours of personal "alone" time they manage to squeeze out of a given week, and in so doing, run the risk of haphazardly blending together personal history, unique views of the world, ego, pride, marketing, sales pitches galore and odd incentives in a sort of financial smorgasbord of approximations that seem "okay" at the time but often result in financial indigestion later. In *The Psychology of Money*, Housel shares 19 short stories exploring the strange ways people think about money and teaches you how to make better sense of one of life's most important topics - important but not always easy to talk about or spend time on.

If making investment decisions leaves you feeling psyched out or worse stressed out, contact us. We've been helping investors apply analytical rigor to their investments for 20 years this month. What's more, the only short story we are truly interested in is yours. Working together with us can help you feel better about your savings with an investment in your investment.

The MacNicol Investment Team

Firm Wide News

In August, David and Diane enjoyed a trip to Washington, DC where they were able to visit their son who is doing a rotation in Psychiatry at a hospital there. It was their first time there and they were able to do lots of sightseeing and visits to museums. It was a fantastic trip and they would like to return on day.

20th Anniversary Celebration for MacNicol & Associates Asset Management

Join us on September 22nd, 2021 from 4-6 PM at Rosedale Golf Club for food and beverages as we celebrate 20 years of unsurpassed service.

Special guest, Erik Compton will be in attendance. Feel free to send us any questions you have for him.

Erik is a winner of the PGA Tour's Courage Award and is a remarkable inspiration, competing at golf's highest level after undergoing two heart transplants.