

# MCMURTRY INVESTMENT REPORT

## McMurtry Investment Report - Portfolios (November 2016)

	Income		Growth	
Cash	EQ Bank - High Interest Savings (2.0% current rate)		EQ Bank - High Interest Savings (2.0% current rate)	
Bonds	iShares XSB Short Term iShares XFR Floating Rate iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't		iShares XSB Short Term iShares XFR Floating Rate iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't	
Stocks	Security	Dividend Yield %	Security	Dividend Yield %
Financials	Royal Bank RY TD Bank TD Sun Life SLF Firm Capital FC JP Morgan JPM US	4.05 3.68 3.66 6.88 2.83	Royal Bank RY TD Bank TD Sun Life SLF Visa V US JP Morgan JPM US First Data FD US Citibank C US	4.05 3.68 3.66 0.82 2.83 0.00 1.33
Energy	Freehold FRU Whitecap WCP Inter Pipeline IPL	3.97 2.63 5.87	Freehold FRU Whitecap WCP	3.97 2.63
Materials	Agnico Eagle AEM	0.77	Goldcorp G Roxgold ROG.V HudBay Minerals HBM	0.53 0.00 0.34
Industrials	WSP Global WSP Stella Jones SJ	3.66 0.84	WSP Global WSP Stella Jones SJ ZCL Composites ZCL	3.66 0.84 2.94
Consumer Discretionary	Home Depot HD US Time Warner TWX US Pepsico PEP US Gentex GNTX US	2.28 1.86 2.84 2.18	Home Depot HD US Time Warner TWX US Pepsico PEP US Gentex GNTX US Aritzia ATZ	2.28 1.86 2.84 2.18 0.00
Telecom	BCE BCE Telus T Verizon VZ US	4.61 4.34 4.91	BCE BCE	4.61
Consumer Staples	Alimentation Couche Tard ATD.b	0.47	Alimentation Couche Tard ATD.b Mondelez MDLZ US	0.47 1.78
Technology	Apple AAPL US Cisco CSCO US Microsoft MSFT US	2.09 3.44 2.66	Apple AAPL US Shopify SH Microsoft MSFT US CGI GIB.a Facebook FB US Alphabet GOOGL US	2.09 0.00 2.66 0.00 0.00 0.00
Utilities	Fortis FTS Emera EMA	3.69 4.51	Fortis FTS Emera EMA	3.69 4.51
Healthcare	Johnson & Johnson JNJ US Walgreen Boots WBA US Zimmer Biomet ZBH US Bristol-Myers Squibb BMY US	2.78 1.87 0.93 2.70	Johnson & Johnson JNJ US Walgreen Boots WBA US Zimmer Biomet ZBH US Bristol-Myers Squibb BMY US IBB Biotech ETF IBB US	2.78 1.87 0.93 2.70 0.17
Real Estate	Cdn Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial PUR.un	4.31 3.82 5.80	Cdn. Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial PUR.un	4.31 3.82 5.80

## November 2016 – Explanation of Changes to the McMurtry Investment Report Portfolios

I am recommending the raising of 15% cash for both the Income and Growth portfolios to levels of 40% and 30% respectively.

The combination of lofty equity market valuations, tepid earnings growth, rising US interest rates and the uncertainty created by the Trump victory make me much more cautious.

My sector weights remain overweight financials, industrials, technology, consumer discretionary and underweight energy, materials, consumer staples, utilities and telecommunications. I am market weight Real Estate. Lastly as a result of the sharp correction in the healthcare sector combined with the increased probability of less price control regulation from the new Trump government, I am advising an increase in exposure in this sector to market weight.

The outlook for the energy sector has gyrated up and down sharply this past month with the early and mid-month crude inventories falling sharply, only to finish the month on a very sour note with dramatically higher inventories, drilling rigs and the probability of the OPEC members coming to an agreement on production cuts becoming more and more unlikely.

Financials are expected to benefit from rising interest rates, both the banks and insurance companies in particular. I added another New York City bank, Citigroup, to my Growth portfolio as it trades at a lower valuation than its peers, while its dividend growth prospects will start to improve shortly.

I also added First Data to the US Growth portfolio as it is directly involved in the fast growing electronic payments area in the US and trades at an attractive valuation. I removed Element Financial after it split into two companies as the shares have climbed up recently quite a bit and its balance sheet remains overleveraged.

In the Materials sector I have added HudBay, both a base and precious metal producer that offers strong production and cash flow growth.

In the Industrial area I added Stella Jones to both portfolios. It is a very stable earnings grower and has a strong balance sheet. Its principal business is the manufacture of telephone poles and railway ties.

In the consumer discretionary area, I added the fast growing ladies' retailer Aritzia that only recently went public. In addition, I added Gentex, a US manufacturer of electronic car rear view mirrors. It is a very solid company with a strong balance sheet and positive earnings and cash flow growth. I am removing Magna from the list as the probability of an increase in US trade protectionist policies under Trump will hurt profitability.



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In the high tech area, I added Microsoft to both portfolios. The company has transitioned well from old mature high tech to the faster growing tech companies with its large and growing cloud business.

The healthcare sector has also had a terrible year and month in terms of share price underperformance vs the overall market. However the new Trump government is not expected to be as vigilant regarding drug price controls and this combined with the current attractive valuations from the recent price declines has encouraged me to upgrade the sector to market weight. The one area to stay away from with the new government is hospital management companies with Trump's objective to get rid of Obamacare in its present form.

I have removed CVS from my recommendations as at least one half its business comes from pharmacy benefits area that is experiencing severe pricing and margin pressure. I have added Walgreens Boots that has no exposure to the pharmacy benefits area and is in the final stages of its takeover of Rite Aid. I have also added Johnson & Johnson, a highly diversified healthcare company. The stock has declined recently as a result of health concerns from its talcum powder business. Its recent share weakness provides an attractive buying opportunity. Finally, I am adding Bristol Myers to both portfolios with its strong drug pipeline and more attractive valuation after its recent price decline.

Lastly I am adding Pure Industrial REIT to both portfolios. It is a Canadian industrial REIT with exposure to both Canada and the US. Its dividend payout is relatively low under 45% and it has strong growth prospects.

### McMurtry Investment Report - Sector Weights (November 2016)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	50/50
Financials	25.00	33.60	13.30	23.40
Energy	11.00	20.80	7.20	14.00
Materials	7.00	12.90	2.90	7.90
Industrials	11.00	8.80	9.70	9.30
Consumer Disc.	11.35	5.10	12.50	8.80
Telecom	2.00	5.20	2.50	3.80
Consumer Staples	5.75	4.20	10.00	7.10
Technology	15.00	2.80	21.60	12.20
Utilities	1.60	3.00	3.40	3.20
Real Estate	3.00	3.10	2.90	3.00
Healthcare	7.30	0.60	14.00	7.30



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<i>Totals</i>	<b>100.00</b>	<b>100.10</b>	<b>100.00</b>	<b>100.00</b>
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### McMurtry Investment Report - Asset Mix (November 2016)

<b>Asset Mix - Income and Growth Portfolios</b>		
<b>%</b>	<b>Income</b>	<b>Growth</b>
Cash	40	30
Bonds	15	10
Equities	45	60
CDN	22.5	30
US	22.5	30

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