

MCMURTRY INVESTMENT REPORT

McMurtry Investment Report Portfolios (December 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		<i>Dividend Yield %</i>		<i>Dividend Yield %</i>
	<i>Security</i>		<i>Security</i>	
<i>Financials</i>	Royal Bank RY TD Bank TD Sun Life SLF Firm Capital FC JP Morgan JPM US Bank of America BAC US	3.78 3.47 3.24 6.72 2.35 1.41	Royal Bank RY TD Bank TD Sun Life SLF Visa V US JP Morgan JPM US First Data FD US Bank of America BAC US Citibank C US	3.78 3.47 3.24 0.87 2.35 0.00 1.41 1.14
<i>Energy</i>	Freehold FRU Whitecap WCP Crescent Point CPG Inter Pipeline IPL	3.48 2.36 2.09 5.84	Freehold FRU Whitecap WCP Crescent Point CPG	3.48 2.36 2.09
<i>Materials</i>	Agnico Eagle AEM	1.01	Aphria APH Roxgold ROG.V HudBay Minerals HBM	0.00 0.00 0.22
<i>Industrials</i>	WSP Global WSP Stella Jones SJ	3.17 0.89	WSP Global WSP Stella Jones SJ ZCL Composites ZCL	3.17 0.89 2.62
<i>Consumer Discretionary</i>	Home Depot HD US Time Warner TWX US Pepsico PEP US Gentex GNTX US Stanley Black and Decker SWK US	2.13 1.72 2.99 1.93 1.96	Home Depot HD US Time Warner TWX US Pepsico PEP US Gentex GNTX US Aritzia ATZ Stanley Black and Decker SWK US	2.13 1.72 2.99 1.93 0.00 1.96
<i>Telecom</i>	BCE BCE	4.61	BCE BCE	4.61
<i>Consumer Staples</i>	Alimentation Couche Tard ATD.b	0.59	Alimentation Couche Tard ATD.b Mondelez MDLZ US	0.59 1.85
<i>Technology</i>	Apple AAPL US Cisco CSCO US Microsoft MSFT US	2.07 3.56 2.63	Apple AAPL US Shopify SH Microsoft MSFT US CGI GIB.a Facebook FB US Alphabet GOOGL US	2.07 0.00 2.63 0.00 0.00 0.00
<i>Utilities</i>	Fortis FTS	3.99	Fortis FTS	3.99
<i>Healthcare</i>	Johnson & Johnson JNJ US Walgreen Boots WBA US Anthem ANTM US Bristol-Myers Squibb BMY US	2.86 1.76 1.80 2.72	Johnson & Johnson JNJ US Walgreen Boots WBA US Anthem ANTM US Bristol-Myers Squibb BMY US IBB Biotech ETF IBB US	2.86 1.76 1.80 2.72 0.16
<i>Real Estate</i>	Cdn Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial PUR.un	4.11 3.89 5.85	Cdn. Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial PUR.un	4.11 3.89 5.85

December 2016 Sample Portfolio Recommendations

Security markets have been moving all over the place since the Trump victory. The bond market in the US experienced the largest price decline as rising interest rates have caused massive bond selling in the range of \$70 billion.

On the other hand, equity prices have jumped dramatically on the expectation of improving economic growth prospects and rising corporate earnings.

To sum it up, the experts got in wrong both on the Trump victory and on the expectation that equity markets would fall if Trump was elected.

Based on the long term benefits of a pro-growth economic platform, I am increasing my equity exposure by 7.5% for both the Income and Growth portfolios to 52.5% and 67.5% respectively. Please note that I am keeping a higher than average cash content in both portfolios – 32.5% cash in the Income portfolio and 22.5% cash in the Growth portfolio as there remains a great deal of uncertainty regarding Trump's controversial policies in regards to trade.

Interest rates are definitely going up and this is not great for bond prices and high dividend paying stocks in the utilities, REIT and telecommunications sectors.

In this regard, I am removing Verizon, Emera and Telus from my model portfolios as they are very interest sensitive and will not benefit from a rising rate environment. I have significantly reduced my equity exposure to these sectors in my model portfolios.

In the Financial Services area, I added Bank of America that is expected to be a prime beneficiary from rising interest rates and less banking regulation. I have also materially increased my financial services weight to account for this improvement in profitability.

Gold bullion and gold shares are being negatively affected from rising rates as well. Thus I am removing Goldcorp from my model portfolios.

I am adding a small position in Aphria, a new Canadian pot producer based in Leamington, Ontario to my Materials exposure. This company is the lowest cost pot producer in Canada and has an exclusive supply agreement with Tokyo Smoke, a Toronto upscale pot retailer. This is clearly not the type of company that I would recommend without any real earnings or cash flow combined with a high valuation. However the industry is still in its infancy and the expectation that the federal government will approve



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recreational use in 2017 makes a small investment quite appealing. The key here is a small holding to limit any portfolio volatility.

In the energy area, I am adding Crescent Point Energy. The stock has sharply underperformed its peers as a result of its decision to continue to acquire companies using its shares. However its balance sheet is quite strong and it will be a long term beneficiary from any uptick in crude oil prices. Based on the recent OPEC agreement to cut production I have increased my energy exposure but still remain underweight. What the OPEC members do and say frequently differ and the probability of individual countries cheating by overproducing their quotas remains a real threat.

I added Stanley Black and Decker to my recommended portfolios in the Consumer Discretionary sector. Profit growth is improving based on better volumes and pricing, more than offsetting the negative implications from a stronger dollar.

In the highly volatile Healthcare sector, the expected revisions to Obamacare will hopefully improve the profitability of the hospital management and insurance companies. I have added Anthem to my recommended list as it is a relatively cheap stock relative to its peers yet offers good upside potential from an earnings basis. I did remove Zimmer Biomet as the specific industry they are operating in is experiencing severe pricing and margin pressure as evidenced by Medtronic's poor recent quarter.

McMurtry Investment Report - Sector Weights (December 2016)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	50/50
Financials	28.00	34.50	14.60	24.60
Energy	13.00	21.40	7.50	14.50
Materials	6.50	12.00	2.90	7.50
Industrials	12.50	9.10	10.50	9.80
Consumer Disc.	10.70	5.10	12.30	8.70
Telecom	1.00	4.90	2.50	3.70
Consumer Staples	5.00	3.90	9.30	6.60
Technology	13.00	2.80	20.80	11.80
Utilities	1.00	2.80	3.10	2.90
Real Estate	2.00	3.00	2.80	2.90
Healthcare	7.30	0.60	13.70	7.10
Totals	100.00	100.10	100.00	100.10

McMurtry Investment Report - Asset Mix (December 2016)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	32.5	22.5
Bonds	15	10
Equities	52.5	67.5
CDN	26.25	33.75
US	26.25	33.75

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