

MCMURTRY INVESTMENT REPORT

McMurtry Investment Report - Portfolios (February 2017)

| | 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 | |
| Preferreds | <i>Security</i> | <i>Dividend Yield %</i> | <i>Security</i> | <i>Dividend Yield %</i> |
| | Horizons Active Mgt. Pfd HPR | 4.20 | Horizons Active Mgt. Pfd HPR | 4.20 |
| Common Stocks | <i>Security</i> | <i>Dividend Yield %</i> | <i>Security</i> | <i>Dividend Yield %</i> |
| <i>Financials</i> | Royal Bank RY TD Bank TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Manulife MFC Firm Capital FC | 3.53 3.27 3.25 2.29 1.33 2.96 6.64 | Royal Bank RY TD Bank TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Manulife MFC Visa V US First Data FD US | 3.53 3.27 3.25 2.29 1.33 2.96 0.80 0.00 |
| <i>Energy</i> | Freehold FRU Whitecap WCP Torc TOG Inter Pipeline IPL | 3.64 2.62 3.43 5.68 | Freehold FRU Whitecap WCP Torc TOG Spartan SPE | 3.64 2.62 3.43 0.00 |
| <i>Materials</i> | Agnico Eagle AEM Franco Nevada FN | 0.85 1.32 | Agnico Eagle AEM Franco Nevada FN Aphria APH HudBay Minerals HBM Trevali Mining TV Roxgold ROG.V | 0.85 1.32 0.00 0.00 0.00 0.00 |
| <i>Industrials</i> | WSP Global WSP Canadian Pacific CP | 3.41 0.99 | WSP Global WSP Canadian Pacific CP ZCL Composites ZCL Moog MOOG.a US | 3.41 0.99 2.53 0.00 |
| <i>Consumer Discretionary</i> | Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US | 2.00 2.00 1.93 | Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US Dollarama DOL | 2.00 2.00 1.93 0.40 |
| <i>Telecom</i> | BCE BCE | 5.00 | BCE BCE | 5.00 |
| <i>Consumer Staples</i> | Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US | 0.58 1.49 2.89 | Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Mondelez MDLZ US | 0.58 1.49 2.89 1.69 |
| <i>Technology</i> | Apple AAPL US Microsoft MSFT US Cisco CSCO US | 1.90 2.48 3.44 | Apple AAPL US Microsoft MSFT US Shopify SH Facebook FB US Alphabet GOOGL US | 1.90 2.48 0.00 0.00 0.00 |
| <i>Utilities</i> | Fortis FTS | 3.88 | Fortis FTS | 3.88 |
| <i>Healthcare</i> | Johnson & Johnson JNJ US Walgreen Boots WBA US United Health UNH US Merck MRK CVS CVS US | 2.81 1.84 1.57 3.04 2.46 | Johnson & Johnson JNJ US Walgreen Boots WBA US United Health UNH US Merck MRK CVS CVS US IBB Biotech ETF IBB US | 2.81 1.84 1.57 3.04 2.46 0.18 |
| <i>Real Estate</i> | Cdn Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un | 3.97 3.80 5.65 | Cdn. Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un | 3.97 3.80 5.65 |
| <i>European Equity</i> | BMO European ETF ZEQ | 2.00 | BMO European ETF ZEQ | 2.00 |

February 2017 Investment Commentary for Income and Growth Portfolios

As a result of the extended current equity market valuations combined with the ongoing threat of a US trade war with most of the world, I am reducing my equity exposure by 5% for both my sample Income and Growth portfolios.

This will leave cash levels at 37.5% for the Income and 27.5% for the Growth portfolio.

Please keep in mind that the cash levels for the Income portfolio were already higher than normal due to the poor investment return outlook for the fixed income market.

My sector recommendations remain overweight Financials, Technology, Industrials and Consumer Discretionary. For the telcos, utilities, real estate, consumer staples and energy sectors I remain underweight vs. the benchmark index. Lastly I am maintaining my market weight in both Healthcare and Materials.

The significant valuation discount on European equities has led me to add a 2% weight in BMO's European Equity ETF, ZEQ.

In the energy patch, I am removing Crescent Point from both portfolios. The company has been a constant acquirer of other companies principally by using its own share price. Many of these acquisitions have initially been dilutive to earnings per share. I am replacing Crescent Point in the Income portfolio with Torc Oil and Gas and in the Growth portfolio with Spartan Energy and Torc. Both companies are growing their production per share nicely and trade at attractive valuations on a price / cash flow basis relative to their peers. In addition they both have cash netbacks close to \$30 per barrel, much higher than their competitors.

In the healthcare sector, I have already switched in January mid month my position in Bristol Myers into Merck. The latter company has received fast track approval by the FDA for their lung cancer drug, while Bristol Myers has not been granted the same. Merck is now expected to grow much faster than Bristol Myers and still has a reasonable valuation.

In the Materials sector, I added Franco Nevada, a high quality gold royalty company. This company has much less risk than a straight producer and also offers a respectable 1.32% dividend.



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McMurtry Investment Report - Sector Weights (February 2017)

| Equity Sector Weights (%) | | | | |
|---------------------------|---------------|--------------|---------------|--------------|
| Sector | My Weight | TSX Comp | S&P 500 | 50/50 |
| Financials | 30.50 | 35.40 | 14.60 | 25.00 |
| Energy | 13.00 | 20.10 | 7.20 | 13.65 |
| Materials | 7.85 | 12.80 | 2.90 | 7.85 |
| Industrials | 12.00 | 8.90 | 10.20 | 9.55 |
| Consumer Disc. | 9.00 | 4.90 | 12.30 | 8.60 |
| Telecom | 1.00 | 4.90 | 2.50 | 3.70 |
| Consumer Staples | 3.50 | 3.80 | 9.30 | 6.55 |
| Technology | 13.50 | 2.70 | 21.30 | 12.00 |
| Utilities | 1.00 | 2.80 | 3.20 | 3.00 |
| Real Estate | 1.50 | 3.00 | 2.80 | 2.90 |
| Healthcare | 7.15 | 0.60 | 13.70 | 7.15 |
| Totals | 100.00 | 99.90 | 100.00 | 99.95 |

McMurtry Investment Report Asset Mix (February 2017)

| Asset Mix - Income and Growth Portfolios | | |
|--|--------|--------|
| % | Income | Growth |
| Cash | 37.50 | 27.50 |
| Bonds | 10.00 | 5.00 |
| Preferreds | 5.00 | 5.00 |
| Equities | 47.50 | 62.50 |
| CDN | 22.75 | 30.25 |
| US | 22.75 | 30.25 |
| Europe | 2.00 | 2.00 |

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