

MCMURTRY INVESTMENT REPORT

McMurtry Investment Report - Portfolios (October 2017)

	Income		Growth	
Cash	Alterna Bank - High Interest Savings (1.9% current rate) EQ Bank - High Interest Savings (2.30% current rate)		Alterna Bank - High Interest Savings (1.9% current rate) EQ Bank - High Interest Savings (2.30% 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>
	Enbridge Pfd V Enb.pr.V US Horizons Active Mgt. Pfd HPR	4.22 3.96	Enbridge Pfd V Enb.pr.V US Horizons Active Mgt. Pfd HPR	4.22 3.96
Common Stocks	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
<i>Financials</i>	Royal Bank RY TD TD CIBC CM Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Manulife MFC T. Rowe Price TROW US iUnits US Regional Banks IAT US Keycorp KEY US Blackrock BLK US	3.77 3.42 4.76 3.50 2.35 1.89 1.72 3.24 2.52 2.14 2.02 2.19	Royal Bank RY TD TD CIBC CM Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Manulife MFC T. Rowe Price TROW US iUnits US Regional Banks IAT US Keycorp KEY US Blackrock BLK US Visa V US First Data FD US	3.77 3.42 4.76 3.50 2.35 1.89 1.72 3.24 2.52 2.14 2.02 2.19 0.63 0.00
<i>Energy</i>	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB	2.93 4.07 2.88 3.90 4.99 4.68	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB Centennial Resources CDEV US Parex Resources PXT Spartan SPE	2.93 4.07 2.88 3.90 4.99 4.68 0.00 0.00 0.00
<i>Materials</i>	Agnico Eagle AEM Franco Nevada FN	0.86 1.19	Agnico Eagle AEM Franco Nevada FN Lundin LUN Trevall Mining TV Roxgold ROXG	0.86 1.19 1.40 0.00 0.00
<i>Industrials</i>	New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC	2.52 2.89 1.07 1.63 1.94	New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC Winpak WPK	2.52 2.89 1.07 1.63 1.94 0.23
<i>Consumer Discretionary</i>	Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US Canadian Tire CTC.A Amazon AMZN US Kohl's KSS US	2.18 1.83 1.67 1.67 0.00 4.82	Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US Canadian Tire CTC.A Amazon AMZN US Kohl's KSS US	2.18 1.83 1.67 1.67 0.00 4.82
<i>Telecom</i>	Rogers B RCLB	2.98	Rogers B RCLB	2.98
<i>Consumer Staples</i>	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Newell Brands NWL US	0.63 1.59 2.89 2.16	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Newell Brands NWL US	0.63 1.59 2.89 2.16
<i>Technology</i>	Apple AAPL US Microsoft MSFT US Open Text OTEX	1.64 2.26 1.62	Apple AAPL US Microsoft MSFT US Open Text OTEX Facebook FB US Nvidia NVDA US Alphabet GOOGL US	1.64 2.26 1.62 0.00 0.31 0.00
<i>Utilities</i>	Emera EMA Fortis FTS	4.42 3.57	Emera EMA Fortis FTS	4.42 3.57
<i>Healthcare</i>	Johnson & Johnson JNJ US Merck MRK US Healthcare iShares ETF IYH US	2.58 2.94 1.59	Johnson & Johnson JNJ US Merck MRK US Healthcare iShares ETF IYH US Celgene CELG US Thermo Fisher Scientific TMO US Aphria APH Knight Therapeutics GUD IBB Biotech ETF IBB US	2.58 2.94 1.59 0.00 0.32 0.00 0.00 0.53
<i>Real Estate</i>	Cdn Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.79 3.87 4.91	Cdn. Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.79 3.87 4.91
<i>European Equity</i>	BMO European ETF ZEQ	1.97	BMO European ETF ZEQ	1.97
<i>Emerging Markets</i>	iShares MSCI Emer. Mkts XEC	0.98	iShares MSCI Emer. Mkts XEC	0.98



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Investment Commentary October 2017

Global economies continue to expand and the probability of an impending recession remains low. However there remains a real possibility of a short term market valuation correction that could be predicated by many factors including:

- Escalating North Korea threats
- Interest Rates rising too quickly
- US annual budget issues escalating
- Possible US / China trade war

Consequently I am maintaining my relatively high cash levels in both my Income and Growth portfolios. In addition cash levels are much higher than normal in my Income portfolio as the funds that would traditionally be invested in fixed income are sitting in cash in anticipation of higher rates.

My equity sector weights are as follows:

- Remain overweight benchmark 50/50 weights in Financials, Industrials, Consumer Discretionary and Technology
- Remain underweight Utilities, Real Estate, Consumer Staples, Materials and Telcos
- Market Weight Healthcare and Energy

Please note that I am increasing my sector weight in Energy from Underweight last month to Market Weight this month. Crude markets are gradually getting into balance with US inventories experiencing 6 weeks of drawdowns. Overall global demand remains strong. Currently crude markets are in backwardation meaning that spot prices are higher than forward contracts. This is not normally the case and indicates that the industry fundamentals for crude are materially improving.

I am adding Parex Resources, a Canadian energy producer to my Growth Portfolio. The company's production and reserves are in Columbia. Parex offers a very healthy balance sheet, strong operating cash flows and production growth combined with a reasonable valuation.

In the technology sector, I remain overweight. Last month I removed Shopify from my Growth Portfolio as the valuation appeared quite excessive. However I still believe that the fundamentals of this company and its growth rate remain solid. Today a US short seller with a spotty track record has issued a report recommending shorting Shopify indicating the company's selling practices are suspect. I really do not have faith in this short seller and still feel that Shopify is doing all the right things. My call last month was purely one of valuation, nothing more. I have still not added it back to my Growth portfolio as its share price may experience further short term volatility.

I am adding Open Text to both my Income and Growth portfolios. The company's software assists other companies with efficiently finding and analyzing business data to improve productivity. It offers



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solutions to a diverse group of industries and its software integrates with other enterprise software providers including Microsoft, Oracle, Sales Force and SAP.

In the Consumer Staples area, I am recommending a switch out of Kraft Heinz into Newell Brands for both portfolios. Kraft Heinz is a solid company but is having great difficulty expanding its revenues. Newell Brands has more positive long term fundamentals and its current share price weakness has more than discounted its operating cost increases of resin that have emulated from supply disruptions as a result of Hurricane Harvey.

There has been a lot of volatility in the Materials sector. It is important to keep in mind that golds still represent the largest weight in this sector. Base metal prices have been moving up especially zinc and to a lesser extent copper. Rising interest rates do not benefit this sector. Until we see much stronger global inflationary pressures I will remain underweight.

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	50/50
Financials	28.00	34.40	14.60	24.50
Energy	13.25	20.40	6.10	13.25
Materials	5.00	11.50	3.00	7.25
Industrials	12.20	9.50	10.20	9.85
Consumer Disc.	10.00	5.40	11.90	8.65
Telecom	1.50	4.80	2.20	3.50
Consumer Staples	3.50	3.60	8.20	5.90
Technology	15.50	3.30	23.20	13.25
Utilities	1.50	3.80	3.10	3.45
Real Estate	2.00	2.80	3.00	2.90
Healthcare	7.55	0.60	14.50	7.55
Totals	100.00	100.10	100.00	100.05

McMurtry Investment Report Asset Mix (October 2017)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	32.50	22.50
Bonds	10.00	5.00
Preferreds	10.00	10.00
Equities	47.50	62.50
CDN	20.75	28.25
US	20.75	28.25
Europe	4.00	4.00
Emerging Markets	2.00	2.00

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