

MCMURTRY INVESTMENT REPORT

McMurtry Investment Report - Portfolios (November 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	4.15 3.89	Enbridge Pfd V Enb.pr.V US Horizons Active Mgt. Pfd HPR	4.15 3.89
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	3.61 3.27 4.58 3.46 2.23 1.75 1.74 3.16 2.45 1.43 2.08 2.12	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	3.61 3.27 4.58 3.46 2.23 1.75 1.74 3.16 2.45 1.43 2.08 2.12 0.71
<i>Energy</i>	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB	2.92 3.80 3.02 3.53 4.63 4.92	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB Centennial Resources CDEV US Parex Resources PXT Spartan SPE	2.92 3.80 3.02 3.53 4.63 4.92 0.00 0.00 0.00
<i>Materials</i>	Agnico Eagle AEM Franco Nevada FNV	0.97 1.12	Agnico Eagle AEM Franco Nevada FNV Lundin LUN Trevalli Mining TV Roxgold ROXG	0.97 1.12 1.22 0.00 0.00
<i>Industrials</i>	New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC Guggenheim Eq WT IND RGI US	2.37 2.59 1.01 1.66 1.88 1.20	New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC Guggenheim Eq Wt IND RGI US	2.37 2.59 1.01 1.66 1.88 1.20
<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	2.15 1.65 1.56 1.64 0.00 5.27	Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US Canadian Tire CTC.A Amazon AMZN US Kohl's KSS US	2.15 1.65 1.56 1.64 0.00 5.27
<i>Telecom</i>	Rogers B RCI.B	2.87	Rogers B RCI.B	2.87
<i>Consumer Staples</i>	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Unilever PLC UL US	0.60 1.62 2.92 2.92	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Unilever PLC UL US	0.60 1.62 2.92 2.92
<i>Technology</i>	Apple AAPL US Microsoft MSFT US Open Text OTEX	1.49 2.02 1.44	Apple AAPL US Microsoft MSFT US Open Text OTEX Facebook FB US Nvidia NVDA US Shopify SHOP Alphabet GOOGL US	1.49 2.02 1.44 0.00 0.27 0.00 0.00
<i>Utilities</i>	Emera EMA Fortis FTS	4.65 3.58	Emera EMA Fortis FTS	4.65 3.58
<i>Healthcare</i>	Abbott Labs ABT US Johnson & Johnson JNJ US Merck MRK US Healthcare iShares ETF IYH US	1.95 2.41 3.41 1.10	Abbott Labs ABT US 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	1.95 2.41 3.41 1.10 0.00 0.31 0.00 0.00 0.22
<i>Real Estate</i>	Cdn Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.76 3.75 4.68	Cdn. Apt. REIT CAR.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.76 3.75 4.68
<i>European Equity</i>	BMO European ETF ZEQ	1.89	BMO European ETF ZEQ	1.89
<i>Emerging Markets</i>	iShares MSCI Emer. Mkts XEC	1.43	iShares MSCI Emer. Mkts XEC	1.43

Investment Commentary November 2017

Global economies continue to expand in unison and the threat of an impending recession remains low.

A short-term market correction is still very possible taking into consideration the current high valuations combined with ongoing factors like:

- Continuing North Korea threats
- Interest rates rising too quickly, although this now looks less likely with a new dovish US Fed Chair
- US annual budget issues escalating
- Possible US / China trade war

Thus, I am maintaining my high cash levels in both my Income and Growth portfolios. My Income Portfolio cash levels remain much higher than normal in anticipation of higher rates.

My equity sector weights are as follows:

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

Third quarter earnings announcements have made the equity market quite a bit more volatile than over the last year. Share prices of companies that register earnings that disappoint the consensus estimates have been hit hard. This is also true of many companies that only match consensus estimates.

In the technology sector, I added back Shopify in mid-October after its sharp 20% correction. The US short seller made a lot of false accusations about the company and it appears that his only motive was to profit from shorting the stock and buying it back cheaper. Shopify delivered very strong revenue growth in the 3rd quarter.

The earnings announcements in the technology sector were for the most part outstanding. Companies like Apple, Facebook, Microsoft, Alphabet and Intel all easily beat consensus estimates.

I am making a switch out of Newell Brands into Unilever PLC in the Consumer Staples area.

This sector remains challenged with many industry players having difficulty raising prices and obtaining sufficient shelf space. Newell reported a dismal 3rd quarter that took most portfolio managers off guard. Initially the problems with the company appeared to be related to obtaining adequate resin supply as a result of the closure of some facilities that were affected by the recent hurricanes. After the earnings report it is more obvious that the company is not growing at a satisfactory rate and some major changes will be necessary to get them on track.



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Unilever is in a completely different position. For the last many years they have had an ongoing cost cutting program. This combined with making more strategic acquisitions in higher margin businesses and beefing up its E-Commerce presence is leading to better results. Differing from many other Consumer Staples companies, Unilever derives 43% of its revenues from Asia, particularly China and India.

In the Industrial sector, I added Guggenheim Equal Weight US Industrial ETF in mid October. The industrial sector is benefitting from a pickup in global growth and this is an opportunity to add to my holdings in this area.

I am removing Winpak from my Growth portfolio. The company's last two quarterly earnings reports have been disappointing and consequently the consensus future earnings estimates have been coming down sharply. Even after the recent share price decline the company is still trading at a relatively high 23 times earnings.

In the financial services area, I am removing First Data from the Growth portfolio. While the company's total return has been strong over the last year, it is recently just reported a poor 3rd quarter earnings report with a slow profit and revenue outlook for 2018. The share price is starting to experience some material contraction.

Last month I increased my Energy Weight to market weight from underweight previously. Crude prices have risen nicely over the last several months and the industry's chronic supply glut seems to be diminishing. However, it is still not absolutely clear if the US shale producers will ramp up production with WTI prices approaching \$57-\$60 US per barrel.

It should be pointed out the both Canadian and US portfolio managers remain sharply underweight energy stocks especially oil producers, with a large portion of their current weight remaining in the energy infrastructure companies like Enbridge, TransCanada and Pembina Pipelines. Should crude prices continue to climb portfolio managers will be forced to sharply increase their holdings.

In the healthcare sector, I added Abbott Labs in mid-October to both my Income and Growth portfolios. Both Abbott and Johnson and Johnson derive a much smaller portion of their revenues and earnings from pharma compared to many of their healthcare peers. Abbott is growing its earnings, operating and free cash flow at a reasonable clip.

McMurtry Investment Report - Sector Weights (November 2017)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	50/50
Financials	28.00	34.90	14.70	24.80
Energy	12.80	19.70	5.90	12.80
Materials	5.50	11.40	3.00	7.20
Industrials	12.20	9.60	10.00	9.80
Consumer Disc.	10.25	5.50	11.90	8.70
Telecom	1.50	4.80	1.90	3.35
Consumer Staples	3.00	3.60	7.90	5.75
Technology	16.50	3.30	24.50	13.90
Utilities	1.40	3.80	3.20	3.50
Real Estate	1.50	2.90	2.90	2.90
Healthcare	7.35	0.60	14.10	7.35
Totals	100.00	100.10	100.00	100.05

McMurtry Investment Report Asset Mix (November 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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