

# MCMURTRY INVESTMENT REPORT

## McMurtry Investment Report - Portfolios (December 2017)

	Income		Growth	
<b>Cash</b>	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)	
<b>Bonds</b>	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	
<b>Preferreds</b>	<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	4.13 3.88	Enbridge Pfd V Enb.pr.V US Horizons Active Mgt. Pfd HPR	4.13 3.88
<b>Common Stocks</b>	<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 3.28 4.40 3.57 2.14 1.70 1.70 3.02 2.22 1.38 2.21 1.94	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 3.28 4.40 3.57 2.14 1.70 1.70 3.02 2.22 1.38 2.21 1.94 0.69
<i>Energy</i>	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB	2.86 3.94 3.18 3.40 4.81 5.52	Suncor SU Freehold FRU Whitecap WCP Torc TOG Pembina Pipe Lines PPL Enbridge ENB Centennial Resources CDEV US Parex Resources PXT Spartan SPE	2.86 3.94 3.18 3.40 4.81 5.52 0.00 0.00 0.00
<i>Materials</i>	Agnico Eagle AEM Franco Nevada FNV	0.99 1.12	Agnico Eagle AEM Franco Nevada FNV Lundin LUN Trevali Mining TV Roxgold ROXG	0.99 1.12 1.60 0.00 0.00
<i>Industrials</i>	DowDuPont DWDP US New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC Guggenheim Eq WT IND RGI US	2.15 2.65 2.51 1.00 1.62 1.94 1.16	DowDuPont DWDP US New Flyer Ind NFI WSP Global WSP Canadian Pacific CP General Dynamics GD US SNC Lavalin SNC Guggenheim Eq Wt IND RGI US	2.15 2.65 2.51 1.00 1.62 1.94 1.16
<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	1.98 2.02 1.49 2.21 0.00 4.59	Home Depot HD US Sleep Canada ZZZ Stanley Black and Decker SWK US Canadian Tire CTC.A Amazon AMZN US Kohl's KSS US	1.98 2.02 1.49 2.21 0.00 4.59
<i>Telecom</i>	Rogers B RCLB	2.87	Rogers B RCLB	2.87
<i>Consumer Staples</i>	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Unilever PLC UL US	0.55 1.59 2.72 2.93	Alimentation Couche Tard ATD.b Loblaws L Pepsico PEP US Unilever PLC UL US	0.55 1.59 2.72 2.93
<i>Technology</i>	Apple AAPL US Microsoft MSFT US Open Text OTEX	1.47 2.00 1.62	Apple AAPL US Microsoft MSFT US Open Text OTEX Facebook FB US Nvidia NVDA US Shopify SHOP Alphabet GOOGL US	1.47 2.00 1.62 0.00 0.30 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 Bristol Myers BMJ US Johnson & Johnson JNJ US Merck MRK US US Healthcare iShares ETF IYH US	1.88 2.56 2.41 3.47 1.07	Abbott Labs ABT US Bristol Myers BMJ US Johnson & Johnson JNJ US Merck MRK US US Healthcare iShares ETF IYH US Celgene CELG US Thermo Fisher Scientific TMO US Aphria APH Knight Therapeutics GUD IBB Biotech ETF IBB US	1.88 2.56 2.41 3.47 1.07 0.00 0.31 0.00 0.00 0.22
<i>Real Estate</i>	Cdn Apt. REIT CAR.un InterRent REIT IIP.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.46 2.97 3.72 4.67	Cdn. Apt. REIT CAR.un InterRent REIT IIP.un Chartwell REIT CSH.un Pure Industrial AAR.un	3.46 2.97 3.72 4.67
<i>European Equity</i>	BMO European ETF ZEQ	1.93	BMO European ETF ZEQ	1.93
<i>Emerging Markets</i>	iShares MSCI Emer. Mkts XEC	1.47	iShares MSCI Emer. Mkts XEC	1.47

## Investment Commentary December 2017

Global economies continue to expand and the probability of a near term US led global recession remains low. The US flattening of the yield curve is more about the supply / demand for longer term maturities than it is about an impending recession.

The probability of US tax reform to be passed by both houses has sharply increased. Even if there are changes to the current proposals, this will most definitely create fiscal stimulus.

I am modestly increasing my equity weight for both the Income and Growth portfolios by 2.5% with both Europe and Emerging Market weights rising by 1.25% each.

While I am reducing my cash weight by 2.5% to pay for the new equity purchases, my overall cash levels remain higher than normal in anticipation of higher rates.

My equity sector weights are as follows:

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

While I remain underweight Materials, I have increased my weight from last month as a result of the poor price performance of this sector. While it is true that commodity prices go down when the US dollar rises against global currencies, both the continuing global economic expansion and the US tax reform should help base metal prices. Having some gold exposure is really like owning a form of insurance from events that we cannot accurately predict.

Recently there has been some equity sector market rotation into Financials and Energy from the higher valued Technology area. There were also some recent research studies indicating the US tech companies will benefit the least from US tax reform. However the technology companies continue to grow their revenues faster than the overall economy and that is not going to change materially if other sectors benefit more from US tax reform.

In the Industrial sector, I am adding DowDuPont to both the Income and Growth portfolios. The company represents the recent merger of Dow Chemical and DuPont. This newly merged company plans to spin off three of its operating divisions into three separate entities in order to create shareholder value. This will transform this massive conglomerate into more focused individual businesses. Cost synergies from the merger are expected to be around \$3 billion over the next 18 months.



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In the healthcare sector, I am adding Bristol Myers to both the Income and Growth portfolios. Relative to its strong drug pipeline in the lung cancer and cardiovascular areas, the stock is reasonably valued at under 19 times 2018 EPS. Recently the company has brought in Pfizer to share in the development and marketing costs of its fast growth Eliquis blockbuster drug to combat atrial fibrillation. This will materially lower Bristol Myers' overall risk.

Lastly I am adding InterRent REIT to both my Income and Growth portfolios in the Real Estate sector. It is a Canadian apartment REIT that is growing its operating cash flow and dividends at a nice rate, while keeping its cash dividend payout under 40%.

### McMurtry Investment Report - Sector Weights (December 2017)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	50/50
Financials	28.00	34.90	14.80	24.85
Energy	12.70	19.60	5.80	12.70
Materials	6.30	11.20	3.00	7.10
Industrials	12.50	9.40	10.10	9.75
Consumer Disc.	10.20	5.50	12.10	8.80
Telecom	1.50	4.90	2.00	3.45
Consumer Staples	3.00	3.70	8.10	5.90
Technology	15.50	3.30	24.00	13.65
Utilities	1.40	3.80	3.10	3.45
Real Estate	1.50	2.90	2.90	2.90
Healthcare	7.40	0.70	14.10	7.40
<b>Totals</b>	<b>100.00</b>	<b>99.90</b>	<b>100.00</b>	<b>99.95</b>

### McMurtry Investment Report Asset Mix (December 2017)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	30.00	20.00
Bonds	10.00	5.00
Preferreds	10.00	10.00
Equities	50.00	65.00
CDN	20.75	28.25
US	20.75	28.25
Europe	5.25	5.25
Emerging Markets	3.25	3.25

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