**Investment Commentary (October 2018)**

Equity markets continue to digest a multitude of headwinds that are causing a lot of market volatility.

Despite the very strong corporate earnings growth, markets are looking beyond these numbers into next year. The combination of rising materials, energy and labour will put a lid on operating margins. The annual benefits of the US corporate tax cuts will diminish over time.

Rising interest rates are now becoming a real threat to the economic expansion. The US / China trade war is escalating with no signs of any agreement in the near future.

Economic growth is slowing in Europe, China and India.

In addition the rising US dollar is putting enormous pressure on Emerging Market economies where their debt is mainly in US dollars. The threat of contagion in this region is a real possibility and this could cause equity markets to fall even more.

Taking all these factors into consideration, I am recommending an additional 5% in cash with a corresponding reduction in equities.

As the Canadian equity market has lagged the US one and may begin to play catch up, I am changing my North American benchmark equity weight to 60% US 40% Canada from the previous 65% US 35% Canada. Both the signing of a new NAFTA combined with the $40 billion LNG plant will provide some benefit to the domestic economy and remove a lot of uncertainty.

Currently I think we are in a short term correction phase of the market and not in a full bear market yet. We may easily see a 10-15% market pullback. If I believed we were in the beginning of a bear market, I would have even more cash and much less equities than I am currently recommending.

However this is not the time to take on more market risk. It is a time to take profits and batten down the hatches.

We are in the latter stages of the economic cycle and within 12-18 months we will most likely be in a recession. The stock market usually anticipates a recession at least six months in advance.

I recommend keeping fixed income maturities short until interest rates stop going up. In this environment preferred shares will continue to do well.

In terms of equity sectors, I remain overweight my new 60% US 40% Canada benchmark Technology, Financial, Consumer Discretionary, Industrials and Energy. Please note that I am reducing my overweight in the Consumer Discretionary sector based on rising rates.

I remain underweight Materials, Utilities, Consumer Staples and the new Communications Services sector.

This new revamped Communications Services sector contains both the phone companies but also companies such as Disney, Facebook, Twitter, Netflix and Alphabet that were previously in other sectors.

The technology sector is now smaller with the exit of Alphabet, Facebook and Netflix.

I remain market weight Healthcare and Real Estate.

I am deleting Chartwell Retirement from both portfolios. The company is experiencing greater competition and will not benefit from higher rates. Proceeds can be placed in the remaining REIT's that are apartment and logistics ones.

In the financial services area, I am removing Blackrock. While this is a great company and is an innovator in its field, falling equity markets hurt passive index funds more than active managed portfolios.

In the Industrials space, I am removing Dow Dupont. The company's earnings growth rate is slowing and it is also been hit by rising input costs. However I am adding CNR to both portfolios. The company is benefitting from improving year over year comparisons and has recently signed a long term contract with Cenovus for transporting crude oil. I am also adding TFI International to both portfolios. This is the old TransForce company that is involved in both transportation and logistics. The company is experiencing strong earnings and cash flow growth and rising dividends. Finally I am recommending a switch out of General Dynamics into Raytheon. The latter company has better growth prospects and has lower overall debt levels.

In the materials sector, I am removing Lundin Mining and Hudbay and recommend the proceeds be placed in BMO's Global Base Metals ETF ZMT. This ETF is also hedged to the Canadian dollar and offers lower volatility than individual base metal company names. I am keeping Trevali Mining for now as the stock is extremely cheap.

In the Consumer Discretionary sector, I am removing both Carnival Cruise Lines and Kohl's Department Stores. Rising rates combined with ongoing trade wars do not bode well for these companies. There is an oversupply in the leisure cruise industry at the moment.

I also removed Dollarama earlier in the month with a slowing in same store sales.

I am keeping a small overweight in Energy despite its current problems with the widening discount of Western Canadian Select crude prices. The long term price outlook for both WTI and Brent pricing remains favourable.

**McMurtry Investment Report - Portfolios (October 2018)**

| | Income | | Growth | |
|---|---|---|---|---|
| **Cash** | Alterna Bank - High Interest Savings (2.05% current rate) | | Alterna Bank - High Interest Savings (2.05% current rate) | |
| | EQ Bank - High Interest Savings ( 2.30% current rate) | | EQ Bank - High Interest Savings ( 2.30% current rate) | |
| **Bonds** | iShares XSB Short Term | | iShares XSB Short Term | |
| | iShares XFR Floating Rate | | iShares XFR Floating Rate | |
| | iShares CBO 1-5 Ladder Corp | | iShares CBO 1-5 Ladder Corp | |
| | iShares CLF 1-5 Ladder Gov't | | iShares CLF 1-5 Ladder Gov't | |
| **Preferreds** | *Security* | *Dividend Yield %* | *Security* | *Dividend Yield %* |
| | Enbridge Pfd V Enb.pr.V US | 6.22 | Enbridge Pfd V Enb.pr.V US | 6.22 |
| | Horizons Active Mgt. Pfd HPR | 3.79 | Horizons Active Mgt. Pfd HPR | 3.79 |
| | Industrial Alliance IAG.PR.G | 3.92 | Industrial Alliance IAG.PR.G | 3.92 |
| **Common Stocks** | *Security* | *Dividend Yield %* | *Security* | *Dividend Yield %* |
| *Financials* | Royal Bank RY | 3.79 | Royal Bank RY | 3.79 |
| | National Bank | 3.84 | National Bank | 3.84 |
| | TD TD | 3.41 | TD TD | 3.41 |
| | CIBC CM | 4.49 | CIBC CM | 4.49 |
| | Sun Life SLF | 3.70 | Sun Life SLF | 3.70 |
| | JP Morgan JPM US | 2.84 | JP Morgan JPM US | 2.84 |
| | Bank of America BAC US | 2.04 | Bank of America BAC US | 2.04 |
| | Citibank C US | 2.51 | Citibank C US | 2.51 |
| | Goldman Sachs GS US | 1.43 | Goldman Sachs GS US | 1.43 |
| | T. Rowe Price TROW US | 2.56 | T. Rowe Price TROW US | 2.56 |
| | iUnits US Regional Banks IAT US | 1.82 | iUnits US Regional Banks IAT US | 1.82 |
| | Keycorp KEY US | 2.51 | Keycorp KEY US | 2.51 |
| | Paychex PAYX US | 3.04 | Paychex PAYX US | 3.04 |
| | PNC Fin'l PNC US | 2.79 | PNC Fin'l PNC US | 2.79 |
| *Energy* | Suncor SU | 2.88 | Suncor SU | 2.88 |
| | Freehold FRU | 5.66 | Freehold FRU | 5.66 |
| | Whitecap WCP | 4.13 | Whitecap WCP | 4.13 |
| | Torc TOG | 3.99 | Torc TOG | 3.99 |
| | Pembina Pipe Lines PPL | 5.19 | Pembina Pipe Lines PPL | 5.19 |
| | Enbridge ENB | 6.44 | Enbridge ENB | 6.44 |
| | Vermilion Energy VET | 6.48 | Vermilion Energy VET | 6.48 |
| | | | Centennial Resources CDEV US | 0.00 |
| | | | Step Energy STEP | 0.00 |
| | | | Parex Resources PXT | 0.00 |
| *Materials* | Agnico Eagle AEM | 1.25 | Agnico Eagle AEM | 1.25 |
| | Franco Nevada FNV | 1.55 | Franco Nevada FNV | 1.55 |
| | BMO Global Base Metal ETF ZMT | 2.53 | BMO Global Base Metal ETF ZMT | 2.53 |
| | | | Trevali Mining TV | 0.00 |
| | | | Roxgold ROXG | 0.00 |
| Industrials | Toromont TIH | 1.38 | Toromont TIH | 1.38 |
| | WSP Global WSP | 2.12 | WSP Global WSP | 2.12 |
| | Canadian Pacific CP | 0.95 | Canadian Pacific CP | 0.95 |
| | CNR | 1.57 | CNR | 1.57 |
| | Raytheon RTN US | 1.68 | Raytheon RTN US | 1.68 |
| | SNC Lavalin SNC | 2.18 | SNC Lavalin SNC | 2.18 |
| | Guggenheim Eq WT IND RGI US | 1.01 | Guggenheim Eq Wt IND RGI US | 1.01 |
| | Honeywell HON US | 1.97 | Honeywell HON US | 1.97 |
| | Finning FTT | 2.54 | Finning FTT | 2.54 |
| | TFI Int'l TFII | 1.90 | TFI Int'l TFII | 1.90 |
| | | | Fedex FDX US | 1.08 |
| *Consumer Discretionary* | Home Depot HD US | 1.99 | Home Depot HD US | 1.99 |
| | Sleep Canada ZZZ | 2.57 | Sleep Canada ZZZ | 2.57 |
| | Stanley Black and Decker SWK US | 1.80 | Stanley Black and Decker SWK US | 1.80 |
| | Canadian Tire CTC.A | 2.38 | Canadian Tire CTC.A | 2.38 |
| | Amazon AMZN US | 0.00 | Amazon AMZN US | 0.00 |
| | Magna MG | 2.53 | Magna MG | 2.53 |
| | Lowes LOW US | 1.67 | Lowes LOW US | 1.67 |
| *Communication Services* | Rogers B RCI.B | 2.89 | Rogers B RCI.B | 2.89 |
| | | | Alphabet GOOGL US | 0.00 |
| *Consumer Staples* | Alimentation Couche- Tard ATD.B | 0.62 | Alimentation Couche Tard ATD.b | 0.62 |
| | Loblaws L | 1.78 | Loblaws L | 1.78 |
| | Constellation Brands STZ US | 1.37 | Constellation Brands STZ US | 1.37 |
| | Unilever PLC UL US | 3.30 | Unilever PLC UL US | 3.30 |
| *Technology* | Apple AAPL US | 1.29 | Apple AAPL US | 1.29 |
| | Microsoft MSFT US | 1.61 | Microsoft MSFT US | 1.61 |
| | Open Text OTEX | 1.61 | Open Text OTEX | 1.61 |
| | | | Nvidia NVDA US | 0.21 |
| | | | ETFMG Prime Cyber Sec. HACK US | 0.01 |
| | | | Shopify SHOP | 0.00 |
| | | | Visa V US | 0.56 |
| *Utilities* | Algonquin Power AQN | 5.01 | Algonquin Power AQN | 5.01 |
| | Fortis FTS | 4.06 | Fortis FTS | 4.06 |
| *Healthcare* | Abbott Labs ABT US | 1.53 | Abbott Labs ABT US | 1.53 |
| | Johnson & Johnson JNJ US | 2.61 | Johnson & Johnson JNJ US | 2.61 |
| | Merck MRK US | 2.71 | Merck MRK US | 2.71 |
| | US Healthcare iShares ETF IYH US | 1.02 | US Healthcare iShares ETF IYH US | 1.02 |
| | United Healthcare UNH US | 1.35 | United Healthcare UNH US | 1.35 |
| | Eli Lilly LLY US | 2.10 | Eli Lilly LLY US | 2.10 |
| | CVS US | 2.54 | CVS US | 2.54 |
| | | | Danaher DHR US | 0.59 |
| | | | Thermo Fisher Scientific TMO US | 0.28 |
| | | | IBB Biotech ETF IBB US | 0.26 |
| *Real Estate* | Cdn Apt. REIT CAR.un | 2.79 | Cdn. Apt. REIT CAR.un | 2.79 |
| | InterRent REIT IIP.un | 2.30 | InterRent REIT IIP.un | 2.30 |
| | Summit REIT SMU.un | 5.75 | Summit REIT SMU.un | 5.75 |
| *European Equity* | iShares MSCI Europe XEU | 2.71 | iShares MSCI Europe XEU | 2.71 |

**McMurtry Investment Report - Sector Weights (October 2018)**

| Equity Sector Weights (%) | | | | |
|---|---|---|---|---|
| **Sector** | **My Weight** | **TSX Comp** | **S&P 500** | **60 % US / 40% CDN** |
| Financials | 24.00 | 34.30 | 13.30 | 21.70 |
| Energy | 11.75 | 19.10 | 6.00 | 11.24 |
| Materials | 4.00 | 10.10 | 2.40 | 5.48 |
| Industrials | 11.06 | 10.60 | 9.70 | 10.06 |
| Consumer Disc. | 8.25 | 4.40 | 10.30 | 7.94 |
| Comm. Services | 7.60 | 5.30 | 10.00 | 8.12 |
| Consumer Staples | 4.00 | 3.40 | 6.70 | 5.38 |
| Technology | 15.28 | 4.10 | 21.00 | 14.24 |
| Utilities | 2.00 | 3.70 | 2.80 | 3.16 |
| Real Estate | 2.86 | 3.10 | 2.70 | 2.86 |
| Healthcare | 9.80 | 2.00 | 15.00 | 9.80 |
| **Totals** | **100.60** | **100.10** | **99.90** | **99.98** |

**McMurtry Investment Report Asset Mix (October 2018)**

| Asset Mix - Income and Growth Portfolios | | |
|---|---|---|
| **%** | **Income** | **Growth** |
| Cash | 42.50 | 37.50 |
| Bonds | 10.00 | 5.00 |
| Preferreds | 15.00 | 10.00 |
| Equities | 32.50 | 47.50 |
| CDN | 11.00 | 17.00 |
| US | 16.50 | 25.50 |
| Europe | 5.00 | 5.00 |
| Emerging Markets | 0.00 | 0.00 |