



MCMURTRY INVESTMENT REPORT

Investment Commentary (December 2018)

Asset Mix Changes

I am recommending a 5% increase in the cash weight for both portfolios. A recent Reuters poll just came out indicating there is a 40% chance of an economic recession within the next two years and this is the highest reading since 2008. After this change the Income and Growth portfolios will have a cash weight of 42.5% and 37.5% respectively. The new cash positions in each portfolio will provide sufficient downside protection and can be used to increase equity exposure as opportunities present themselves.

I am increasing the Canadian equity content of the North American component from the current 40% Canada 60% US to 45% Canada and 55% US. The Canadian market is considerably cheaper than the US one. In addition the recent signing of the new USMCA agreement combined with the substantial narrowing of the Western Canadian Select crude price discount from \$45 to under \$15 per barrel should help the Canadian market.

Most of my changes this month to both the equity sector weights and to the addition and deletion of individual companies and ETF's, are to improve the overall quality of the portfolio in case financial markets go a lot further down than expected.

Preferred Shares

The preferred share market has gone down much more than I anticipated. Differing from high yield securities most of the Canadian rate reset preferreds and ETF's are of investment grade. Preferreds are nevertheless much less liquid than bonds or common equities. The large Canadian ETF issuers such as Horizons have received considerable redemptions recently forcing them to liquidate positions at very inopportune prices. There is a lot of uncertainty in regards to where interest rates are headed and the camp that believes rates are headed a lot lower has been selling their rate reset preferreds.

I am recommending several changes to my preferred share recommendations. First I am deleting the Horizons preferred ETF HPR. I am also deleting Enbridge's US Preferred V after a strong US dollar run against the Canadian loonie.

I am replacing these positions with two new additions to both portfolios. I am adding the Enbridge Preferred Y rate reset preferred. It offers a current yield of 6.18% and is expected to be reset in September 2019 with an increase in the dividend per share to \$1.1125 from the current \$1.00 per share. This assumes that the five year Canada rate of 2.07% stays the same until the preferred is reset next year. The expected new dividend per share using today's share price offers an expected dividend yield of 6.87%, an increase from the current 6.18% yield.

I am also adding the Trans Canada Pipeline rate reset preferred B. It has a rate reset date of June 30, 2020 with an anticipated yield of over 6%. While the current yield is just under 4% the new yield will be considerably higher at 6% assuming that 5 year Canada bond yields remain the same. The issue's current dividend per share is \$0.54 with the new rate expected to be \$0.8375.



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The four rate reset preferreds will provide solid current yields and their reset yields will most likely be higher than their current yields unless 5 year Canada yields fall from the current 2.07% and an economic recession unfolds over the next few years. As I have mentioned previously you do not want to own rate reset preferreds in a recession where interest rates are dropping.

Equity Sector Weights.

In terms of equity sectors I am making several changes to overall weights. I remain overweight the new North American benchmark weight for Financials and Technology. I am increasing my weight from underweight to market weight for the following: Energy, Consumer Staples and Utilities. I am going from market weight to overweight for the Reits. I remain market weight Healthcare and Communication Services I am going from overweight to market weight for the Consumer Discretionary and Industrial sectors. Lastly I remain underweight the Materials sector.

These changes will increase the exposure to the more defensive sectors while still providing exposure to the fast growing Technology sector. By having exposure to all sectors also offers a high level of diversification, a necessary factor in this environment.

Common Equity Stock and ETF changes

In the Financial sector I am adding Bank of Nova Scotia to both portfolios. The shares have sharply underperformed their peers over the last few years and the current valuation offers good upside.

I am removing the US Regional bank ETF IAT as these banks are of inferior overall quality to their larger NY City counterparts.

In the Energy sector I am deleting Whitecap from both portfolios. The company is having a very difficult time in this current crude oil environment. I am also deleting Step Energy from the Growth portfolio with less overall demand for their services. I am adding Trans Canada Pipelines to both portfolios. The company offers a solid dividend yield with plenty of growth opportunities both in cash flow and dividend increases over the next several years. I am deleting Centennial Energy, a US energy stock from the Growth portfolio as it is a highly volatile stock.

In the Materials sector I am deleting Trevali Mining and suggesting using the proceeds to purchase the BMO ZMT Global Base Metals ETF. I am also advising a switch out of Roxgold into the XGD Gold ETF. While Roxgold remains a high quality low cost gold producer, its mine is in Burkina Fasso, Africa where political unrest is significantly increasing.

Finally I am deleting Fedex from the Growth portfolio in the Industrial sector. The company is experiencing continuing issues with the ongoing US / China trade war and is now about to experience a brand new competitor to their space, the formidable Amazon.

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McMurtry Investment Report - Portfolios (December 2018)

	Income		Growth	
Cash	Alterna Bank - High Interest Savings (2.05% current rate) EQ Bank - High Interest Savings (2.30% current rate)		Alterna Bank - High Interest Savings (2.05% 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>
	Trans Canada TRP.PR.B	3.93	TransCanada TRP.PR.B	3.93
	Enbridge ENB.PR.Y	6.08	Enbridge ENB.PR.Y	6.08
	Royal Bank RY.PR.J	4.22	Royal Bank RY.PR.J	4.22
	Industrial Alliance IAG.PR.G	4.52	Industrial Alliance IAG.PR.G	4.52
Common Stocks	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
<i>Financials</i>	Royal Bank RY	4.02	Royal Bank RY	4.02
	Bank of Nova Scotia BNS	4.70	Bank of Nova Scotia	4.70
	National Bank	4.42	National Bank	4.42
	TD TD	3.64	TD TD	3.64
	CIBC CM	4.88	CIBC CM	4.88
	Sun Life SLF	4.08	Sun Life SLF	4.08
	JP Morgan JPM US	2.88	JP Morgan JPM US	2.88
	Bank of America BAC US	2.11	Bank of America BAC US	2.11
	Citibank C US	2.78	Citibank C US	2.78
	Goldman Sachs GS US	1.68	Goldman Sachs GS US	1.68
	T. Rowe Price TROW US	2.82	T. Rowe Price TROW US	2.82
	Keycorp KEY US	3.71	Keycorp KEY US	3.71
	Paychex PAYX US	3.17	Paychex PAYX US	3.17
	PNC Fin'l PNC US	2.80	PNC Fin'l PNC US	2.80
<i>Energy</i>	Suncor SU	3.36	Suncor SU	3.36
	Freehold FRU	7.31	Freehold FRU	7.31
	Torc TOG	5.49	Torc TOG	5.49
	Pembina Pipe Lines PPL	5.12	Pembina Pipe Lines PPL	5.12
	Enbridge ENB	6.95	Enbridge ENB	6.95
	Trans Canada TRP	5.18	Parex Resources PXT	0.00
<i>Materials</i>	Agnico Eagle AEM	1.17	Agnico Eagle AEM	1.17
	Franco Nevada FNV	1.53	Franco Nevada FNV	1.53
	BMO Global Base Metal ETF ZMT	1.65	BMO Global Base Metal ETF ZMT	1.65
			iShares Global Gold ETF XGD	0.23
<i>Industrials</i>	Toromont TIH	1.59	Toromont TIH	1.59
	WSP Global WSP	2.29	WSP Global WSP	2.29
	Canadian Pacific CP	0.93	Canadian Pacific CP	0.93
	CNR	1.59	CNR	1.59
	Raytheon RTN US	1.98	Raytheon RTN US	1.98
	Aecon Group ARE	2.67	Aecon Group ARE	2.67
	Guggenheim Eq Wt IND RGI US	1.08	Guggenheim Eq Wt IND RGI US	1.08
	Honeywell HON US	2.24	Honeywell HON US	2.24
	Finning FTT	2.90	Finning FTT	2.90
	TFI Int'l TFI	1.90	TFI Int'l TFI	1.90
<i>Consumer Discretionary</i>	Home Depot HD US	2.28	Home Depot HD US	2.28
	Sleep Canada ZZZ	3.35	Sleep Canada ZZZ	3.35
	Canadian Tire CTC.A	2.80	Canadian Tire CTC.A	2.80
	Amazon AMZN US	0.00	Amazon AMZN US	0.00
	Magna MG	2.64	Magna MG	2.64
	Lowes LOW US	2.03	Lowes LOW US	2.03
<i>Communication Services</i>	Rogers B RCI.B	2.71	Rogers B RCI.B	2.71
			Alphabet GOOGL US	0.00
<i>Consumer Staples</i>	Alimentation Couche- Tard ATD.B	0.57	Alimentation Couche Tard ATD.b	0.57
	Loblaws L	1.93	Loblaws L	1.93
	Constellation Brands STZ US	1.51	Constellation Brands STZ US	1.51
	Unilever PLC UL US	3.31	Unilever PLC UL US	3.31
<i>Technology</i>	Apple AAPL US	1.64	Apple AAPL US	1.64
	Microsoft MSFT US	1.66	Microsoft MSFT US	1.66
	Open Text OTEX	1.77	Open Text OTEX	1.77
			Nvidia NVDA US	0.39
			ETFMG Prime Cyber Sec. HACK US	0.01
			Shopify SHOP	0.00
			Visa V US	0.71
<i>Utilities</i>	Algonquin Power AQN	4.77	Algonquin Power AQN	4.77
	Fortis FTS	3.90	Fortis FTS	3.90
<i>Healthcare</i>	Abbott Labs ABT US	1.51	Abbott Labs ABT US	1.51
	Johnson & Johnson JNJ US	2.45	Johnson & Johnson JNJ US	2.45
	Merck MRK US	2.77	Merck MRK US	2.77
	US Healthcare iShares ETF IYH US	1.03	US Healthcare iShares ETF IYH US	1.03
	United Healthcare UNH US	1.28	United Healthcare UNH US	1.28
	Eli Lilly LLY US	1.90	Eli Lilly LLY US	1.90
	CVS US	2.49	CVS US	2.49
			Danaher DHR US	0.58
			Thermo Fisher Scientific TMO US	0.27
			IBB Biotech ETF IBB US	0.28
<i>Real Estate</i>	Cdn Apt. REIT CAR.un	2.94	Cdn. Apt. REIT CAR.un	2.94
	InterRent REIT IIP.un	2.18	InterRent REIT IIP.un	2.18
	Summit REIT SMU.un	5.45	Summit REIT SMU.un	5.45
<i>European Equity</i>	iShares MSCI Europe XEU	2.80	iShares MSCI Europe XEU	2.80



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McMurtry Investment Report - Sector Weights (December 2018)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	23.25	34.20	13.70	22.93
Energy	11.04	17.80	5.40	11.04
Materials	4.19	10.20	2.60	6.02
Industrials	9.99	10.70	9.40	9.99
Consumer Disc.	7.43	4.40	9.90	7.43
Comm. Services	8.10	5.90	9.90	8.10
Consumer Staples	5.78	3.80	7.40	5.78
Technology	14.23	4.10	19.90	12.79
Utilities	3.51	4.00	3.10	3.51
Real Estate	3.10	3.20	2.90	3.04
Healthcare	9.41	1.60	15.80	9.41
Totals	100.00	99.90	100.00	100.01

McMurtry Investment Report Asset Mix (December 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	12.38	19.12
US	15.12	23.38
Europe	5.00	5.00
Emerging Markets	0.00	0.00

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