



MCMURTRY INVESTMENT REPORT

Investment Commentary March 2019

Asset Mix Changes

As you all know, US equity markets cratered in December but have since recovered approximately 75% of their losses from the recent peak so far this year.

A combination of factors has led to this sharp rebound. A more accommodating Federal Reserve and a real possibility of some form of trade agreement between the US and China have propelled the market off its lows. The probability of an imminent recession has not increased since late last year.

However global economic growth in Europe and China continues to deteriorate. Being fully cognizant of this fact has led Chinese authorities to stimulate their economy through a combination of lowering VAT taxes for corporations and increasing government spending. Normally it takes at least six months for these measures to have a positive effect on the Chinese economy. A possible trade agreement will also help stop the bleeding. Many global economists are unsure if these measures will stop the Chinese economic growth to decline even more than anticipated.

Equity valuations have rebounded in this recent market rise and are no longer undervalued as was the case late last year.

I am of the belief that a US recession is still several years away in this period of benign interest rate levels. However, equity markets need to get their breath by digesting all these conflicting factors before going meaningfully higher.

The consensus economic outlook is continued weakness for the first half of this year followed by a pickup in the second half.

Taking all these factors into consideration, I am not making any changes to either my cash or equity weights for both portfolios. In this environment it is important to have some cash to take advantage of market opportunities when they present themselves. Equity markets may very well pull back somewhat after their strong year to date performance.

I am only making two asset mix changes by recommending liquidating all the rate reset preferreds and using the proceeds to purchase the 5 year Canadian investment grade corporate bond ladder ETF CBO. I am also deleting the floating rate fixed income ETF XFR and switching the proceeds into the corporate bond ladder CBO as well.

Canadian Rate Reset Preferreds

I have wrestled with the exposure to rate reset preferreds for quite some time. If we go into another period of lower rates, rate reset preferreds will fall sharply from current levels as they did in the last recession. Investors owing these securities for yield will be very disappointed if this happens. On the other hand if rates resume their uptrend they may still offer good returns. However the combination of



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investment grade corporate bonds and dividend paying common stocks should outperform rate reset preferreds in a period of rising rates.

Consequently in retrospect there is no real benefit owing these securities. They are very illiquid and are subject to so many complex factors that it is a better strategy to avoid them.

Equity Sectors

I continue to overweight Financials, Industrials, Communication services, Consumer Staples, Technology and REITS.

I remain market weight Energy, Utilities and Healthcare.

I remain underweight Materials and Consumer Discretionary

Common Equity Changes

In the Technology sector, I am adding Cisco Systems to both portfolios. Similar to Microsoft this company has been forced to reinvent itself in order to keep its long term growth rate intact. The company is expected to be a major beneficiary of 5G implementation. Cisco continues to report strong operating and free cash flow growth leading to growing dividends.

I am also adding Kinaxis, a Canadian supply chain planning software company to my Growth portfolio. Its long term growth outlook is very positive, but its recent quarterly report was very lumpy and disappointed investors. Taking into account the sharp increase in order backlog, I feel the shares represent a buying opportunity at current prices.

In the Healthcare sector, I am deleting CVS Health from both portfolios. While the valuation is cheap, the company is experiencing problems from every area of its business including Omnicare and its Pharmacy Benefit divisions. CVS is also having problems digesting its Aetna acquisition. Finally Amazon is entering the pharmacy business with the intent to materially lower drug prices.

In the Financial sector, I am deleting CIBC from both portfolios and replacing it with Bank of Montreal. CIBC experienced the worst 4th quarter of all the Canadian banks while Bank of Montreal outperformed all of them. BMO is showing strong net interest margins, low credit losses and solid loan growth. It has a large US operation, Harris Bank, that is helping them as well.

In the Industrial sector, I am deleting Finning International from both portfolios. The company had a very poor 4th quarter and expects operating margin pressures and poor revenue growth to continue into 2019. Proceeds can be directed into WSP Global, Toromont and Aecon that all offer better prospects.

Lastly in the REIT sector I am adding Dream Industrial to both portfolios. The industry fundamentals in Canada for industrial space availability has tightened in 2018 to a record low 3.2% with 10 consecutive quarters of declining availability. Dream is experiencing solid cash flow growth and is expanding its US



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operations. While the dividend is not growing, its yield is over 6% with a modest payout and the company does not have an overly leveraged balance sheet.

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McMurtry Investment Report - Portfolios (March 2019)

	Income		Growth	
Cash	Alterna Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)		Alterna Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)	
Bonds - Regular	iShares XSB Short Term iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't		iShares XSB Short Term iShares CBO 1-5 Ladder Corp iShares CLF 1-5 Ladder Gov't	
Bonds - High Yield CORP	iShares XHY US High Yield CDN \$		iShares XHY US High Yield CDN \$	
Common Stocks	<i>Security</i>	<i>Dividend Yield %</i>	<i>Security</i>	<i>Dividend Yield %</i>
Financials	Royal Bank RY Bank of Montreal BMO Bank of Nova Scotia BNS National Bank TD TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Morgan Stanley MS US T. Rowe Price TROW US Keycorp KEY US PNC Fin'l PNC US	3.97 3.89 4.82 4.22 3.96 3.97 3.11 2.09 2.90 2.90 3.09 3.91 3.00	Royal Bank RY Bank of Montreal BMO Bank of Nova Scotia National Bank TD TD Sun Life SLF JP Morgan JPM US Bank of America BAC US Citibank C US Morgan Stanley MS US T. Rowe Price TROW US Keycorp KEY US PNC Fin'l PNC US	3.97 3.89 4.82 4.22 3.96 3.97 3.11 2.09 2.90 2.90 3.09 3.91 3.00
Energy	Suncor SU Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP	3.84 7.39 6.15 4.65 6.13 5.01	Suncor SU Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP Parex Resources PXT	3.84 7.39 6.15 4.65 6.13 5.01 0.00
Materials	Agnico Eagle AEM Franco Nevada FNV	1.14 1.24	Agnico Eagle AEM Franco Nevada FNV iShares Global Gold ETF XGD	1.14 1.24 0.20
Industrials	Toromont TIH Air Products APD US WSP Global WSP Canadian Pacific CP CNR Raytheon RTN US Aecon Group ARE Guggenheim Eq WT IND RGI US Honeywell HON US TFI Int'l TFI	1.60 2.56 2.15 0.95 1.85 1.92 3.15 1.27 2.16 2.43	Toromont TIH Air Products APD US WSP Global WSP Canadian Pacific CP CNR Raytheon RTN US Aecon Group ARE Guggenheim Eq Wt IND RGI US Honeywell HON US TFI Int'l TFI	1.60 2.56 2.15 0.95 1.85 1.92 3.15 1.27 2.16 2.43
Consumer Discretionary	Home Depot HD US Sleep Canada ZZZ Canadian Tire CTC.A Amazon AMZN US Lowe's LOW US	3.00 3.67 2.85 0.00 1.93	Home Depot HD US Sleep Canada ZZZ Canadian Tire CTC.A Amazon AMZN US Lowe's LOW US	3.00 3.67 2.85 0.00 1.93
Communication Services	Rogers B RCI.B	2.82	Rogers B RCI.B Facebook FB US Alphabet GOOGL US	2.82 0.00 0.00
Consumer Staples	Alimentation Couche- Tard ATD.B Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.53 1.82 1.78 3.23	Alimentation Couche Tard ATD.b Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.53 1.82 1.78 3.23
Technology	Apple AAPL US Microsoft MSFT US Open Text OTEX Nokia NOK US ADR Paychex PAYX US Cisco CSCO US	1.69 1.67 1.60 3.90 2.93 2.74	Apple AAPL US Microsoft MSFT US Open Text OTEX Nokia NOK US ADR Paychex PAYX US Cisco CSCO US Kinaxis KXS ETFMG Prime Cyber Sec. HACK US Visa V US	1.69 1.67 1.60 3.90 2.93 2.74 0.00 0.16 0.68
Utilities	Algonquin Power AQN Northland Power NPI Fortis FTS	4.52 4.73 3.74	Algonquin Power AQN Northland Power NPI Fortis FTS	4.52 4.73 3.74
Healthcare	Abbott Labs ABT US Becton Dickinson BDX US Merck MRK US US Healthcare iShares ETF IYH US United Healthcare UNH US	1.67 1.25 2.76 1.87 1.52	Abbott Labs ABT US Becton Dickinson BDX US Merck MRK US US Healthcare iShares ETF IYH US United Healthcare UNH US Danaher DHR US Thermo Fisher Scientific TMO US IBB Biotech ETF IBB US	1.67 1.25 2.76 1.87 1.52 0.51 0.30 0.29
Real Estate	Cdn Apt. REIT CAR.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.71 2.06 6.29 4.64	Cdn. Apt. REIT CAR.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.71 2.06 6.29 4.64
European Equity	iShares MSCI Europe XEU	3.09	iShares MSCI Europe XEU	3.09

McMurtry Investment Report - Sector Weights (March 2019)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	22.25	32.50	13.30	21.94
Energy	11.25	18.40	5.40	11.25
Materials	5.50	11.10	2.70	6.48
Industrials	10.25	10.60	9.80	10.16
Consumer Disc.	6.75	4.20	9.90	7.34
Comm. Services	8.50	5.70	10.10	8.12
Consumer Staples	5.75	3.80	7.10	5.62
Technology	13.80	4.30	20.60	13.27
Utilities	3.62	4.00	3.30	3.62
Real Estate	3.25	3.20	3.00	3.09
Healthcare	9.09	2.10	14.80	9.09
Totals	100.00	99.90	100.00	99.96

McMurtry Investment Report Asset Mix (March 2019)

Asset Mix - Income and Growth Portfolios		
%	Income	Growth
Cash	35.00	30.00
Bonds - Regular	20.00	10.00
Bonds - High Yield	5.00	5.00
Preferreds	0.00	0.00
Equities	40.00	55.00
CDN	15.75	22.50
US	19.25	27.50
Europe	5.00	5.00
Emerging Markets	0.00	0.00