



MCMURTRY INVESTMENT REPORT

Investment Commentary April 2019

Asset Mix Changes

Last week both the Canadian and US yield curve inverted where short rates exceeded longer maturities. For most of the past economic recessions, an inverted yield curve occurred 6-18 months before the onslaught of an economic slowdown. Consequently, this signal should not be taken lightly and brushed off as is frequently the case with economists stating that things are different this time.

This week the inversion of the curve went away in both Canada and the US with longer rates now slightly exceeding shorter maturities. However, the negative yield curve is still present in Europe where their economy continues to suffer.

US corporate bond spreads for both investment and High Yield securities had been creeping up in late December. However, year to date corporate spreads over US Treasuries have been coming down once again. Historically when corporate spreads widen this is a danger signal for an economic slowdown. The recent reduction in spreads is a positive sign that the economy may not be as weak as many pundits are saying.

Overall economic activity is definitely slowing globally. This is also true in the US but their economy is still growing on a relative basis much faster than Europe and Canada. Economic growth in the Chinese economy had been coming down sharply, but this week an announcement came out stating that their domestic industrial production started to revive after nearly nine months of decline. Several months ago the Chinese authorities began stimulating their domestic economy by lowering corporate taxes and increasing government spending. Once again this is a positive development.

The Federal Reserve has stopped increasing rates by emphatically stating that there will be no more rate increases for the remainder of the year.

US corporate profit growth has slowed dramatically from last year, while equity prices have rebounded sharply year to date. Equity valuations are no longer cheap as they were in late December.

This week the US / China trade talks have taken a more positive tone which is good for markets.

Taking all these factors into consideration, I have decided to leave the asset mix for both portfolios the same as last month. The jury is still out if an economic recession is imminent or only years away.

Equity Sectors

The main change to my equity sector recommendations is to reduce the Financial equity exposure from overweight to market weight the 55% US 45% Canada benchmark. This works out to a new weight of 21.25% of my North American equity exposure.



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The reason for my reduction in weight for the Financial sector is all to do with interest rates and the slope of the yield curve. Lower rates combined with either a flat or inverted yield curve is not positive for the bank's net interest margins. A slowing economy normally results in an increase in loan losses, another possible headwind.

For the other groups I remain market weight Energy, Utilities and Healthcare.

I remain overweight Technology, Industrials, Real Estate, Communication Services and Consumer Staples

I remain underweight Materials and Consumer Discretionary.

Common Equity Changes

In the Financial Services sector, I am replacing National Bank with Intact Financial for both portfolios. Intact is the largest property / casualty company in Canada and will benefit from the recent departure of AIG, a large US competitor from the Canadian market. Intact is raising insurance rates in Ontario and this will help to increase operating margins. Differing from life insurance companies, property and casualty insurance companies have much shorter term liabilities and are consequently not as negatively affected from flat to falling interest rates as the life companies are.

In the Technology sector, I am deleting Nokia from both portfolios. Huawei, the Chinese company and major competitor to Nokia has been continuously lobbying the global wireless providers to encourage them to continue buying their products. It is only in the US that the Chinese company has been banned with its alleged cybersecurity activities. Thus, Nokia has not been as much of a beneficiary from the 5G wireless ramp up as originally expected. In addition, a law firm has recently alleged that Nokia's Alcatel – Lucent division has some very serious potential claims for security law violations. This creates a lot of uncertainty. My recommendation is to sell your Nokia shares and use the proceeds to purchase more Cisco, which will be a major beneficiary from the upcoming 5G implementation.

In the healthcare sector I am adding the Swiss dental implant company, Straumann Holdings ADR to my Growth portfolio. This American Depositary Receipt is not very liquid in the US market, so please always use limit orders when buying and selling this security. Despite this shortfall, this is a good quality company and one of the global leaders in the dental implant industry. The company is experiencing strong annual revenue and gross profit growth in addition to record EBITDA margins. The company has strong organic growth and operates in 100 countries globally. The global dental implant market is expected to grow at 4-5% globally this year and Straumann's organic growth is sharply outperforming its competitors.

Lastly in the Materials sector, I am adding Osisko Metals to my Growth portfolio. The company is a small cap zinc exploration company that operates in both the Far North and in New Brunswick. The company has no long term debt and the level of insider buying is unusually high. Normally I do not even discuss insider buying, but the level of insider buying for this company is extraordinary. The supply / demand situation for zinc is the most favourable for all the base metals with inventory stockpiles at very low levels. Should the Chinese economy rebound the demand for zinc will increase accordingly.

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McMurtry Investment Report - Portfolios (April 2019)

	Income		Growth	
Cash	Alterra Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)		Alterra Bank - High Interest Savings (2.35% current rate) EQ Bank - High Interest Savings (2.30% current rate)	
Bonds - Regular	Shares XSB Short Term Shares CBO 1-5 Ladder Corp Shares CLF 1-5 Ladder Gov't		Shares XSB Short Term Shares CBO 1-5 Ladder Corp Shares CLF 1-5 Ladder Gov't	
Bonds - High Yield CORP	Shares XHY US High Yield CDN\$		Shares 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 Intact Financial IFC 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	4.05 4.00 4.89 2.69 4.08 3.90 3.16 2.17 2.89 2.84 3.04 4.32 3.10	Royal Bank RY Bank of Montreal BMO Bank of Nova Scotia BNS Intact Financial IFC 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	4.05 4.00 4.89 2.69 4.08 3.90 3.16 2.17 2.89 2.84 3.04 4.32 3.10
Energy	Suncor SU Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP	3.85 7.43 5.62 4.55 6.04 4.91	Suncor SU Freehold FRU Torc TOG Pembina Pipe Lines PPL Enbridge ENB Trans Canada TRP Parex Resources PXT	3.85 7.43 5.62 4.55 6.04 4.91 0.00
Materials	Agnico Eagle AEM Franco Nevada FNV	1.15 1.29	Agnico Eagle AEM Franco Nevada FNV Osisko Metals OM.V Shares Global Gold ETF XGD	1.15 1.29 0.00 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	1.55 2.44 2.06 0.94 1.79 2.03 3.33 1.35 2.07 2.45	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	1.55 2.44 2.06 0.94 1.79 2.03 3.33 1.35 2.07 2.45
Consumer Discretionary	Home Depot HD US Sleep Canada ZZZ Canadian Tire CTC.A Amazon AMZN US Lowes LOW US	2.80 3.77 2.88 0.00 1.75	Home Depot HD US Sleep Canada ZZZ Canadian Tire CTC.A Amazon AMZN US Lowes LOW US	2.80 3.77 2.88 0.00 1.75
Communication Services	Rogers B RCI.B	2.78	Rogers B RCI.B Facebook FB US Alphabet GOOGL US	2.78 0.00 0.00
Consumer Staples	Alimentation Couche-Tard ATD.B Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.64 1.79 1.69 3.06	Alimentation Couche-Tard ATD.B Loblaws L Constellation Brands STZ US Unilever PLC UL US	0.64 1.79 1.69 3.06
Technology	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Cisco CSCO US	1.54 1.56 1.58 2.79 2.59	Apple AAPL US Microsoft MSFT US Open Text OTEX Paychex PAYX US Cisco CSCO US Kinaxis KXS ETFMG Prime Cyber Sec. HACK US Visa V US	1.54 1.56 1.58 2.79 2.59 0.00 0.15 0.64
Utilities	Algonquin Power AQN Northland Power NPI Fortis FTS	4.58 5.12 3.64	Algonquin Power AQN Northland Power NPI Fortis FTS	4.58 5.12 3.64
Healthcare	Abbott Labs ABT US Becton Dickinson BDx US Merck MRK US US Healthcare iShares ETF IYH US United Healthcare UNH US	1.60 1.23 2.65 1.84 1.46	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 Straumann ADR SAUHY US * IBB Biotech ETF IBB US	1.60 1.23 2.65 1.84 1.46 0.52 0.28 0.63 0.28
Real Estate	Cdn Apt. REIT CAR.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.76 2.03 5.83 4.35	Cdn. Apt. REIT CAR.un InterRent REIT IIP.un Dream Industrial DIR.un Summit REIT SMU.un	2.76 2.03 5.83 4.35
European Equity	Shares MSCI Europe XEU	2.96	Shares MSCI Europe XEU	2.96

* Be careful purchasing and selling Straumann ADR's as they are very illiquid. Always use a limit order.

McMurtry Investment Report - Sector Weights (April 2019)

Equity Sector Weights (%)				
Sector	My Weight	TSX Comp	S&P 500	55 % US /45% CDN
Financials	21.25	31.70	12.70	21.25
Energy	11.07	18.00	5.40	11.07
Materials	5.66	11.20	2.60	6.47
Industrials	10.40	10.90	9.50	10.13
Consumer Disc.	6.40	4.10	10.10	7.40
Comm. Services	8.50	5.80	10.10	8.17
Consumer Staples	6.25	3.90	7.30	5.77
Technology	14.00	4.50	21.20	13.69
Utilities	3.71	4.20	3.30	3.71
Real Estate	3.75	3.50	3.10	3.28
Healthcare	9.02	2.20	14.60	9.02
Totals	100.00	100.00	99.90	99.95

McMurtry Investment Report Asset Mix (April 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

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