MURRAY WEALTH GROUP MWG

“THE ONLY THING WE HAVE TO FEAR IS…FEAR ITSELF” – *Pres. Franklin D. Roosevelt 1933*

We are in the midst of one of the great bull markets in history. CNBC’s Jim Cramer calls it a beast… and we agree. Rarely have we witnessed a time when global economic growth is synchronised, productivity is high, employment is rising, and the global consumer is reasonably positioned from a savings standpoint. At the MWG, we believe we are at one of those points in history where improved productivity through technology is allowing the standard of living to increase while holding inflationary pressures at bay. We have started to witness completely robotized assembly lines and self-checkouts in grocery stores. While there are some unfortunate dislocations of labour in the short term, these trends should improve quality of life in the future.

Housing is one of the greatest drivers of GDP growth and generally contributes 15-18% to the total. In the U.S., we are finally leaving behind the housing crisis of 10 years ago, with housing starts recently recovering into the low end of their 50-year average. Housing should support the U.S. economy for years to come.

The recent cuts in corporate taxes in the U.S. will lead to a massive inflow of capital, with the repatriation of corporate profits from former lower tax jurisdictions like Canada and European countries such as Ireland and the UK. Most of us have probably read about Apple’s plan to repatriate some $350 billion over the next five years. To put this in perspective, some seventy years ago, The Marshall Plan pumped $13 billion into sixteen countries in a very successful effort to rebuild Europe after WWII. Inflation (using the US GDP deflator as a base) would bring that number over $110 billion today. So, Apple’s repatriation alone is 3 times as large as the Marshall plan in todays dollars and Apple is only one company of hundreds or thousands with overseas cash

piles. The multiplier effect of these repatriations on the U.S. economy will be huge and will no doubt ripple out around the globe, keeping the economy extremely buoyant for several more years. A precautionary impact that we will monitor may be the inflationary impact of all this liquidity.

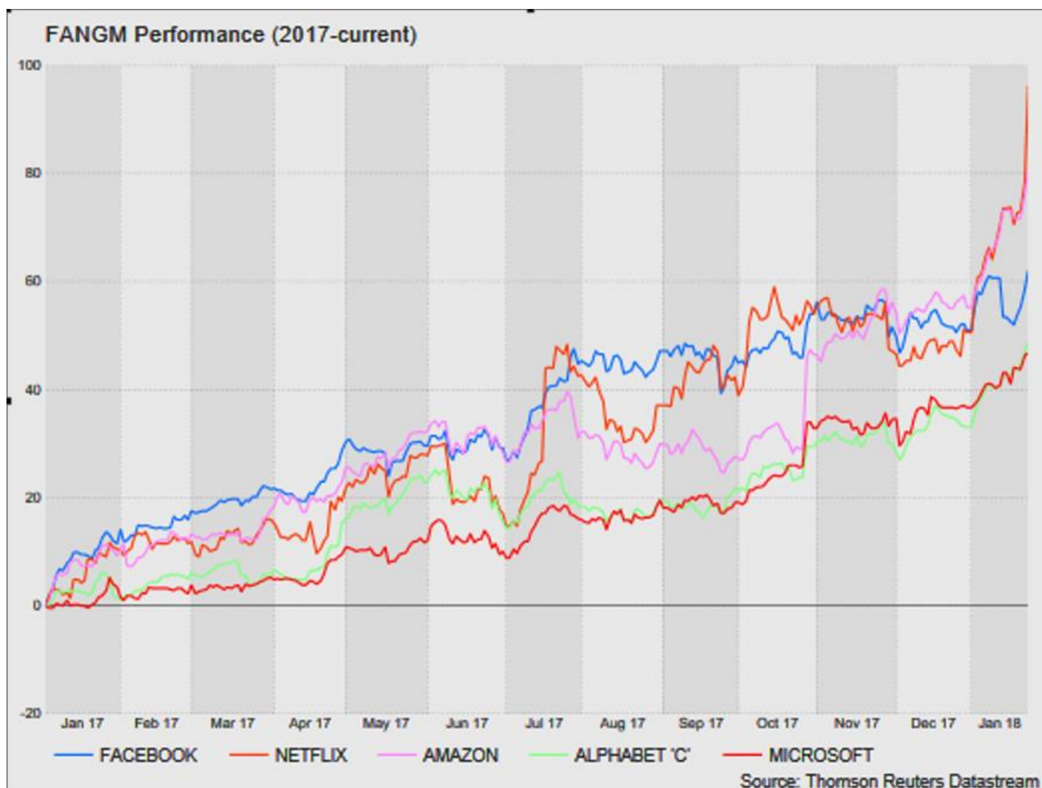
On top of this, Warren Buffet pointed out that the U.S. federal government is essentially giving you another 20% of your company that they used "own" through the tax regime. Against this background, we expect corporate profits to surprise and the global stock markets to enjoy a robust year.

As of January 22nd, the S&P 500 is up some 6.7% already this year, selling at a P/E of 24.8X and a dividend yield of 2.1%. Earnings forecasts, which we don't believe contain the full effect of the tax changes, imply growth a historically strong 10.9%.

Themes from 2017 - Global Growth Fund

FANGM Stocks (Facebook, Amazon, Netflix, Google/Alphabet & Microsoft) and other high growth technology companies

This contingent worked well again in 2017, with returns between 45% and 70% helping NASDAQ outperform the S&P 500 Index by almost 12% (30.5% VS 18.7%). These companies are dominant providers of internet-based technologies, providing the infrastructure and web-based services to both business and consumers. Performance of the five companies is provided below.



Throughout the year, we continued to increase but diversify our exposure to the sector as shown in the table below.

Comparison of High Growth Technology Exposure

Company	Portfolio weighting on 12/31/16	Portfolio weighting on 12/31/17
Alphabet (Google)	5.87%	6.13%
Amazon	2.03%	3.25%
Apple	4.04%	2.90%
Facebook	4.05%	4.95%
Mastercard	5.54%	3.92%
Microsoft	3.98%	4.03%
Netflix	0%	1.05%
Oracle	0%	2.37%
Palo Alto Networks	0.85%	1.42%
Total	**26.36%**	**30.02%**

A look back at the portfolio at the end of 2016 shows where we made changes. We increased our Amazon and Facebook weightings, added to Palo Alto Networks and initiated positions in Oracle and Netflix. On the other end, we reduced our weightings in Mastercard and Apple, although the portfolio still contains a healthy weightings in each.

Call for 2018: We continue to like the technology sectors and find value in fast growing companies with strong margins and dominant market positions. We expect to remain overweight in the sector as the world continues to find more productivity-enhancing applications for these internet-focused companies. We believe secular growth trends remain intact and that growth rates should remain strong.

Consumer Discretionary (as long as it isn't mall retailers)

The consumer is back in the United States, with unemployment ticking lower, credit improving and wage growth starting to turn, as evidenced by numerous corporations announcing wage hikes and additional bonuses. Despite a tough environment for incumbent retailers, our "unAmazonable' (colloquially defined as companies that Amazon cannot easily disrupt) consumer stocks performed well in 2017. Our positions were focused in the auto sector, cruise lines and specialty retailers. However, we did reduce our exposure to the U.S. consumer during the year as valuation multiples increased to levels that were less attractive.

Company	Portfolio weighting on 12/31/16	Portfolio weighting on 12/31/17
BMW	2.98%	2.97%
Dollar Tree	2.26%	1.55%
Royal Caribbean Cruises	4.73%	3.54%
The Home Depot	3.97%	3.10%
Toll Brothers	2.93%	0%
Walt Disney	2.25%	2.55%
Air Canada	0%	1.09%
Hudson Bay	2.42%	0%
Linamar	4.51%	2.79%
Restaurant Brands International	1.55%	1.38%
Total	**27.60%**	**18.97%**

Call for 2018. We believe the sector will perform well as the U.S. economy continues to grow, but took the weight down to fund the higher technology weighting, which we believe will be more resilient during the ultimate cyclical slowdown.

Interest Rates

Interest Rates are a fundamental driver of all asset classes that affect our portfolio. Day to day, they affect funds flow and sentiment, but beneath the surface, changes in interest rates affect the discount rates used for the valuation of equities and, perhaps more importantly, exchange rates. As shown below in Table 3, US 10-year interest rates remained flat from 2016 to 2017 despite three interest rate hikes from the Federal Reserve. Canadian yields moved up slightly, although they still remain well below those in the U.S. This tightening of the rate differential combined with a less draconian outlook for oil pricing led to an almost 7% increase in the CAD vs US$. We were surprised by this strength and expect less volatility in 2018.

	Canada	US	Europe (Germany)
10-yr yield - 12/31/16	1.71%	2.43%	0.21%
10-yr yield - 12/31/17	2.02%	2.41%	0.42%
Overnight Rate – 12/31/16	0.50%	0.5-0.75%	0.25%
Overnight Rate – 12/31/17	1.00%	1.25-1.50%	0.25%
Exchange Rate vs CAD – 12/31/16		1.343	1.416
Exchange Rate vs CAD – 12/31/17		1.256	1.506

Call for 2018. We continue to prefer U.S. equities over Canadian, in part due to our preference to hold US dollar denominated investments in the growth fund. We believe that the Canadian economy will underperform as home price appreciation decelerates and the Canadian oil patch sees lower levels of investment than previous cycles. We will continue to hold a larger weighting in Canadian financial stocks due to their history of strong returns and lower volatility in spite of the short-term attractiveness of some U.S. financials.

Themes from 2017 – Income Growth Fund

Small Capitalization REITS attractive for growth and income potential

We generally increased our exposure to REITs during the year, adding to some existing positions and initiating a new position in European Commercial REIT. We view the small cap REIT complex as attractive for growth and income potential. We hold multiple positions across the sector, providing the diversification REITS often lack. There is also a significant yield premium, with our basket of REITs yielding 7.68% vs 5.29% for the S&P TSX REIT Index (as of Jan 23/18). Our REIT portfolio provides exposure to the commercial/industrial markets in Canada, U.S. hotels and European commercial property.

Company	Portfolio weighting on 12/31/16	Portfolio weighting on 12/31/17
American Hotel Income Prop. REIT	3.09%	3.00%
Automotive Properties REIT	1.54%	1.94%
Cominar REIT	3.05%	4.12%
European Commercial REIT	0.00%	3.41%
Granite REIT	5.09%	2.29%
Summit Industrial Income REIT	1.93%	3.26%
Total	**14.70%**	**18.02%**

Outlook for 2018: Rising interest rates and tougher mortgage rules for residential real estate are certainly a headwind, but with solid demand for property across Canada, a strong U.S. economy and continued low rates in Europe, we believe REITs will continue to provide strong risk-adjusted returns relative to other high-yield investments.

The continued search for yield

We have continued to look at opportunities to increase the yield in the income fund, with the yield at year-end 2017 at 6.1% versus 5.4% at year-end 2016. We look at companies with high yields that we believe exhibit potential for growth in dividends (such as the Enbridge Income Fund) and where the market is pricing in an overly punitive dividend cut (such as Cominar REIT).

Outlook for 2018: We believe we have achieved a good balance between risk/reward and yield versus growth. Thus, we expect the dividend yield of the Fund to remain approximately 6%.

Higher Interest Rates shouldn't derail dividend stock returns

A general rule of thumb is that dividend stocks move inversely to interest rates as dividend yields rise when interest rates increase in order to maintain the risk tradeoff of government bonds. While this theory definitely has merit, we believe interest rates will need to move significantly higher (likely to the 4%+ range) before impacting high dividend yielding equities.

Outlook for 2018: Although the market is expecting two more interest rate hikes in 2018, we expect Canadian dividend stocks to continue to perform well as current 10-year interest rates of 2.0% remain well below equity yields. In fact, equities may benefit from any weakness in the bond market if the outflow from bond funds provides additional capital for equities.