

MWG Newsletter

Our Q4 Performance

The Murray Wealth Group (MWG) is off to a strong start since we launched four client strategies (three equity and one fixed income solution) on July 1, 2015. Our flagship fund, the MWG Global Equity Growth Fund, posted a total return of 9.2% in the first six months of operation. In terms of Q4, the MWG Global Equity Growth Fund was up by 9.6%, while the MSCI World Index was up 5.1%, the S&P 500 Index was up 7% and the TSX Composite Index was down 1.4%.

<u>MWG Fund Performance:</u>	<u>Q4/2015</u>	<u>Equity Markets:</u>	<u>Q4/2015</u>
MWG Global Equity Growth Fund	9.6%	MSCI World	5.1%
MWG Canadian Equity Growth Fund	-0.8%	S&P 500	7.0%
MWG Dividend Growth Fund	3.3%	S&P/TSX Composite	-1.4%
MWG Fixed Income Fund	-0.7%		

<u>MWG Fund Performance:</u>	<u>Jun-Dec/2015</u>	<u>Equity Markets:</u>	<u>Jun-Dec/2015</u>
MWG Global Equity Growth Fund	9.2%	MSCI World	-4.2%
MWG Canadian Equity Growth Fund	-3.3%	S&P 500	0.2%
MWG Dividend Growth Fund	0.1%	S&P/TSX Composite	-9.1%
MWG Fixed Income Fund	-0.7%		

Q4 Market Overview and Outlook

Mark Twain famously said “If you don't read the newspaper, you're uninformed. If you read the newspaper, you're mis-informed.”

We like to read the newspapers, watch business television, and surf the net looking for intriguing stories. But we often forget the negative bias the media typically suffers from: only bad news sells. This bad news bias is pervasive, and if one were to believe that this bias didn't exist, it would surely convince every equity investor that all was for naught. So let's recap some of the key events and stories hitting the headlines over the past quarter and into 2016.

Wild Ride to Kick Off 2016 ...

Today, the media continues to focus on current weakness in China. Chinese equity markets have been volatile, while capital outflows have continued to rise, which has forced the government to prop up its currency with foreign exchange reserves.

Commodity markets continue to flounder, with no prospect of recovery on the horizon. A weaker renminbi further impairs demand, while a strong U.S. dollar continues to incentivize producers to pump

oil and mine. With the Organization of the Petroleum Exporting Countries (OPEC) having abandoned its traditional role of stabilizing oil prices, oversupply in the energy markets should continue.

... But Stay the Course

In the first week of January, we had one of the worst-ever starts on the markets. Despite the bearish start, we feel it should not dictate the tone for an entire investing year, and remain constructive on the markets. When our investing horizon is long, we need to be prepared for short term pain occasionally, and we received it in spades in early January.

However, there are many reasons why, longer term, we remain positive on the equity markets. In terms of GDP growth, Europe should post slightly better numbers year-over-year, while the key U.S. economy should remain at about 2.5% growth due to higher employment, wage growth and improving housing trends. While the U.S. started the process to “normalize” interest rates with an administrative increase, this will be a long process slowly developing over the next several years, especially given Chinese currency volatility. The consensus real GDP forecast for Canada is 1.8% in 2016, up from 1.2% in 2015.

Today, the relatively closed U.S. economy is far more consumer-driven, with job gains supporting continued growth. The U.S. consumer is more confident due to increasing employment, real wage gains, lower energy costs and the lowest household debt since 2007, which should incubate it from some of the emerging market volatility. 2015 automobile sales were at record levels in North America and China (and growth in Europe). Our auto exposure is through Magna on the supplier side and BMW, the only pure play large cap luxury brand in the industry.

In the U.S., the recovery from the 2008 housing disaster is well underway, with stronger household formation driving demand for rental units, multi-family and single-family homes. The level remains well below demographic-based projections of demand, especially with the Millennials about to enter the housing market in a much larger way. We believe US housing still has significant growth ahead and to this end we own Home Depot and the home builder Toll Brothers.

The current turmoil being felt across many U.S. industrial sectors, driven by the collapse in commodity prices, a slowdown in emerging markets and the challenges of a strong U.S. dollar, caused a massive inventory reduction to spread throughout the global supply chain. Overall, we have pared back our exposure to the US industrial sector to help mitigate short term pain and have sided with industrial companies that are safe havens, with less international and energy exposure, such as Honeywell.

We are encouraged that China is morphing into a consumer driven society, unleashing savings and leveraging a growing middle class. While commodities will continue to languish given tepid demand and excess supply, at MWG we continue to avoid out of favour sectors like oil and gas and basic materials. We have also become more cautious on Canada in general, given the country’s commodity-driven economy.

Our 2016 Trip Plan

Our outlook for 2016 is constructive, buoyed by a relatively strong U.S. economy, with the consumer driving the bus at this juncture, given close to full employment, rising wages but still relatively benign inflation trends, growing confidence and historically low household debt levels. While China and the energy markets are driving much of the current market turmoil, its GDP growth remains at a still very

healthy 6.5% forecast for 2016. Digging deeper, growth is very strong in Chinese box office trends, online retail sales, air passenger numbers, car sales, and a host of other consumer growth metrics. Thus, we do not subscribe to the view of annualizing the market's rough start to the year, but will continue to align our portfolios appropriately to avoid the obvious pitfalls.

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