
MWG Portfolios: Trading Summary, Mar. 2017

Our portfolio trades for the month of March were as follows:

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:	<ul style="list-style-type: none"> • BNS.TO • SNC.TO • QCOM.OQ • ORCL.K 	
Increased:	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • SMU-U.TO
Reduced	<ul style="list-style-type: none"> • OSB.TO • MFC.TO • LNR.TO • GOOG.OQ • MA.N • MDT.N • RCL.N 	
Sold:		<ul style="list-style-type: none"> • DH.TO

Commentary: March, in like a lamb.....out like a lamb

March came in like a lamb and went out like a lamb as the S&P, the TSX and the Canadian dollar changed little in value during the month. The Trump Rally stalled as the positive flow of earnings news slowed and some of President Trump's proposals met the realities of US politics. The markets have performed well. Despite how far the markets have come, we remain optimistic and are fully invested. Global economic activity continues to be better than anticipated and the US and Germany are enjoying relatively full employment, the precursor to economic growth. The rest of Europe is also trending higher and emerging markets (particularly China and India) are growing nicely. First quarter earnings will start to flow later this month and are widely expected to be up by over 10% led by the oil and financial stocks. Crude oil prices have been averaging higher this year than they did in Q1 2016, when oil touched below \$27. Higher interest rates will benefit financials.

Global Equity Growth Fund:

We increased the number of holdings by 4 over the month. In the US portion of the fund, we added a 2.0% position in Qualcomm (QCOM.OQ) at US\$58.42. The stock has dropped well below its 5-year average stock price of US\$64.57. Apple recently sued for \$1 billion over the level of royalty payments due to QCOM providing us with a buying opportunity. QCOM is the major technology provider to cell phone handset providers. The company recently spent its large cash hoard and more on NXP, a leader automotive safety and personal security. Both are “hot” growth areas for semiconductors. In addition, QCOM’s Snapdragon 835 chip is powering Samsung’s new Galaxy S8, which will be released in the next few weeks. The current dividend of US\$0.53 is expected to be increased to US\$0.58 this week to yield 3.9%. Earnings are expected to rise from \$4.50 to over \$5.00 per share over the next three years. A relatively modest multiple assumption yields a \$70 target price.

We also added a 1% starter position in Oracle (ORCL.OQ) at US\$46.23. Oracle has been lagging the other major software companies. It has been behind in the transition to SAS (software as a service) where customers rent software monthly versus the former licensing model. Oracle recently reported a strong quarter with SAS and “cloud” revenues increasing 62% to about 13% of total revenues. We expect Oracle, which is the largest supplier of database software, to get back on track. Our current target is a modest US\$51.50, but we suspect our target price will move higher.

In the Canadian portion of the Fund, we added a 2% position in Bank of Nova Scotia (BNS.TO) at \$78.79. We are increasing the financial holdings in this fund as we believe the environment for banking will improve with higher administered rates in the USA and a stronger global economy. BNS has historically had strong leverage to higher rates. We have a \$91 based on a 14.5 multiple of earnings.

Lastly, a 1% position in SNC-Lavalin Group (SNC.TO) was bought at \$53.20. SNC’s new management has restored corporate credibility. Moreover, SNC is now short listed on a wide range of projects and expects to double its engineering business in the next 2 years with increasing margins. The value of the company is backed by its ownership of strong assets like Ontario’s 407 highway. We have a \$62 target on SNC and will watch for further opportunities to increase our position.

To fund the purchases, we reduced some of our larger positions (as listed in the table) where strong performance has reduced potential upside.

Income Growth Fund:

We sold DH Corp (DH.TO) at \$25.19 due to the coming takeover at \$25.50 and moved the money into Summit Industrial REIT (SMU_u.TO) doubling our position to 4% at \$6.55. Summit’s ownership of warehouses in the GTA position’s it well. Our target of \$7.25 yields a 22% potential return, including a dividend yield of 7.8%.