

MWG Portfolios: Portfolio Weighting Changes December 2017

Our portfolio actions for the month of December were as follows:

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:	NFLX.OQ, TPR.N, LNR	CTL.N
Increased:	MFC.TO, FB, AZN	No Changes
Reduced	DLTR.OQ, HD.N	No Changes
Sold:	MG.TO	LB.N

Commentary: “A Bitcoin selloff is worse than divorce... you lose half your net worth, but at the end you still have your spouse” – Joseph Fahmy.

December was a good month for the markets, with North American Indices all in positive territory, capping off another strong year. Bitcoin volatility dominated the news cycle after an astronomical rise in prices and futures trading began on two major exchanges in Chicago. As well, the Trump Administration achieved its first major policy initiative with the signing of a new tax bill that will drop corporate tax rates from 35% to 21%. The promise and ultimate success of the tax plan had been a major driver of U.S. market performance in the 2nd half of the year.

Canada - The S&P TSX Total Return Index increased 1.2% in December and finished up 9.1% for the year. The outlook for commodities improved markedly in the last half of the year and Canadian economic growth was a pleasant surprise, with GDP growth likely pushing 3% for 2017 (almost a full point higher than estimates a year ago). This strength, combined with a globally weak US dollar, resulted in a surprisingly strong Canadian dollar, which opened the year at an exchange rate of US\$ 74.43 and closed 6.9% higher at US\$ 79.55 after peaking at US\$82.91 in early September.

United States - U.S. markets capped off their strong 2017 performance with the S&P 500 increasing 1.1% on a total return basis (-1.7% in C\$) and NASDAQ rising 0.5% in the month of December. For the year, the S&P 500 rose 21.8% (13.8% in C\$) and the NASDAQ was up 33.0% (24.4% in C\$)

Global Equity Growth Fund:

The Fund's NAV declined by 1.2% in December as the strong C\$ (+2.6% against the US\$) overwhelmed the strong global returns for the month. For the year, the NAV per unit grew by 18.1%.

On December 1st, we opted to add a 1% holding in Netflix (NFLX.OQ) at \$186.78. NFLX and similar services will take share from expensive cable TV distributors, a trend that is still in its infancy. We funded this purchase by reducing our holding in Dollar Tree (DLTR) by 1% to a 1.5% portfolio weight at \$101.00. We also made minor additions to both Facebook (FB) at \$175 and AstraZeneca (AZN) at \$32.84, which we funded through a minor reduction in Alt Disney (DIS) at \$104.47.

On December 14, we reversed a trade done last summer, selling our 4.0% position in Magna International (MG.TO) at \$71.09 per share. Magna had been purchased for an average price of \$59.81. With the proceeds, we purchased a 2.5% weighting in Linamar (LNR.TO) at \$65.30. While we like both companies, in order to control our exposure to the auto industry, we only hold a weighting in the one we find most attractive at any given point in time. Shortly thereafter, LNR announced the acquisition of MacDon Industries, a Winnipeg based agricultural equipment supplier with annual sales of \$1.2 billion. The stock rose 11.5% that day, immediately justifying our fortuitous purchase. We also increased our weighting in Manulife Financial (MFC.TO) by 0.5% to 2.5% at \$26.50. We like MFC's refocused growth strategy and have a \$32 target on the stock. In addition, we purchased a 2.0% position in Tapestry Inc. (TPR) at US\$43.07. TPR is a U.S. fashion accessory company that operates under brand names like Coach, Kate Spade and Stuart Weitzman and is rebuilding its brands after over expanding Coach a few years ago. We have a US\$54 target on TPR. To help fund this purchase, we reduced our Home Depot (HD) position by 1.0% to 3.0% at US\$182.98.

Income Growth Fund:

The Fund's NAV per unit grew 0.8% for the month and rose 13.7% for the calendar year. Canadian income stocks underperformed the market in December due to the strength of commodities, the Canadian dollar and the Canadian economy, which lead to fears of higher interest rates and better opportunities in more economically sensitive companies.

The only significant trade in the portfolio was the purchase of a 1.0% position in CenturyLink Inc. (CTL) at US\$14.38. CTL a second tier U.S. communications company with telecom and cable TV assets, has an established dividend yield of \$2.16 per annum and was yielding 15.0% at purchase. While the market is clearly concerned about the yield, as it is well above earnings, it is within its funds flow coverage. The company is currently standing behind its dividend policy, but using ATT and Verizon as benchmarks, the dividend could be cut by 2/3 (to about a 5% yield) and still be in the range of its cohorts. To fund this purchase, we sold our remaining holdings in L Brands (LB) US\$54.41. LB turned out to be a disappointing investment as Christmas sales in 2017 were very disappointing for its major chain, Victoria's Secret, which also eliminated its swim wear line from the stores, further impacting sales. The stock had collapsed to a low of US\$35 in August, but we decided not to increase our position as cash flow was falling quicker than sales. We thus used the December rally on expectations of good 2017 Christmas sales to sell the stock. We also added made a minor addition to our Enbridge Income Holdings by participating in a new issue at \$27.80.

The portfolio is currently yielding 6.1% with a 79% weighting in Canada. We continue to focus on increasing the yield in the portfolio by purchasing high quality equities with very strong income components and/or equities in which we believe the market is mispricing the risk of a dividend cut.

With the New Year upon us, we would like to take this opportunity to wish our readers the very best for a healthy, happy and prosperous 2018. We are excited by the opportunity of helping you build your wealth in 2018 and beyond.

As always, we appreciate your referrals so if you know someone that can benefit from our services, please do not hesitate to give us a call.