

MWG Portfolios: Portfolio Weighting Changes January 2018

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

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:	AVGO, COST	No Changes
Increased:	NFLX, NWL	No Changes
Reduced	AMZN, DEO, RCL	No Changes
Sold:	KR, QCOM	No Changes

January Market Commentary

January experienced a continuation of the U.S. bull market with equity markets having their best month in two years and yields for North American 10-year bond benchmarks increasing about 30 bps. Historically, markets have continued to rally following a strong January, but valuations and rising yields are concerning some market participants. Also notable from a “sentiment/euphoria” standpoint, both Bitcoin and marijuana stocks suffered massive pullbacks from their record high levels (up approximately 40-60%), indicating some semblance of normalcy returning to the markets.

So far in February, the selling pressure has continued in first three trading days and wiping out January’s gains swiftly. We have not seen any indications that macro and economic factors are deteriorating thus we attribute the selling to a much-needed pull back. If further selling pressure ensues, we will look to rotate into some more attractively valued names or average down our own positions.

Canada: Canadian markets finished down 1.4% in January. We have previously commented on the uneven footing that is currently propelling the Canadian economy and continue to see a better macro environment in the U.S. and Europe. Housing in Canada faces the three-headed threat of higher mortgage rates, stricter regulations and record high prices, and a healthy slowdown appears inevitable. The Canadian energy sector remains bottlenecked from a capacity standpoint, with large discounts to global oil benchmarks. Taxes, minimum wage and other environmental regulations remain in the background and could pressure business investment in 2018.

United States: U.S. markets continued to rise forcefully in January, building on strong 2017 performance, with the S&P 500 increasing 5.7% on a total return basis and NASDAQ rising 7.4%. Most of the gains occurred in the first half of the month, with the final week of January experiencing some of the larger down days in the past year. Valuations of U.S. equities and rising interest rates are the two main concerns for market watchers, but we believe the U.S. tax reform bill coupled with already strong earnings growth will continue to propel markets higher.

Global Equity Growth Fund:

The Fund's NAV increased by 3.4% in January, held back by a rally in the Canadian Dollar to US\$0.812 (+2%) as well as muted returns from the Canadian portion of the portfolio (20% of the Fund).

As is our practice, we continuously review the performance of individual equities in the portfolio against our target prices. One would have expected to see either Netflix or Amazon as the top quarterly performer given all the publicity about their rapid rise. However, the top performing stock in the 3-months ending January 31 was Kroger, up 50%. We used this strength to switch Kroger (sold at US\$30.96) into shares of Costco (US\$ 198.13), a truly unique company with industry leading per store sales growth and a strong value proposition for consumers. We had initiated our position in Kroger a bit too early but the Amazon-Whole Foods acquisition provided us with an opportunity to increase our position at more attractive prices. Our average cost base on Kroger was US\$26.43.

In early November 2016, Qualcomm shares rallied after receiving a hostile takeover bid from competitor Broadcom to acquire the company at US\$70/share. We have long believed Broadcom to be the better operator, but Qualcomm's patented cell phone chip technology was undervalued by investors. With Qualcomm shares trading close to the current bid price, we decided to switch our position into Broadcom as the shares had fallen about 15% from their November highs. We view the risk-reward skewed attractively to Broadcom given its strong generation of cash flow, which should lead to increased dividends and share buybacks. A successful takeout of Qualcomm will only increase its cash flow generating ability. Qualcomm could still receive a higher Broadcom bid, but there are downside risks if Broadcom walks away from the deal.

Income Growth Fund:

The Fund's NAV per unit decreased 0.5% for the month. Income stocks, specifically those in the utilities sector, have been pressured by increases in short-term bond yields. Our REIT holdings, on the other hand, performed quite well. While we did not change target weights in the portfolio, cash flow was reinvested into a number of Canadian portfolio holdings, with the largest being Bank of Nova Scotia and Hydro One installment receipts (11% short-term yield). The US\$ denominated part of the portfolio outperformed in spite of the higher C\$, with the Canadian weights dropping marginally.

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

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.