MWG Portfolios: Portfolio Weighting Changes May 2018

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

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:		CJ.TO
Increased:	AVGO, FB, MFC.TO	T, CPX, EIF
Reduced	MA, APPL,	H.IR.TO, ET.TO
Sold:		

May Market Commentary

Sell in May, not today. The wall of worry was in full effect throughout May and the markets continued to climb higher. The S&P 500 benchmark Index rose 2.1% while the tech-heavy NASDAQ rose 5.3%. Strengthening oil prices and renewed interest in commodities drove the TSX to a 2.9% return although recent headlines suggest OPEC's supply cuts may be ending sooner rather than later.

With a declining Volatility Index as a back drop, equities started to reflect the strength in corporate earnings after another impressive round of releases in April and early May. Bellwether tech stocks like Apple and Facebook posted much stronger results than anticipated, renewing confidence in the sector. Industrial and other economically-sensitive stocks continue to see strong cash flows, aided by the recently implemented tax cuts, which are fueling record share buybacks.

US Government Bond yields also declined in May, ending the month at 2.82% after reaching a high of 3.11%. Yields fell on expectations of a less aggressive rate hike schedule from the US Federal Reserve. This provided support to all equities, but particularly to interest rate sensitive sectors like real estate and telecom/utilities.

The Canadian Dollar has remained rangebound between $0.72-0.84 versus the US Dollar for the better part of two years, closing the month at $0.77.

Global Equity Growth Fund:

The Fund's NAV increased 1.9% to $12.39 in May and is up 4.7% YTD. We maintain an 80% weighting in U.S. and International equities, which has helped drive performance this year.

During the month, we made only minor weighting changes in the portfolio. Most notably, we raised our weighting in Broadcom to 2.5% from 2.0%, purchasing shares in the US$228 range. The shares have performed well and are trading above US$260 currently. We continue to like the company, which is building a dominant position in the semiconductor market and can squeeze smaller rivals on selection and pricing by offering a package of both wired and/or wireless chips to tech companies. It is generating strong free cash flow and is currently buying back $12B of stock.

We also increased our exposure to Manulife, the Canadian life insurance company. As interest rates rise, insurers will benefit from changes in their reserve value (an actuarial calculation that benefits from higher long-term rates). This will free up capital and allow Manulife to continue to grow its best-in-class Asian insurance division.

We maintained our holdings in Facebook. However, our target weighting increased as the shares recovered following the disclosure of the Cambridge Analytica data release scandal and we decided against selling our position down. This necessitated a weighting increase as the share value became a larger part of the portfolio.

During the month, we reduced our stake in Apple (from 3% to 2.5%) and Mastercard (from 4% to 3%) as both companies reached new all-time highs. While we still hold substantial positions in each company, we see better value in other technology-focused firms.

Income Growth Fund:

The Fund's NAV per unit increased 1.7% for the month and is down 2.8% on the year. The portfolio is currently yielding 6.7%, with a 79% weighting in Canada. The Fund benefitted from the reversal of interest rates during the month, which brought back some confidence in the sector. In Canada, the REIT sector was the strongest sub-group in the TSX (up 4.4% on an unweighted basis). The Canadian banks also wrapped up another solid earnings season and trade at attractive P/E multiples.

We started a small position in Cardinal Energy, a well-run junior oil company in Alberta. We are not particularly bullish on the prospect of higher oil prices, but the Canadian oil patch is attractively valued on concerns surrounding export pipelines, the political climate and carbon taxes as well as U.S. production growth. Cardinal has a very low decline rate in its asset base and makes a good margin on every barrel sold ($20/bbl. last quarter). Cardinal yields 8% and should be able to maintain that payout while reducing its debt levels.

During the month, we added to our positions in AT&T, Capital Power and Exchange Income Fund.

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.