

MWG Portfolios: Portfolio Weighting Changes July 2018

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

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:		
Increased:	STZ.N	
Reduced	FB	
Sold:	DEO.N	

July Market Commentary

Another strong earnings season over-shadowed by two big misses. At time of writing in early August, second quarter earnings season is in the late innings with a majority of bellwether companies in the United States and Canada reporting in droves. The two big misses we are referring to are Facebook and Netflix, both of which are held in our Global Equity Growth portfolio and closely followed by market participants and business media alike. Their misses overshadowed strong results from other tech titans such as Microsoft, Google and Amazon. However, strong results from Apple Inc. released after the market close on July 31st served as a catalyst to push the market back into its upward trajectory. During the quarter, we heard bullish commentary from airlines, cruise lines, freight transportation, healthcare companies, retailers and industrial companies to highlight some sectors that experienced strength during the quarter.

Economic growth in North America remains strong and hence our focus remains on owning companies that will benefit from the strong domestic economy and have a business models unaffected by ongoing tariff/trade concerns.

United States. The S&P 500 and the NASDAQ Composite Index increased 3.6% and 2.1% in July. Year-To-Date, the indices have returned 5.3% and 9.5%, respectively. Unemployment rates continue to trend lower. While the official rate indicates the U.S. is close to full employment at 4.0%, the U6 rate, which includes under-employed and discouraged workers (not in labour force) could continue to improve, benefitting retail and consumer stocks. On the interest rate front, the yield on the US Government 10-year bond has remained just below the 3% level after a swift move upwards earlier in the year, reflecting tame inflation forecasts. This has provided valuation support for interest rate sensitive equities such as utilities and real estate stocks.

Canada. The S&P TSX Composite Index returned 1.1% in July and is up 3.1% for the year. The Canadian economy continues chugging along despite headwinds in trade negotiations, a slowing property market and oil export capacity constraints. We continue to favour Canadian companies that have global operations with minimal exposure to Canadian consumers and those focused on Canada's strong financial services market. The Canadian dollar has remained rangebound between US\$0.72 and US\$0.84 for the better part of two years, closing the month at US\$0.77.

Global Equity Growth Fund:

The Fund's NAV increased 3.1% in July, reaching \$12.65 post the June 30 distribution, up 10.6% YTD. Currently, 78% of the fund is invested in U.S. and International securities, with the remaining weight in Canadian-based stocks.

During the month, we fully exited our position in Diageo (the world's largest liquor company – Johnny Walker, Guinness, Smirnoff etc. etc.) and redeployed the proceeds into Constellation Beverages (Corona Beer in the USA) at US\$209. In mid-2017, we completed a similar repositioning by increasing our Diageo stake at the expense of Constellation. Diageo shares have outperformed Constellation by about 10% since our earlier repositioning and were approaching all-time highs. Constellation is a higher growth company and we were able to purchase the shares at a more attractive price/earnings multiple following a sell-off. Our sale price on Diageo was US\$146, up 25% from our US\$117 cost base.

After Facebook and Netflix suffered share price declines, we were forced to re-evaluate our target weights and either make significant purchases to restore target weightings or lower them. In the case of Facebook, the target weighting was lowered a half percentage point to 5.0%, but the selloff had taken the actual weight to 4.7% so we purchased shares to increase our holdings to the new weight. With Netflix, we decided against making a new purchase and lowered our target weighting to 1.5%. Our only transaction in Netflix shares to date remains our initial purchase in December 2017 at US\$186. We are currently evaluating where to add the 1% of target weighting.

Income Growth Fund:

The Fund's NAV per unit increased 2.0% for the month and is down 1.1% on the year. The portfolio is currently yielding 6.7%, with a 79% weighting in Canada. The fund benefitted from strong performance in the utilities & healthcare category as well as the recovery of some previously underperforming income stocks.

We made no changes to our portfolio in July, preferring to digest 2nd quarter earnings reports and review our positions considering the new information.

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.