MWG Portfolios: Portfolio Weighting Changes October 2018

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

Action:	**Global Equity Growth Fund:**	**Income Growth Fund:**
Bought:	LLY.N, NKE.N	
Increased:		
Reduced		
Sold:	MDLZ, DIS, PFE	

October Market Commentary

If November is a month to remember, October 2018 was a month to forget. Equities and bonds both suffered through a sharp sell off throughout the month on expectations of slowing global growth and increasing interest rates. The ongoing tariff disputes and threats of continued escalation also negatively affected sentiment. The selloff disproportionately affected growth stocks in the technology and consumer discretionary sector. Although most companies reported perfectly decent results with solid outlooks, several high visibility misses from companies like Amazon and Apple added to the negative sentiment.

We continue to believe that the long-term trend for the markets is to go higher. Staying bullish in times of sharp market sell-offs is difficult and can test the patience of active managers like ourselves, but we remain resolute in the continuance of the cycle. The market is trading at a reasonable multiple of 16.2x 2019 EPS; economic measures like employment rates and credit quality are strong; absolute interest rate levels are not burdensome; inflationary pressures remain low, and digital/technical productivity remains high. It's not unusual for markets to need to reset expectations, in order to start a new leg up. We continue to believe the U.S. market provides the most attractive investment returns.

The S&P 500 fell 6.9% in the month and is now up just 1.4% on the year. Meanwhile, the tech-focused NASDAQ fell 8.6% in October as technology stocks were among the hardest hit equities but remains up a healthy 6.6% YTD. Despite its underperformance relative to U.S. markets this year, the TSX was not immune, falling to the tune of 6.5% (now down 7.3% on the year). The Canadian dollar continues to trade in a range of US$0.75-0.80, trading down a penny to US$0.76 at month end.

Global Equity Growth Fund:

The Fund's NAV fell 7.8% in October, selling off with the North American equity markets, reducing our year-to-date return to 2.9%. Our October performance benefitted from a depreciating Canadian dollar, which increased the value of our largely U.S. and international equity portfolio. Several shares that drove the underperformance of our Fund in the latest month are key contributors to our outperformance year-to-date. Netflix and Amazon, for example, which were down 19% and 20%, respectively, in the month, are up 57% and 35%, respectively, year to date and as such responsible for almost half of our positive return thus far this year.

We used the volatility to add some additional exposure to high growth companies, selling some of the more defensive names in our portfolio that had held in well during the sell off, but had less upside to our target prices. We purchased Nike, the global sporting retailer, with the shares ~10% below their recent 52-week high. Nike is in the midst of a minor resurgence after losing market share to Adidas in recent years. The company's transition to a direct-to-consumer model through physical Nike stores and online channels should start to pay off through higher sales and margins while giving Nike more control over its branding. To fund our purchase of Nike, we sold our position in Disney. Disney is a company we owned for its strong brand portfolio, studio franchises and irreplaceable Disney theme park assets. However, the company's traditional TV businesses (ESPN, ABC network, etc.) are struggling in the new media landscape. Disney earnings growth will be muted as the company builds out its own Netflix type streaming service.

We also purchased shares of drug maker, Ely Lilly, preferring the company's upside over Pfizer, a holding we had been reducing throughout 2018 as the shares approached our target price. Ely Lilly has upside in its diabetes franchise and recently released promising results for a next generation diabetes drug that should drive EPS growth through the next decade.

Finally, we sold our position in Mondelez, the snack and beverage company, as the consumer staples sector struggles through slowing sales growth and compressing valuation multiples. We re-distributed the portfolio weighting into existing companies, including Boston Scientific and Constellation Brands.

Income Growth Fund:

The Fund's NAV fell 6.2% in October, selling off with the North American Equity markets and reducing our year-to-date return to minus 4.8%. The portfolio was affected by a confluence of factors, most notable concerns over higher interest rates and borrowing costs in Canada as well as slowing global growth, which is acting as a drag on commodity and industrial sectors.

We did not make any changes to portfolio weights throughout the month. We continue to believe we have a group of companies with a good ability to generate cash flow to meet their dividend requirements.

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.