MWG Portfolios: Portfolio Weighting Changes November 2018

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

Action:	Global Equity Growth Fund:	Income Growth Fund:
Bought:	TOY.TO, ATZ.TO	QCOM.O
Increased:		CHE/UN.TO
Reduced		SMU/UN.TO, GRT/UN.TO, AZN.N
Sold:	ATD/B.TO, QSR.TO	

November Market Commentary

Markets remained volatile in November, with several large down days early in the month, continuing a trend from October as markets fretted over both a hawkish Fed keen on raising interest rates multiple times and ongoing trade/tariff concerns with China. Equity markets got some relief in the last week of November as U.S. Federal Reserve Chairman Powell indicated that interest rates were approaching normalization. Investors often pay close attention to changes in the yield curve as it viewed as a barometer for both economic growth and inflation expectations.

Despite the volatility, corporate earnings are projected to grow at a healthy rate of ~6% through 2020. We believe the road higher will be more difficult from this point on and thus remain invested in secular growth stocks positioned in markets that should continue to grow at healthy rates even in a low-growth environment. In past monthly reviews, we have touched on several of our investment themes, including internet technologies and the shift to cloud computing/internet-based retail, rising health care needs and specialty discretionary retailers.

The S&P 500 increased 1.8% in the month and is up 3.2% on the year. Meanwhile, the tech-focused NASDAQ fell 1.8% in November mainly due to a very poor month for Apple, its largest component. The TSX Index rebounded, increasing 1.1%, but remains down 6.2% on the year. The Canadian dollar continues to trade near the low end of its US$0.75-US$0.80 range.

Global Equity Growth Fund:

The Fund's NAV rebounded strongly in November, rising 3.8% and making up over half of what it lost in October. Year to date, the portfolio has returned 7.17%. November returns benefitted from a strong rebound in growth stocks and strength in the health care sector, with many stocks approaching 52-week highs. Technology stocks were mixed, with shares of Amazon, Google and Microsoft appreciating from October levels while the performance of Apple, Netflix, and Facebook ate into returns.

We took the opportunity to reposition our U.S. portfolio in late October. In November, we used strength in some of our Canadian holdings to reposition into a few stocks (at favourable prices) that we believe have higher upside potential over the long term.

The first position we initiated was a 1.5% position in Toronto-based Spin Master Corp. (at an average price of $41.70). Spin Master is a high-growth toy company with an extremely entrepreneurial management team and a strong network of toy inventors that can be leveraged to develop the next hit toy. Some of its better-known brands are Paw Patrol, Hatchables and Air Hogs. Spin Master also has a very strong financial position, with no debt and strong free cash flow that can be used for new toy development or acquisitions. The toy industry has been impacted by the bankruptcy of Toys R Us and while this has led to a transitional period as new retailers like Walmart and Target commit to increasing shelf space, it has created some near-term inventory challenges for companies like Spin Master. Ultimately, we believe toys purchases are a very sticky industry and Spin Master will continue to take market share as it builds out its product offering.

Our second purchase was in fashion retailer Aritzia Inc., initiated with a 1.5% weighting at a price of $18.70. Artizia designs its apparel and accessories under its exclusive label and is uniquely positioned below luxury-grade but above other mid-market retailers. It has invested heavily in both store design and inventory management technology, enhancing the client experience and growing e-commerce sales. Aritzia has a long runway of growth in the United States, where the company operates only ~25 stores compared with ~65 in Canada. Growth will be measured, but we believe Aritzia ultimately could have upwards of 200 stores in the U.S. (for comparison purposes, Lululemon has ~60 Canadian stores and 270 U.S. locations). We believe the company should have years of growth ahead, with revenue growth of ~10% translating into EPS growth in the mid-teens. At a P/E multiple of 20 times, the shares are attractively valued.

To fund our purchases, we sold our positions in Restaurant Brands, owner of Tim Hortons and Burger King, and convenience store operator Alimentation Couche-Tard.

Income Growth Fund:

The Fund's NAV was slightly higher in November, rising about 1%, in line with the TSX Index. The portfolio was affected by a confluence of factors, most notably some weakness in energy-focused holdings Cardinal Energy and High Arctic as lower oil prices in Western Canada offset the overall market recovery.

We added one name to the portfolio, re-acquiring Qualcomm (with a 2.5% weighting) after the shares fell on weakness in the semi-conductor market on news of slowing iPhone shipments. Qualcomm is currently engaged in a legal dispute with Apple over royalty payments, but we believe positive news flow on a potential resolution will benefit the company. To fund the purchase, we sold half of our position in Astra Zeneca, reducing its weight from 5% to 2.5%.

We also substantially increased our weighting in Chemtrade to 4.5% as we view its 10% dividend yield attractively in the wake of its recent sell off in response to an unfavourable legal judgement. We believe that most of the bad news is now behind Chemtrade and that its shares will benefit from strong demand for its chemical products and by reducing debt outstanding. Its dividend is well supported by its cash flow.

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.