DIARY OF A PORTFOLIO MANAGER

Q4 2016

THE TRUMPQUAKE

2016 has been interesting so far. Markets typically follow a certain pattern in a Presidential election year and 2016 has not been the norm.

Q1 and Q2 are usually weak and Q3 and Q4 stronger as there is more ‘certainty’. Good or bad the worse thing for the market is the unknown.

What helped our portfolios in 2015 – US better than Canadian equities, USD vs CAD – has been a drag in 2016. Oil and base metals have had a great recovery after a very poor showing in 2015.

What you didn’t see in the headlines…

Earnings are decent. Dividends are growing. These are both themes that should lead to an increase in share price over time.

More than ever, I see a market of stocks vs a stock market. We usually identify a good business and hope to own it for a full market cycle. That’s changing – a little bit.

What are we doing?

We are not hard and fast on owning 20 equally weighted names anymore.

If we strictly adhere to our criteria of reasonable (>2%) dividends and five years of dividend growth, we screen out a lot of good names. Also, we identify some names that we like but not necessarily to be equal weight to TD Bank or CNR, for example.

The models now run a core group of 5 or 6 names that we overweight and are happy to own for a while. The remaining 15 will be more opportunistic. They still rank well based on our metrics – or most of them anyway – and are names that have good momentum behind them based on money flows. We'll ride that wave but not necessarily hold for years. This applies both in Canada and the US.

We are also using a tool that identifies overall market sentiment as well as global sectors based on money flows (relative strength) and determines bullish or bearish signals. The plan is to be nimble when called for.

Are there Trumportunities?

It's a bit early yet. The person I have seen speak post-election is not the same one I saw before.

Some sectors that should do well include infrastructure, defense, banks, some health care, concrete (?). A sector to lighten up on may be REITs. Consumer names have been weak in 2016. He's not overly tech friendly.

The markets have not had a great 10 or 15 year run and, even over positive years, there is volatility. Did you know that the S&P 500 has fluctuated on average 20% per year from high to low the past 5 years? Thankfully we have been successful in removing some of the volatility.

Going forward

We plan to hold cash where it makes sense. Not every sell has to have a corresponding buy if we feel equities are not the place to be.

I'll keep you posted as necessary and the next couple months will prove to be interesting.

If you have any questions about this or your financial plan, please do not hesitate to contact me anytime at 613-566-4582 or Corrie at 613-566-2032.

As always, thank you for the opportunity to serve as your investment advisor.

Todd Kennedy
Vice President and Portfolio Manager