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# Monthly Portfolio Report – June 2016

### Canadian Models

Our Dividend Growth model is up 4% for the quarter and 5% year over year compared to the S&P/TSX price Index which posted a gain of 4.2% for the quarter and a loss of 3.4% year over year. Although our Growth model rose 2% for the quarter, it remains down 1% year over year.

### Contributors & Detractors

The outperformance of the Dividend Growth model came from our overweighting in the financial, telecom and utilities sectors while the underperformance of the Growth model resulted from our underweighting in material and energy stocks which rebounded strongly (26% and 10%, respectively).

### Trades

We added Gilden Activewear (up 2%), Royal Bank (up 1%), Canadian REIT (up 3.5%) and Jean Coutu (down 1.5%) to the Dividend Growth model and sold Smart REIT (a bit early but in the money), Constellation Software (flat) and took a profit on Brookfield Asset Management and Alimentation Couche Tard (which both dropped after we sold).

Our underperformance on the Growth model also resulted from adding Stella Jones and CGI Group which have since both dropped in share price. We believe this is more of a timing issue and, as we still like both of these names, they remain in the portfolio.

### U.S. Models

On the U.S. side, our pure Dividend Growth model is up 3% for the quarter and 13% year-over-year and the pure Growth model up 3% and 11%, respectively. This compares very favorably to the S&P 500 which was up 1.9% and 1.8% for the same period.

Our outperformance in both cases comes from our focus on the higher yielding dividend stocks and our exposure to consumer discretionary and non-discretionary equities.

### Asset Mix

Our tactical asset mx reflects the more conservative approach we have taken in this investment environment with a 70/30 mix of equities (50% foreign) and fixed income (including cash). We have applied this balance growth asset mix with certain ranges depending on our clients' individual investment objectives resulting in positive performance of 3% for the quarter and 2.3% year-over-year compared to our benchmark index which was up 3.4% for the quarter and down 3.1% for the year. We added some cash to the portfolios and brought the cash weighting down.

On the fixed income front, we have increased our bond duration to offset any further drop in interest rates and are looking at other solutions to add to prevailing low yields.

## Looking Ahead

Although we remain bullish on equities in the long term and believe we are still in a secular bull, we see a period of rising instability and uncertainty ahead.

There is a long list of concerns for investors to focus on, from Brexit and the US general election, to political instability in Turkey, a referendum in Italy and rising tensions between China and the US. Increased uncertainty is a further drag on the anemic economic recovery and it increases the odds of central banks intervening in financial markets.

In terms of market valuation, the market appears to be willing to pay more for less when it comes to forward earnings. The S&P 500 trades at 18.5x forward 12-month P/E ratio; this is more than one standard deviation above the 10-year average (14.9 x). Similarly, the Canadian market is also trading at a lofty valuation - S&P/TSX trades at 19.4x, well above the 10-year average of 15.3x. At the same time equity valuations are stretched which can make markets susceptible to bouts of volatility. The lofty valuation that exists in today's market is buoyed by record low bond yields and supportive monetary policy, but given how stretched valuations have become, we do believe this makes the market vulnerable to bouts of volatility.

We are keeping a sharp eye on valuations and the results of the Q2 reporting season currently underway. According to FactSet, S&P 500 earnings are expected to decline 5.5% yoy in Q2, marking the first time earnings have slipped five consecutive quarters since Q3/08. As has been the case in the past, this quarter's actual earnings should come in better than expected. But, in any case, a 5.5% yoy decline with equities trading at current valuations with low economic growth inspires us to believe we will have a better opportunity to invest more cash and/or alter our asset allocation and sector weights.

Due to the current interest rate environment, we do not expect to change our focus of owning dividend producing securities.