Portfolio Management
Monthly update

July 2018

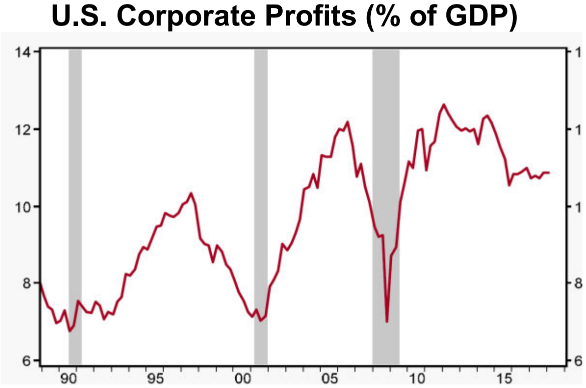
Despite Weakness in Social Media Stocks, the Market creeps higher on Earning.

Highlights

- **Social media stock momentum falters**
- **Share prices continue to lag strong earnings growth as trade concerns escalate**

For every Facebook, there was a handful of Amazon, Spotify, and even Coca Cola topping expectations this week. In fact, with almost half of the S&P 500 now reporting, 88% of companies have topped earnings expectations, while 74% have beat the mark on revenues—both are still running well above historic norms. The average surprise size has been 6.5% to the upside, maintaining the momentum recorded in a blowout Q1 reporting period. Overall earnings growth is running at 24% year over year, consistent with lofty pre-season expectations. So, despite negative trade bluster, Fed tightening & a flattening yield curve, the profit backdrop has only firmed up in very anti-late-cycle fashion.

U.S. Corporate Profits (% of GDP)



Profits as a share of GDP, while off their highs, have stabilized, while unit labour costs have remained contained given how deep we are into the expansion. Top-line revenue growth is tracking at a steady 8% year over year clip, roughly consistent with recent quarters—so this is not solely a tax-cut and cost-cutting story. Investors are being rewarded, not only with surprise-driven price gains, but also through record buybacks and dividends. *(Chart Source: Kavcic, Robert, Senior Economist & Director, Economic Research July 30 2018)*

Brian Belski U.S. Strategy Comment July 12, 2018 Conjecture Diverting Attention from Earnings Strength

Earnings typically drive stock prices. However, there has been a clear disconnect between earnings and stock prices so far this year as geopolitical rhetoric and negative speculation on trade tensions have overshadowed the record levels of earnings growth causing price performance to struggle. We fully expect this relationship to revert back to historical norms at some point, which should drive stocks higher in the coming months.

JP Morgan just put out an upgrade on Vermillion Energy* with a $63 Cdn price target. Surprising that they recommend a smaller Cdn firm, but confirmation of Vermillion's excellent execution & prospects.

Update from one of our favourite funds- Vertex Value: we just added Farmland Partners. FPI is a Farmland REIT in the US who we met with in March. They came under a short attack so we bought the equity, which then rose 15% within 2 days.

If you have any questions about the above information, please feel free to call our office. We hope everyone is enjoying the summer.

Regards,

Scott Barnum, CFA
V.P. and Porfolio Manager

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