

David Shubs – Equity Completion

December 2018

Investment Objective

This portfolio is predominantly an all equity portfolio with a close eye on capital preservation. The strategy is designed to preserve capital in difficult times and over the longer term, provide capital growth and income in the form of dividends. The long-term target asset allocation for the portfolio is 75% North American equity, 20% international equity and a small portion of cash.

Manager Comments

In December, the Dow was down 8.7%, the worst since 1931 and the second worst December on record. The TSX was down 5.8% (Thompson Reuters December 31, 2018).

There were several 2%+ declines in North American equity indexes. They were driven by:

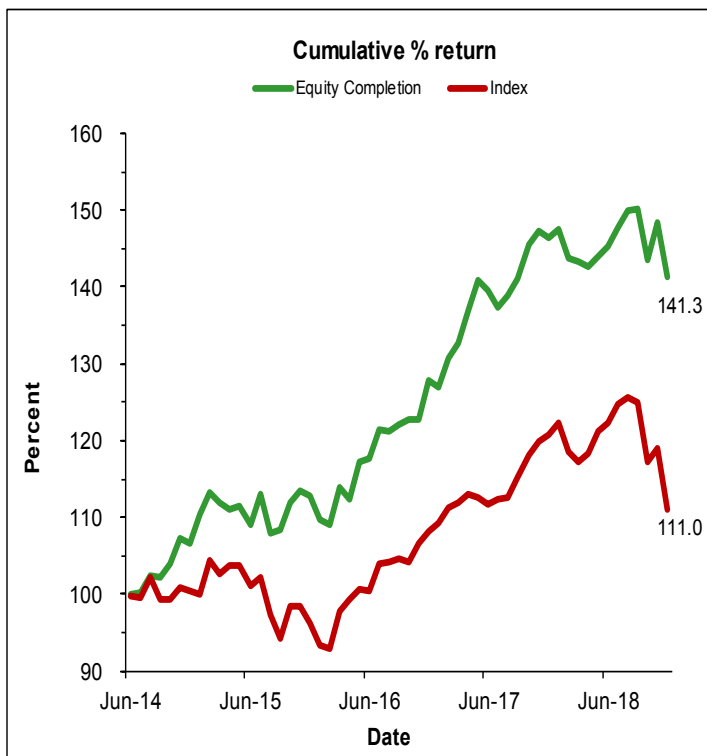
- a flattening of the yield curve, which the markets took as a possible precursor to a recession.
- The arrest of Chinese executive and subsequent detaining of 3 Canadians in China further stoked U.S./China trade war fears.
- U.S. Federal Reserve increasing interest rates and forecasting more interest rate increases in 2019. The market did not agree with the Fed's view of the economy and the market dropped another 2%+ in a day.

The downturn was widespread and industry agnostic. There were no real corners of the investment world that were spared. However, we did have a big win for us this month - the Hydro One Installment Receipts. In August 2017 Hydro One made a bid for a U.S. utility. In order to finance this deal, they issued an installment receipt that effectively paid a 12% interest rate for up to 24 months. We took a full position and gladly added the cash payments to our stockpile. However, Doug Ford's political involvement in the management of Hydro One caused the price of our installment receipts to drop by up to 40%. There was a discrepancy between the price of the Receipts and the stock price which kept us holding on to the investment. In December, Washington State declined the deal, as they were not comfortable with the political instability in Ontario. The Receipt had a caveat that would pay us back our money in full if the deal failed. So, overnight we watched these receipts jump 30%, back to their original price (Thompson Reuters December 21, 2018). We sold and crystalized our gains.

This is the most detailed I have written about any single investment. It is timely as the market is down and investors may be concerned. Until you cash an investment, gains and losses are only on paper. If you understand the businesses that you are in and investments that you make then you can hold on to good businesses in bad times.

Portfolio Facts

Portfolio Manager - **David Shubs**
 Investment Approach - **Fundamental & Quantitative**
 Risk Profile - **Medium to High**
 Return Objective - **Capital Growth and Dividend Income**
 Minimum Investment - **\$250,000**
 Portfolio Inception Date – **June 2014**
 Base Currency – **Dual**
 Benchmark - **5% DEX 91-day T-Bill + 50% S&P/TSX Composite + 35% S&P 500 (CAD) + 10% MSCI EAFE (CAD)**



	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3yr	Since Inception
Strategy	(4.8)%	(5.9)%	(2.8)%	(3.5)%	5.1%	7.8%	8.0%
Benchmark	(6.7)%	(11.2)%	(9.2)%	(8.1)%	1.3%	4.9%	2.4%

David Shubs, MBA, CFA, Investment Advisor and Portfolio Manager

david.shubs@nbpcd.com | 416-359-7663



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