Portfolio Management
Monthly update

June 2018

Trade War Holding the Market Back Despite Good Fundamentals.

S&P 500 Q1 earnings were up 25% & revenues 8.4% vs last year, the best growth since 2010! Despite this, the broad indices have been somewhat flat. (Gunderson, Bill, Market Letter, June 15, 2018)

Our chief strategist, Brian Belski, recently published that the bears are overly concerned that falling long term interest rates are signaling a slowdown & that trade wars will bring a recession.

We are still positive about the market especially with the current forward PE ratio at 16x due to strong earnings growth and the recent pullback.

The strong US dollar however will hurt US exporters. Particularly, Industrial stocks have been very poor performers recently. There was a lot of excitement with the election, but ever since then it has been kind of downhill. Tax cuts & synchronized global growth have failed to help industrials as an investment. Financials have also given back a bit of their 2017 outperformance, with investors blaming the fall in loan demand, as well as the ever-flattening yield curve.

The healthcare sector has been relatively flat year to date. Biotech & pharmaceutical companies, along with pharmacy benefit managers, drug wholesalers and others in the supply chain, comprise over half of the sector. Pharmaceutical stocks have underperformed given that they will likely be in the cross-hairs of investors ahead of mid-term elections. By contrast, healthcare equipment shares (IHI) such as the makers of heart devices, knee replacements or tools for drug research, which are viewed as being shielded from pricing attacks, are up ~17% in 2018.

Within consumer and technology sectors, investors continue to crowd into popular names such as Amazon, Home Depot, Netflix, Amazon, Google, Apple, and Facebook. It is important to recognize that in order for the market to make substantial new highs, you have to have key areas of the market industrials, healthcare, and financials come to life.

Highlights

- **Earnings & revenue growth very strong**
- **Rising US dollar hurting US exporters & emerging markets**
- **Canadian energy looks good**
- **Our favourite mutual funds outperform**

We have sold emerging markets investments due to the rising US dollar & trade concerns. We still like Canadian energy stocks with the lower Canadian dollar providing an added boost.

Canadian companies exporting to the US and avoiding tariff barriers look good.

Chinese stocks have been hit hard lately with trade war worries, Yuan weakness & a deleveraging push by Chinese authorities. (Chapman, Paul, Notable Points Today, June 29 2018)

Big Cap Canadian Funds Underperform vs Behan Barnum Favourites

On the following page, you will see a chart comparing the top 10 largest mutual funds in Canada with the top 10 mutual funds of our choice. The top half of the chart comes directly from Rob Carrick's article from The Globe and Mail.

Rob Carrick noted that the biggest Canadian funds have underperformed their indices and therefore don't justify the fees. Conversely, on the bottom of the chart you will see that our favorite fund pics have significantly outperformed their benchmarks.

If you have any questions about the above information, please feel free to contact our office. We hope that everyone had a wonderful long weekend!

Regards,

Don & Scott