The Dividend Value Discipline™
Quarterly Market Commentary
1st Quarter 2018 (Q1) – as of March 31

We kicked off the first quarter of 2018 with considerably better relative results, vis-à-vis the North American stock market indices. For reference, Canada's S&P/TSX Composite Index was down 5.19% for Q1 2018, while the U.S.'s S&P 500 Index was down 1.22%, in local currency terms. By way of comparison, most fully-invested accounts within **The Dividend Value Discipline™** ended the quarter flat to ever-so-slightly negative. Due to our ***"buys only mandate"***, coupled with differences in start dates and timing of cash flows, no two accounts are exactly alike – your individual results can be found on **The Progress Monitor**. As always, all return figures are net of costs.

Far more importantly, the "rent cheque" (dividend) increases just keep rolling in. Since January 1, the annualized dividend increases announced were as follows: CCL Industries Inc. (+13.0%), Bank of the Ozarks (+11.4%), Suncor Energy Inc. (+12.5%), Stantec Inc. (+10.0%), Gilead Science Inc. (+9.7%), Intel Corp. (+9.1%), Dollarama Inc. (+9.0%), Bank of Nova Scotia (+7.7%), Manulife Financial Corp. (+7.3%), Great West Lifeco Inc. (+6.0%), and Sherwin Williams Co. (+1.2%). We continue to see sustainable dividend growth as the path to ever-increasing cash flow and higher stock prices, albeit in lumpy fashion. We encourage participants not to get too excited about short term numbers, whether they are positive or negative. However, we do get excited about rising rent cheques!

As a reminder, the objectives for the program are:

- To buy great culture companies that are disrupting the way business is done and/or aggregating (purchasing smaller competitors) their way to higher growth as a means to sustainably grow their dividends at double-digit rates.
- To hold said companies through the inevitable market downturns by focusing on the dividend growth, as opposed to short term market fluctuations, so that we can reap the benefits of ever-increasing income and long term capital appreciation.
- To generate a consistently growing income and absolute returns of 8%+ over any investment cycle, i.e. peak to peak or trough to trough. In terms of a time frame, think five+ years.

The Market Backdrop

As you are likely aware, 1st quarter 2018 started out with a roar on the backs of the Trump tax cuts and then ended with global markets selling off sharply in the face of worries over Trump trade wars and the increasing regulation risk now facing the likes of the Facebook, Amazon and Google behemoths. What does it mean for investors within **The Dividend Value Discipline™**?

In the short term, it is plausible that all equity markets get pushed south and if that turns out to be the case, we should welcome it. It will give us the opportunity to acquire our "double-digit rent cheque growers" at better prices. As is normally the case, the headlines we read each day are far more salacious than the actual details. For example, even if all of the threatened tariffs against China were implemented, they would impact less than 3% of the total goods imported to the U.S. Not exactly a game changer. Similarly, the initial steel and aluminium tariffs represented ~2% of total imported goods to the U.S., but then the vast majority of exporting countries won last minute tariff exemptions. As per our comments on **The Opportunity Update**, the Trump bark is worse than the bite. These dust ups are designed to appease the U.S. voters who put Trump in the White House and give him a shot at retaining Republican control of the Congress post the mid-term elections this fall. We do not believe they are the start of a major trade war. To wit, every gauntlet thrown down (and hyped by the media) is typically softened in the ensuing days that follow, the latest China threats being just one such example.

With respect to the likes of Facebook, Amazon, and Google, it is important to recognize that these companies have been the darling of the investment industry and given their performance in 2017 (an average of +47%), there is lots of evidence to suggest the "crowd is in". With the prospect of higher regulation and the fact that governments of all stripes tend to water the regulatory garden with a fire hose, our expectation is that "the crowd" will slowly wake up to the fact that these companies cannot grow as fast as they have in the past and thus, money will rotate out and into areas where the value proposition is stronger. We would argue that the financial, consumer discretionary, health care, industrial, and the long-hated (but now improving) energy sectors are likely candidates. We have significant positions in each and that is partly why we have stood up relatively well in this market sell-off … but again, we should not get excited about that. The questions to be answered are: What is the rent cheque growth of the companies we own? Is it sustainable? Where can we find similar companies?

On the latter note, the current market weakness is creating opportunity and we are very close to buying an initial stake in a well-known financial service company that has harnessed the magic of personal client attention with the benefits of artificial intelligence. Program participants can keep an eye on their inbox.

To conclude, yes, we were flat to slightly negative on the quarter … and we should also recognize that 35% of our holdings announced dividend increases averaging 8.8%. For those that are seeking growing incomes for the long term, we continue to make solid progress.

Yours truly,

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