The Dividend Value Discipline™
Quarterly Market Commentary
2nd Quarter 2018 (Q2) – as of June 30

At the close of Q2, most fully-invested accounts within **The Dividend Value Discipline™** had 2018 year-to-date returns around the +3.5% mark, versus a market back drop of +0.42% for Canada's S&P/TSX Composite Index and +1.67% for the U.S.'s S&P 500 Index (all in local currency terms). 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**. The return figures are always net of costs.

Our re-aligned objectives (as of January 2018) for the program remain unchanged:

- To buy companies that evidence superior corporate culture and 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.

The early evidence of the above re-aligned objectives is encouraging. That said, we continue to counsel participants to not get too excited about the short term numbers, be they positive or negative. Throughout the past six months, we have met with many of you to review our "**Why Rent Cheque Growth Matters**" illustration piece (see page 3 of this commentary), which clearly demonstrates why you are far better off concentrating on the rent cheque (dividend) growth rather than the daily stock price. Growing dividends do drive stock prices over time, but it is not a parallel ride. The table below represents all of the companies within **The Dividend Value Discipline™** that raised their dividends last quarter. We continue to see sustainable dividend growth as the path to ever-increasing cash flow and higher stock prices, albeit in lumpy fashion.

Company	Annual Rent Cheque	Yield Based On June 30th Closing Price	Annual Dividend Increase Announced	3-Year Dividend CAGR	5-Year Dividend CAGR	Years to Double Rent Cheque*	Aggregator/ Disruptor?	Years of Consecutive Increases	Date Dividend Announced
STARBUCKS CORP	1.44	2.95%	20.00%	28.40%	26.50%	2.8	Both	7	20-Jun-18
LOWES COMPANIES INC	1.92	2.01%	17.10%	23.50%	23.10%	3.3	Aggregator	55	1-Jun-18
MARSH & MCLENNAN COS INC	1.66	2.03%	10.70%	12.00%	11.60%	6.1	Aggregator	8	17-May-18
AMPHENOL CORP	0.92	1.06%	21.00%	20.20%	24.70%	3.8	Aggregator	6	25-Apr-18
TJX COMPANIES INC	1.56	1.64%	25.00%	24.70%	23.20%	3.1	Both	21	4-Apr-18
BANK OF THE OZARKS	0.78	1.73%	11.40%	12.30%	16.70%	6	Aggregator	8	2-Apr-18

**Based on 3-year Dividend CAGR (Compound Annual Growth Rate) - as of June 30, 2018*

In terms of new additions to **The Dividend Value Discipline™** over the past quarter, there have been two. First up was **Charles Schwab Corp.** in early April. Like Raymond James, Schwab has a basic tenet of "put the client first". Company founder Charles Schwab continues to exert his considerable influence over the firm, counselling management to see the world through their clients' eyes and then constantly innovate better ways to help them. CEO Walter Bettinger has worked his way up through the ranks since joining the firm in 1995, working alongside Charles Schwab. Interestingly, he was a founder of his own firm that Schwab bought – The Hampton Company. In terms of economic moat (the strategic advantage that makes the firm difficult to compete with), Schwab not only has a huge scale advantage, but they have also created smarter, faster, and cheaper ways to serve individual investors through their online investor platform. You can open an account online, get financial advice via robo-advisors with as little as $25,000 to invest, and as your needs for more specific advice grows, you can seamlessly transition up the value chain. In short, they have the resources to constantly improve client offerings while lowering the incremental cost of additional features on a per-client basis. That improves profit margins and drives sales – ultimately driving the rent cheque north. Schwab started upping its dividend in 2016 and the growth has compounded at 18.60% per annum since then. Our take is that we will see more of the same for the foreseeable future.

The last acquisition of the quarter was property and casualty insurance innovator **Progressive Corp.** in June. Like Schwab, you can see that talent development and long management tenures are part of its DNA, as Tricia Griffith worked her way up from a claims representative to become the CEO in July 2016. Most of the key executives have been with the firm for over two decades. Importantly, the firm has a history of innovating/disrupting to better serve customer needs. Industry firsts include drive-in claims centres, premiums paid by instalments, 24/7 Immediate Response® claims service, and, by 1994, you could buy your insurance over the phone. By 1997, you could compare competitors' rates and buy your policy online! Progressive expanded to home insurance in 2015, leveraging their technology platform (the disruptor advantage) across more business lines while improving the customer experience. Over the last two years, sales have increased at double digit rates and with each passing quarter they get better yet. Profits have followed suit and that is ultimately what they are going to pay us those increasing rent cheques from.

Looking ahead, the Trump trade tirades are understandably causing some angst amongst investors. While the prospect of a serious market correction cannot be ruled out (nor is it a given), we believe that those firms like Schwab and Progressive, who are creating an ever-increasing value proposition for their end clients will, more often than not, surprise to the upside. Please know that we have other such companies within our sights and that we see market downturns as one part worrisome and two parts opportunity.

Please accept our best wishes for a great Canadian summer and some R&R with the ones you love,

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Why Rent Cheque Growth Matters

We have a strong belief that sustainable dividend growth is a key driver of stock prices ... over long periods of time. We are also aware that there will be seemingly long periods of time where there appears to be no relationship between the two. The phenomenon is amply illustrated below with two companies that are current holdings in **The Dividend Value Discipline™**, using a start date of December 31, 2007 – essentially the top of the previous bull market, just before the 2008/09 market meltdown. By noting the annual dividend column (as well as yield based on cost), and comparing those to the closing stock price column each year, one can clearly see the importance of focusing on the rent cheque (dividend) growth as opposed to the stock price.

Microsoft Corp.				
Year	Annual Dividend	Closing Stock Price	Yield Based on Market	Yield Based on Cost*
2007	$0.41	$35.60	1.15%	1.15%
2008	$0.46	$19.44	2.37%	1.29%
2009	$0.52	$30.48	1.71%	1.46%
2010	$0.55	$27.91	1.97%	1.54%
2011	$0.68	$25.96	2.62%	1.91%
2012	$0.83	$26.71	3.11%	2.33%
2013	$0.97	$37.41	2.59%	2.72%
2014	$1.15	$46.45	2.48%	3.23%
2015	$1.29	$55.48	2.33%	3.62%
2016	$1.47	$62.14	2.37%	4.13%
2017	$1.59	$85.54	1.86%	4.47%

**Cost as of Dec. 31, 2007: $35.60*

CCL Industries Inc.				
Year	Annual Dividend	Closing Stock Price	Yield Based on Market	Yield Based on Cost**
2007	$0.09	$7.72	1.22%	1.22%
2008	$0.11	$5.00	2.16%	1.40%
2009	$0.12	$5.65	2.09%	1.53%
2010	$0.13	$5.92	2.13%	1.63%
2011	$0.14	$6.26	2.24%	1.81%
2012	$0.15	$8.60	1.77%	1.97%
2013	$0.21	$15.84	1.33%	2.73%
2014	$0.22	$25.17	0.87%	2.85%
2015	$0.30	$44.87	0.67%	3.89%
2016	$0.40	$52.76	0.76%	5.18%
2017	$0.46	$58.08	0.79%	5.96%

***Cost as of Dec. 31, 2007: $7.72*