The Dividend Value Discipline™
Quarterly Market Commentary
4th Quarter 2018 (Q4) – as of December 31

"Watch the baby, not the monitor" barked the veteran doctor, as our son lay in intensive care recovering from open heart surgery. Although Cole was doing fine at that particular time, the assisting intern was pumping him full of oxygen that he clearly didn't need. To make his point, the doctor reached over and unplugged the monitor. I (Chris) was reflecting on that time some 20+ years ago, as I watched the market meltdown in the last days of 2018… and I caught myself doing exactly what the intern was doing, watching the monitor instead of the patient(s). The "monitor" being the stock market and our "patients" being the companies we own.

As you are no doubt aware, the monitor says that things are dire. Canada's S&P/TSX Composite index closed out the year with a -11.6% decline, while the U.S.'s S&P 500 index was down -6.2% for 2018 (both in local currency terms). Globally, things were even more extreme with the MSCI Emerging Markets Index pegging a loss of -16.6%.

Most fully-invested accounts within **The Dividend Value Discipline™** pegged in at the -6% level for 2018, marking only the second time in our 16 calendar year history where we have reported negative year-end returns (2008 and 2018). Again, we counsel participants to not get too excited about the short-term performance numbers, be they positive or negative. September's Q3 numbers were certainly respectable at ~+6% year-to-date, whereas December's Q4 numbers can't help but be discouraging for all but the most aggressive investors. Yes, we have stood up well for 2018 and we have outperformed many in our peer group…but you cannot spend relative returns and we get that. That's why we spend so much time on structure and setting rainy day money aside – so you do not have to sell in down markets.

What really matters over the course of time is two-fold:

1. Whether or not the companies we own can generate sustainable long-term earnings/dividend growth.
2. Whether or not we (you and me) have the intestinal fortitude to stick with the program during the down times.

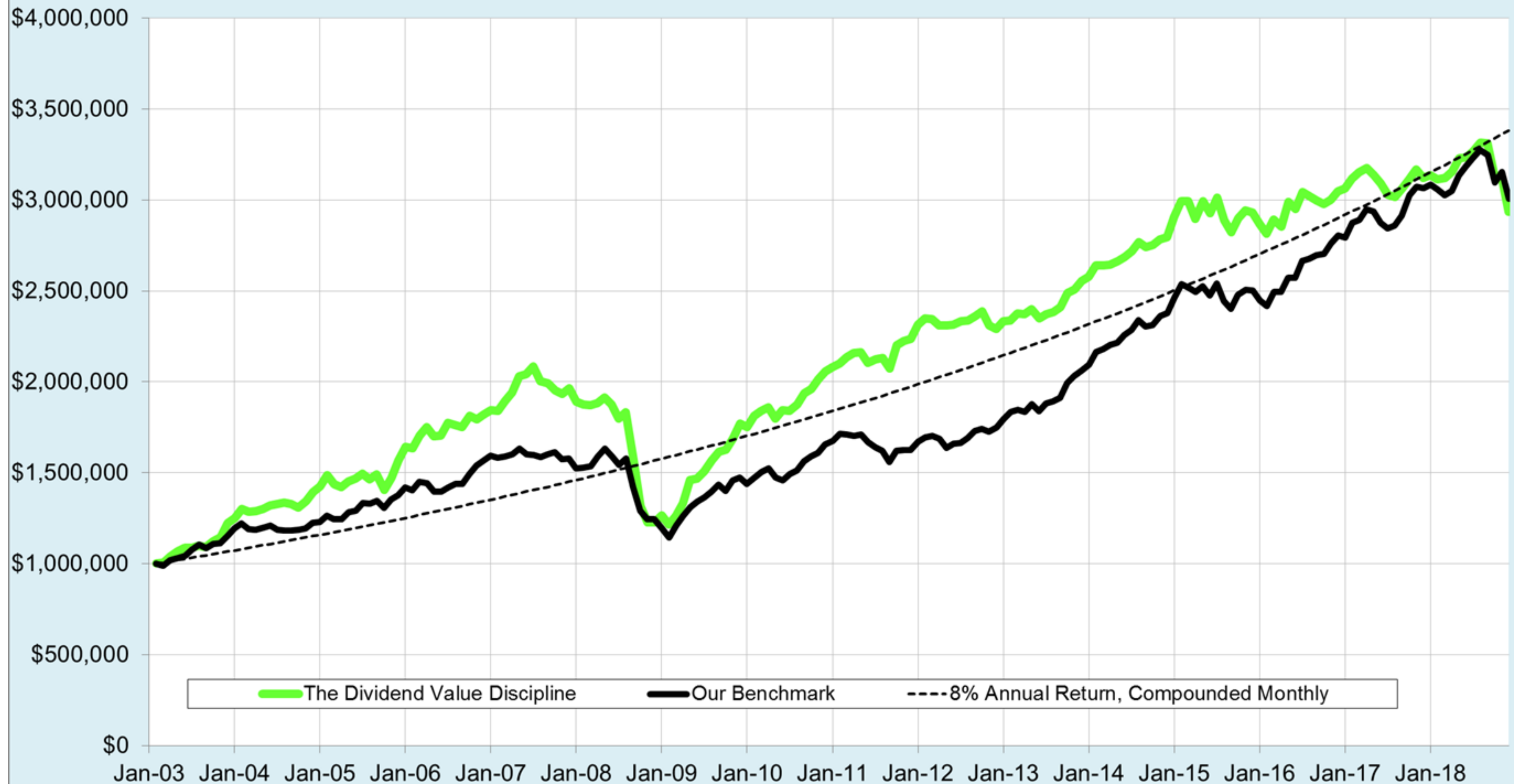
On the latter point, many of you reading this have been with us for 20+ years. During that period, we have seen the 1998 Asian flu/Long Term Capital meltdown, the 2002 burst of the technology bubble, the 2008/09 financial crisis, the 2011 European debt crisis, the 2016 China slowdown, and today we have the China/ U.S. trade wars and Brexit concerns. In every one of the previous cases, the markets moved on to higher levels, as did the accounts within **The Dividend Value Discipline™**. We fully expect the future to be likewise.

That takes us back to our patients and we are happy to report that most are thriving. What follows is a short summary of the dividend paying stocks we own and the reasons why. Yes, this is meant to offer you a big dose of encouragement, to allow you to take stock of what you own…just in case you are contemplating a change in strategy. Please note the compound annual growth rate (CAGR) of the "rent cheques" (dividends) and ask yourself our age-old question, "If I owned an apartment block that was giving me those kind of annual increases, would I sell?"

	Company	Reasons To Own	3-Year Rent Cheque CAGR*
1	A. O. SMITH CORP	Bringing hot water systems to the masses in China and India's growing middle class.	32.3%
2	CHARLES SCHWAB CORP	Tech savvy wealth services provider for the next generation of investors.	29.4%
3	STARBUCKS CORP	A new store in China every 15 hours where coffee consumption is growing at 16% CAGR.	28.4%
4	SKYWORKS SOLUTIONS	The world's cellular networks are transitioning to 5G – supplier to the world's cell phones.	24.9%
5	TJX COMPANIES INC	Autonomous culture builder & discount retailer with consistently growing traffic.	24.7%
6	LOWES COMPANIES INC	New CEO in April 2018, focused on the efficiencies after honing his skills as one of the key executives that built Home Depot's legendary business processes.	23.5%
7	INTUIT INC	Passionate creator of TurboTax and Quickbooks, both the dominant products in North America and is rapidly growing its "cloud" services.	21.4%
8	AMPHENOL CORP	Aggregator and connector/sensor supplier to the "internet of things".	20.2%
9	CCL INDUSTRIES INC CL B	Disciplined aggregator, the world's largest label company and consumer packager.	20.1%
10	PROGRESSIVE CORP OHIO	Disruptor in the online home and auto insurance business.	17.9%
11	NORTHERN TRUST CORP	Trusted advisor/custodian to the Fortune 500 families.	15.2%
12	EXPEDIA GROUP INC	Tech savvy, online travel aggregator acquiring the best platforms in the business.	15.1%
13	NIKE INC	Design savvy, brilliant marketer and growing online presence.	14.9%
14	MANULIFE FINANCIAL CO	Large footprint in Asia where sales are growing 20% per annum.	14.6%
15	US BANCORP	5th largest U.S. bank with improving efficiencies in the business.	13.2%
16	CVS HEALTH CORP	Disruptor in the U.S. health care space bringing clinics "in store".	12.6%
17	MICROSOFT CORP	#2 provider of cloud-based information systems, gaining market share.	12.6%
18	MARSH & MCLENNAN COS	Risk intermediary: with more global uncertainty, there is more demand for their products.	12.0%
19	ACCENTURE PLC	Leader in digital, cloud and security services to the world's largest companies.	11.3%
20	DOLLARAMA INC	Retail disruptor immune to Amazon threat – does well in all economies.	11.1%
21	INTEL CORP	No longer solely a PC-based chip producer – supplier to the world's "cloud" servers.	10.1%
22	3M COMPANY	The world's greatest innovator - holds over 110,000 patents, exceptional supply chain	9.9%
23	GILEAD SCIENCE INC	Leading HIV treatments, developer of CAR-T therapy, which creates custom cancer-fighting medicine with a patient's own blood.	9.8%
24	SHERWIN WILLIAMS CO	Consistently ranked as the best provider of home paints and a skilled aggregator.	8.7%
25	BANK OF NOVA SCOTIA	Disciplined aggregator with a large footprint in fast growing Latin America and Asia	7.7%
26	GIBSON ENERGY INC.	Toll booth to North America's energy producers.	1.0%
27	CONSTELLATION SOFTWARE INC	Extraordinary aggregator in the specialized software space. No rent cheque increases due to reinvestment into the business at exceedingly high rates.	0.0%
28	PEYTO EXPLORATION & DEVELOPMENT CORP	Perhaps Canada's lowest cost lean gas producer capable of surviving any downturn. Dividend yield of 9.2% as at Dec. 31/18. Legacy position - no longer buying.	-18.3%
29	ARC RESOURCES LTD	Low cost oil and gas producer & developing top tier Montney reserves. Dividend yield of 6.8% as at Dec. 31/18. Legacy position, no longer buying for new participants.	-20.6%
30	CAMECO CORPORATION	Owner of the world's richest uranium mines and supplier to global reactors - new builds are coming on stream and must be fuelled. Legacy position - no longer buying.	-41.5%
	Median		**12.91%**

*3-year dividend compound annual growth rate.

Finally, the graphic below depicts a $1.0 million investment within **The Dividend Value Discipline™ from January 1, 2003 to December 31, 2018**. The message? Throughout most time frames, we have outperformed both our benchmark and the absolute 8% CAGR. When we take stock of what we own, we see that pattern resuming over time.



To conclude, three questions:

1. As you reflect on previous bear market cycles, i.e. the Asian flu/Long Term Capital meltdown, the 2002 technology meltdown, the 2008/09 financial crisis, the European debt crisis, and more recently, the 2016 China slowdown, would you have been better served by buying or selling during such periods?
2. When you reflect on the companies we own, would you rather trade them for…savings accounts, GICs, or yesterday's winners, aka the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google)?
3. Have there been instances in the past when your short to intermediate term results were pretty discouraging, yet you stuck with it and you were rewarded for your tenacity within **The Dividend Value Discipline™?** If you were with us through 2008/09, the answer has to be a definite yes!

As we enter 2019, yes we are looking for better things to come. Much of what prompted the Q4 selloff is already abating – Trump and Xi are making progress on U.S./China trade talks, the U.S. Fed has already indicated it will become data dependant in 2019 (read: slower interest rate rises), and the hedge fund liquidation is over.

At the end of our Q3 report we offered, "If it gets real painful, please send money! The highest returns have accrued to our clients who can write cheques during the difficult times." We are at such a time as this. For those that can't send money, you do the next best thing – you hold onto the great companies you have accumulated.

We look forward to our upcoming meetings and wish you and your loved ones the very best for a happy and prosperous 2019.

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