# The Dividend Value Discipline™
# Quarterly Market Commentary
# 1st Quarter 2019 (Q1) – as of March 31, 2019

As we close out Q1, our objectives for **The Dividend Value Discipline™** remain as follows:

1. To invest in companies that evidence superior corporate culture and are disrupting the way business is done and/or aggregating (purchasing smaller competitors) their way to sustainable double digit earnings and dividend growth.

2. To hold such companies through the inevitable market downturns by focusing on their competitive advantage, and thereby the long term earnings/dividend growth, as opposed to the euphoria and dysphoria of the stock market.

3. To generate a consistently growing income and absolute returns of 8%+ per annum over any investment cycle, i.e. peak to peak or trough to trough.

With this edition of our **Quarterly Market Commentary**, we start a new format – we initiate an increased focus on the things that are important to long term investors, namely how our investee companies are doing from an earnings and dividend (rent cheque) growth perspective. To that end, the table on page 2 of this report reflects the rent cheque increases of our investee companies that have been announced throughout Q1 2019. Of note, we are only 90 days into the new year and already almost 40% of our current investee companies have announced rent cheque increases, which is normally a once a year event. Of course, dividends cannot increase in the long term without the earnings to support them, so we have given you the fiscal year over year results and some commentary for additional colour.

We remain firmly convicted that superior corporate culture, defensible moats (barriers to entry/strategic advantages that competitors don't have) and the macro tailwinds are ultimately the things that matter – the things that will drive earnings and dividend growth, ergo long term stock prices. What is far less important is the timing of the next recession, whether or not Notley, Trudeau, or Trump get another term, if and when Brexit happens, or the myriad of other things we could fuss about ... and to what avail? So we can join the **"panic sell"** crowd and feel good for Christmas Day, only to see the markets start to rebound on Boxing Day? And then when they rip higher, seemingly every day, to the point where we see a double digit rise and then come to the conclusion, **"well I can't buy now"**. Let's not be one of **"those"** investors.

## The Dividend Value Discipline™ - Rent Cheque Increases Announced in Q1 2019

| Investee Company | Rent Cheque Yield* | Latest Rent Cheque Increase | 3-Year CAGR** | Fiscal 2018 / 2017 Earnings | Additional Colour |
|---|---|---|---|---|---|
| PROGRESSIVE CORP | 3.23% | 123.5% | 43.3% | 100.4% | Their website allows you to comparison shop competitors' insurance rates. |
| CHARLES SCHWAB CORP | 1.01% | 31.0% | 36.1% | 49.4% | A technology-driven investor platform for next generation investors. |
| TJX COMPANIES INC | 1.73% | 17.9% | 23.0% | 22.7% | An autonomous culture that "out retails" their competitors. |
| CCL INDUSTRIES INC CL B | 1.44% | 30.8% | 19.4% | 1.5% | Short term earnings are a concern - track record says they fix it. |
| NORTHERN TRUST CORP | 2.16% | 9.1% | 16.5% | 37.1% | The go-to private bank for Fortune 500 families – leading in blockchain. |
| SHERWIN WILLIAMS CO | 1.26% | 31.4% | 10.4% | 23.0% | Aggregator that has recently paid off a big slice of the Valspar purchase. |
| 3M COMPANY | 2.14% | 16.2% | 9.1% | 14.1% | Globally diversified – incredibly innovative, loved by employees. |
| INTEL CORP | 2.24% | 5.0% | 6.6% | 32.4% | Tailwinds in being the chip provider to the cloud networks. |
| BANK OF NOVA SCOTIA | 4.93% | 4.8% | 6.0% | 6.9% | Slower dividend growth, but note the yield – we like international exposure. |
| A&W ROYALTIES INCOME FUND | 8.99% | 2.8% | 3.4% | 12.9% | Innovator (latest is Beyond Meat) – slow grower, but note the yield on cost. |
| CONSTELLATION SOFTWARE*** | 5.18% | 0.0% | 0.0% | 33.1% | Special $20 dividend – gets 20% return on retained capital – great allocator. |

*Based on aggregate program cost

**Based on 3-year Dividend CAGR (Compound Annual Growth Rate) - as of April 2, 2019

***Constellation Software declared a special dividend of $20 US per share on February 13, 2019.

In terms of Q1 results, most fully-invested accounts within **The Dividend Value Discipline™** pegged in right around the +9% level. Of course our usual refrain stands – let's not get too excited about the short-term performance numbers, be they positive or negative. It is what we outlined at the top of this report that matters.

For some market context, Canada's S&P/TSX Composite index closed out Q1 with a gain of 12.42%, with the lead sector being health care (primarily cannabis stocks), up just shy of 50%. For the record, we see the cannabis stocks as speculating as opposed to investing. For us personally, we have zero interest. Our take is that it's akin to the dot-com era – fortunes will be made by a few and many will lose big time.

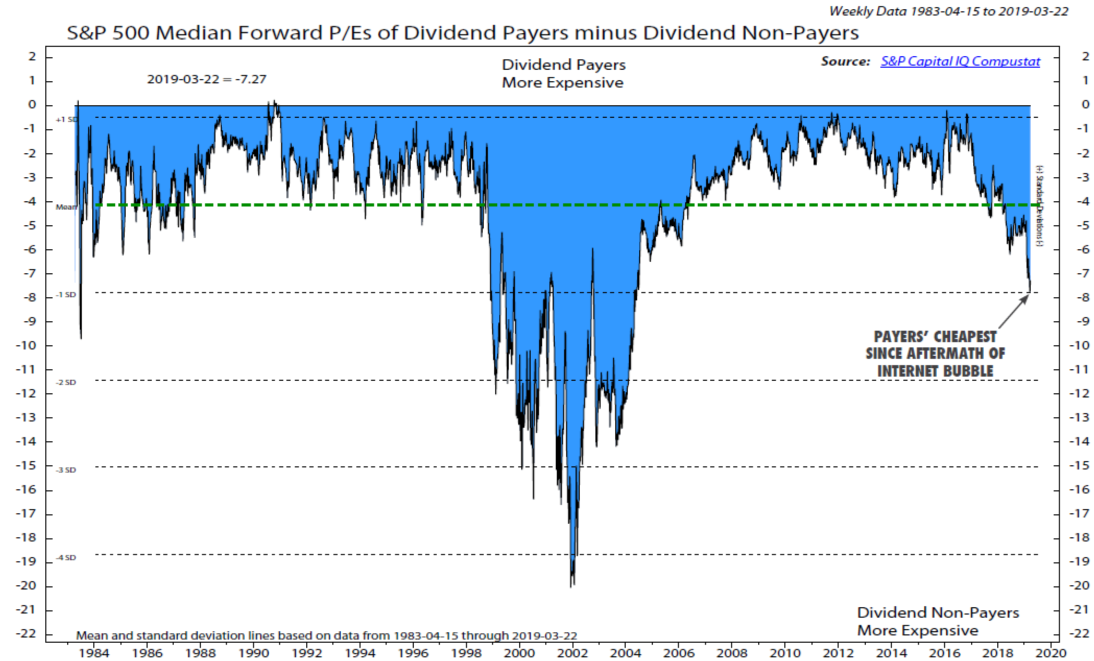
South of the border, the U.S.'s S&P 500 index pegged in at +13.07% for Q1, which equates to +10.64% in Canadian dollar terms. As a reminder, given the balanced (stocks and bonds) nature of the program, you should expect **The Dividend Value Discipline™** to underperform in strong up times and outperform in the down times.

Looking ahead, we are encouraged by the graphic to the right and the story it reveals. In a nutshell, dividend paying stocks are the cheapest they have been (relative to non dividend paying stocks) since the aftermath of the "Internet Bubble", say circa 2003-2004. Let's think about that. We are talking about an era when people sold companies like 3M to buy Nortel, and it worked! The more it worked, the more it happened. And when the bubble burst, Nortel went to zero, while 3M just continued to innovate, earn more, and pay out bigger rent cheques.

Have we just experienced the same phenomena with at least some of the FAANG (Facebook, Amazon, Apple, Netflix and Google) complex? It is certainly plausible. If you study the chart closely, you can see that dividend paying stocks have been getting progressively cheaper for the last three calendar years.

Now here is the good news – after the Christmas Eve panic sell, investors seem to have a renewed interest in dividend paying stocks. To wit, the SPDR S&P Dividend ETF (symbol: SDY) hit an all-time high on April 1, 2019, whereas the S&P 500 index continues to lag its high of last September. Is the tide changing? We suspect it is.

**DIVIDENDS** Did Powell's pivot **reinvigorate the dividend trade**?






We close with a link to John Heinzl's *The Globe and Mail* article from March 29, 2019, entitled "**Ten reasons to love dividend investing**": https://www.theglobeandmail.com/investing/education/article-ten-reasons-to-love-dividend-investing/

This article was tipped off to us by one of our great clients, who is a savvy businessman/investor, with the following note: "this reinforces your approach". Thank you!

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