RAYMOND JAMES® | CHRIS RAPER & ASSOCIATES

The Opportunity Update – Friday, December 6, 2019

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Track #1: Introduction – The Skinny

Hi, this is Chris Raper, Senior Vice President & Portfolio Manager, Private Client Group of Raymond James Ltd. & co-founder of **The Dividend Value Discipline™**. Welcome to **The Opportunity Update**, which is being recorded for you in Victoria, BC on Friday, December 6, 2019. Here is what we are going to cover today.

You are now listening to **Track #1: The Introduction**, where I give you the skinny on what I am going to talk about.

On **Track #2: The Markets – Extreme Fear to Extreme Greed** – I am going to speak to the tremendous U-Turn that we have had in investor sentiment, this recording versus last, i.e. the end of August versus the end of November and how that effects our investment stance, offence versus defence. I will then follow our usual course and give you an update on our favourite leading economic indicators - the price of copper and the semiconductor index - and then the always important to Canadian investors, the energy complex where things are finally getting really interesting, and then our Canadian dollar, which has been on a tear this week and then got punched in the face this morning over a very weak jobs report.

On **Track #3: The Dividend Value Discipline™ - Fast Food and Healthcare** – I will speak to two of our lesser known additions to the program, namely **MTY Food Group Inc.** and **United Health Group Incorporated,** and give you some insights on the corporate culture, the business strategy and the markets they serve and then bring it down to the all-important, sustainable rent cheque growth.

On **Track #4, The Decade Behind and The Decade Ahead** – I will wrap it up giving you the key takeaways from each track, give you a little side ditty on our Canadian banks and then re-visit why we should not expect the decade ahead to look anything like the decade we are closing out. In a nutshell, the dangers of extrapolation.

Track #5: Postscript I is where I walk you through the methodology and return objectives of **The Dividend Value Discipline™**. This track is primarily for the benefit of potential clients who are being introduced to us by way of this recording. By the time you are done listening you will know what makes the process unique vis-à-vis our competition and whether or not you are interested in pursuing it any further. Not interested, not interested right now, and let's talk further are all perfectly acceptable answers.

Track #6: Postscript II is again for the benefit of prospective clients. It will give you some insight on what to expect during our initial meeting, where we both want to answer the question: "Is there a fit between our services and your needs?"

In terms of legal requirements, there are three things to note:

1. The opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd.

2. Raymond James Ltd. is a member of the Canadian Investor Protection Fund. That is a good thing. If you are interested in those details, please ask me or any one of our relationship managers the next time we speak.

3. This recording/transcript provides links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd. endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd. adheres to.

I also want you to recognize that some of the things I am going to say today are going to be proven wrong. It is an inevitable part of this business. It is also important to recognize that you don't have to be right all the time to do well. You just have to be more right than most or, conversely, less wrong than most.

Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up. When I say I am bearish, it means I expect things to go down. Likewise, north means up and south means

down. When I speak about rent cheques, I am speaking about income, primarily dividends. You will also hear me using the term disruptor, which is our moniker for those companies that are disrupting or re-inventing the way business is done in their particular market and are thereby able to grow at rates far faster than those of the economy. Think of Wal-Mart twenty years ago and Amazon today. You will also hear me use the term aggregator, which is our moniker for those companies that have a systemized approach to acquiring smaller competitors as a means to fuel their growth. That growth is the path to increasing dividends or in our language, growing rent cheques. If you catch me using industry jargon beyond that, I invite you to call me out. Send an email to the office and the team will let me know, usually with considerable gusto!

That’s a wrap on the skinny, and off we go to Track #2.

Track #2: The Markets – Extreme Fear to Extreme Greed

When I left you on the last recording, September 4, 2019, we were just coming off the back of registering an Extreme Fear event on the CNN Fear Greed Index – the worst reading we had seen since the Christmas Eve rout of 2018. Recall our Timely Market Dispatch on August 16, 2019 – in essence, a plea to send money. We get that is not always possible – thankfully we did not receive any calls to "get me out". Roll the camera and with US/China trade prospects improving, the index had swung to Extreme Greed just prior to the US Thanksgiving holiday.

As an aside, apparently our American cousins were feeling the wealth. Cyber Monday's online sales hitting a whopping $9.4 billion, up some 42% from two years earlier – now that's confidence!

I digress - it is worth noting The Dividend Value Discipline™ returns during that move from Extreme Fear to Extreme Greed (the three months ended Nov. 30) were ~ 6.1% for our balanced version and ~8.1% for the all equity version. I share that with you not to draw attention to short term performance (which is almost meaningless in the long term) but to incent you to send money when these Extreme Fear ratings happen. These are contrarian indicators and should be viewed as opportunities.

As we kick off December, investors are still plenty nervous about whether or not a China/US Trade deal gets done. You can see it in the market's reaction with every trade related statement that President Trump issues. From our perspective, something gets done sooner rather than later. Here's why – the US election is now less than a year away. To win, President Trump needs a strong economy, and yes, strong trade = strong economy. Interestingly, China's President Xi may need a deal worse than Trump – everyday the tariffs are in place more and more manufacturing leaves China and once it leaves, it is not coming back. Their economy is slowing and food inflation is going through the roof. Then they have the Hong Kong unrest. In short, Xi needs a win at home. That said, I would not hang my hat on completion before the proposed December 15 US tariff increases. President Trump shares some personality traits with the former Margaret Thatcher – they both take a certain amount of pleasure in breaking the china, pun intended ☺.

Those cross currents aside, investors are still feeling rather bullish. CNN's Fear Greed gauge has backed off a bit, pegging in at 66 (Greed as opposed to Extreme Greed) yesterday and the retail focused American Association of Individual Investors sentiment survey has become less aggressive as well - AAII.

I want you to recognize that an Extreme Fear reading is a whole lot more helpful than an Extreme Greed reading. Most market selloffs tend to be quite short in duration, so for me an Extreme Fear sentiment reading is a call to buy, as long as there is some underlying strength to the economy.

Conversely, an Extreme Greed reading can last a long time, as do bull markets. Yes, it makes me more cautious but it is not necessarily a “take some money off the table” signal.

With those nuggets complete, let’s blitz through our usual course of our leading economic indicators – starting with Dr. Copper, where we find the “metal that goes into everything” and consequently, a great proxy for what is happening in the manufacturing economies, at $2.73 per pound, up from our September recording. It has been moving lock step with every pro and con trade statement that President Trump makes. As per my comments on the last recording, I am more bullish than bearish on copper because ultimately, I see the trade deal getting done.

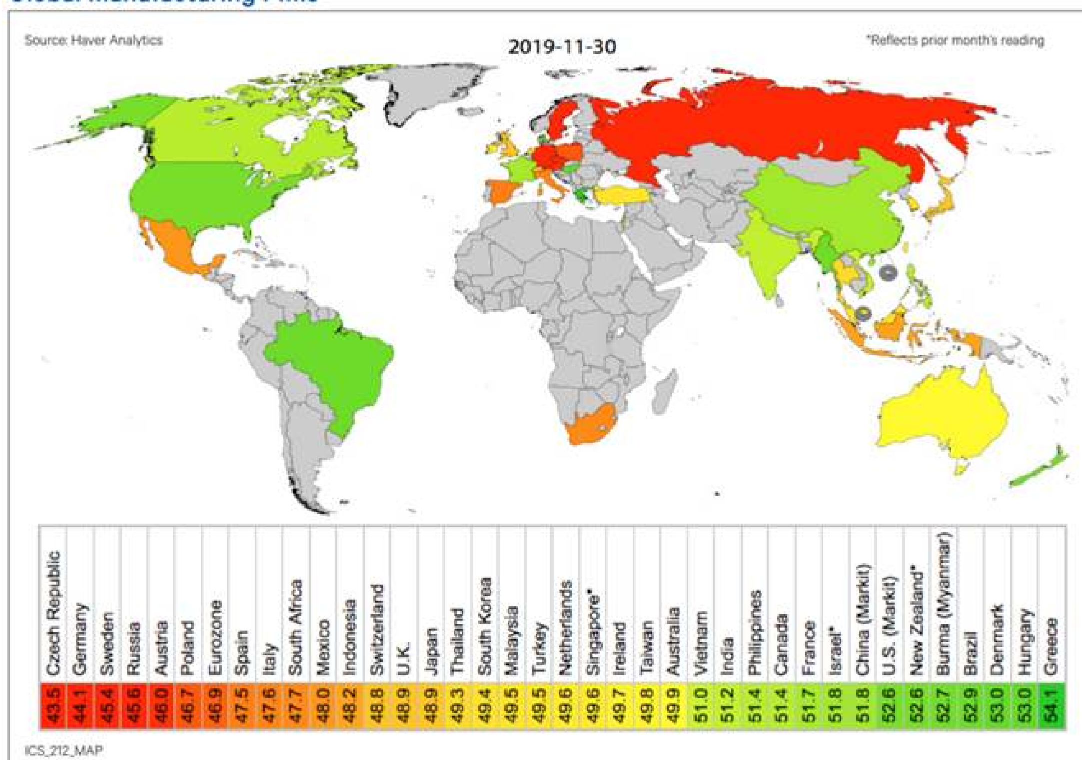
Chart courtesy of StockCharts.com

Our best leading indicator for the service based economies, the Philadelphia Semiconductor Index (symbol $SOX) continues to strengthen, hitting an all time high of 1758 in mid November – up almost 70% from the last year’s Christmas selloff. Today it pegs in at 1725. The semiconductors tend to be a great “tell” for the service based economies because much of our economic growth is fueled by human ingenuity and processing power. As the demand for processing power (the price of semiconductors) increases it points to continued growth ahead.

Chart courtesy of StockCharts.com

Our ancillary indicators are finally starting to turn the corner, or at least one should give them the benefit of the doubt. All summer long they waned but the November readings on things like the global Purchasing Managers Index (PMI) have been mixed to positive even in jurisdictions where you would

think they should not be, i.e. China's November numbers surprised to the upside and were across the board, expansionary.



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Turning to the energy complex, here are a couple of snippets from the last recording, "investors are so bearish we have seen the energy producers indices hit fresh decade-lows this quarter…the demand for oil continues to grow annually by ~ 2 million barrels a day…those are the seeds of a bullish outcome… if you have a view of 5 years as opposed to 5 months, why would you not want to have some exposure in the energy complex?" $WTIC was $56 a barrel then and this week it pegged a significant breakout and is just shy of $60 USD this morning - the OPEC+Russia cartel has agreed to keep a lid on production this week. My thinking has not changed - I remain bullish on the complex on the assumption that we get the China/US trade deal done. Furthermore, egress (our market access) in Canada is improving and once again our Western Canada Select discount is starting to narrow, pushing prices north.

Chart courtesy of StockCharts.com

Our loonie headed north this week as the $USD weakened. The $USD is still the world's flight to safety, so the closer we get to the elusive trade deal the less attractive it becomes. That said, our Canuck buck got punched south this morning on a really disappointing jobs report primarily in Alberta, BC and Quebec. We are at $0.7544 $USD this morning versus our early September recording $0.7472 USD. Please recall that a weaker $USD is a positive for all things X-USA, especially commodities and those that produce them. The outlook for our loonie? Assuming we get a trade deal done, stable to north – no trade deal, due south.

Chart courtesy of StockCharts.com

Off we go to Track #3.

Track #3: The Dividend Value Discipline™ – Fast Food and Healthcare

Our title for this track may sound like a bit of an oxymoron, yet it wasn't planned that way. In the interest of time I am not able to highlight all of the new companies to the program so I decided to focus on two lesser known names.

First up is **MTY Food Group Inc.** ("MTY"), a name that may not be familiar to you, but I bet you have eaten at one of their establishments. From a single restaurant in Laval, Quebec in 1979 to 70+ brand names in over 7,300 locations across Canada, the U.S., Jordan, Morocco, and the United Arab Emirates, MTY is a Canadian success story and one that largely flies under the radar. Names you will know include Cold Stone Creamery, Papa Murphy's, Mr. Sub, Jugo Juice, Koya Japan, Manchu Wok, and or a Vanelli's. Casual dining is their forte and over 95% of their stores are franchised.

Culture-wise, Founder, Stanley Ma has recently stepped back from day to day operations but retains the Chairman's position and importantly still owns 20% of the company – his influence is undeniable and it has been a great thing for shareholders. CEO, Eric Lefebrve took the reins in 2018 and joined the firm in 2009. Throughout his tenure he has been increasingly instrumental in its growth by acquisition model – a classic aggregator. His previous position was CFO and that tends to be a good place for CEOs to come from.

Their basic strategy is to buy slow-growing or even shrinking brands, on the cheap, and then re-invigorate them. They have a great track record of success in doing so. The highly fragmented food service industry gives them a continued runway for further acquisitions and their free cash flow allows them the financial capacity to do so while simultaneously growing our rent cheque (dividend). That dividend growth has been substantial – over the last seven years it has more than tripled. I believe we can reasonably expect double digit increases going forward.

Moving to healthcare, **United Health Group Incorporated** ("UNH") is not a well-known name to most Canadians, but if you are a snowbird, you have undoubtedly seen their ads on TV. By revenue, UNH is the largest healthcare company in the world. They offer healthcare products and insurance services worldwide and are focused on helping clients live healthier while improving the healthcare systems where they operate.

Culture wise, the management at UNH is focused on growing the business as opposed to talking about it. There is a distinct lack of hype in their communications, rather lots of candour and a compensation program that is friendly to shareholder interests. CEO, David Wichmann has been at the helm since 2017 and has over 20 years with the firm in a variety of roles. The development of talent from within is clearly evident as is their bench strength.

Moat-wise, they are the dominant managed care franchise in the U.S. with a 14% market share. That leaves them plenty of runway to expand. UNH has a long history of implementing new technologies and clinical insights through data analytics. We see this as the crown jewel and their OptumInsight division will become increasingly important in the future as we harness the resulting artificial intelligence. Annual earnings per share growth over the last decade has been north of 16% per annum. Rent cheque-wise, we have seen the annual dividend grow from .80 per share in 2012 to 4.32 per share today. That's north of a five-fold increase. We expect strong double digit growth in the future.

That concludes Track #3 and we are off to the **The Wrap Up**.

Track #4: The Wrap Up – The Decade Behind versus The Decade Ahead

First, the takeaways:

A reminder that the opinions expressed on this recording are mine. They may differ from those of Raymond James Ltd. Please recognize that some of what I told you is going to turn out to be wrong.

On Track #2, we spoke about how the Extreme Fear reading that we had last August is a lot more helpful than an Extreme Greed reading. Extreme Fear events tend to be short lived and they make me more biased to buy as opposed to sell. Conversely, Extreme Greed readings are not nearly as helpful because investors can stay bullish for far longer than you think and that's what creates bull markets.

We then moved to our leading economic indicators, where we see copper, our proxy for the manufacturing based economics swing with every pro or con China/US Trade statement from President Trump. Our backstop is that both parties need a deal sooner rather than later so we do our best to ignore the noise. The semiconductor index continues to exhibit incredible strength indicating that the serviced based economies are doing quite well indeed – things are getting better.

Energy wise, we talked about how the dismal sentiment towards all things oil and gas plus the fact that the stocks of energy producers are trading at decade lows against a back drop of continuing global demand. Our take is that we are set up for a bullish outcome well beyond expectations.

Finally we turned to our loonie, where the falling USD$ is the key driver as the "flight to safety" trade reverses. That makes all things X-USA better, especially commodities and those who produce them. That sounds like Canada to me.

As an aside, it is not lost on me that as our Canadian banks reported their quarterly earnings this past few weeks, the overwhelming theme has been higher loan losses. If you compare Canadian household balance sheets with our US cousins, we are not in good shape. This does not paint a rosy picture. What could change that – the US/China/USMCA trade deals would certainly help as does the improving energy export egress. If that doesn't happen, it does not bode well for our banks. Suffice to say, we find the US banks much more attractive.

Track # 3, we highlighted a couple of lesser known/recent additions to the program, MTY Food Group and United Healthcare – in short, they are free cash flow machines with a great track record of increasing rent cheques and we have every expectation that double digit growth will continue.

That brings us to The Decade Behind and the Decade Ahead. I am going to go out on a limb here, but what follows is the most important part of the whole recording. It is vital we grasp this because most investors don't - they extrapolate the recent past forward and assume it never stops. That is simply not how markets work. A point in case, when we started this decade on January 1, 2010 the ten year rolling return for US's S&P 500 was at 1.21% per annum, and in that previous decade we saw the 2008/09 economic collapse, the worse in 70 years. Investors interested in US stocks were no where to be found, even though 100 years of data was suggesting the next ten years in US stocks was going to be strong double digit. Roll the camera and assuming we finish this decade somewhere near where we are today and the S&P 500 looks like it will peg north of 14% per annum. Incidentally, Canada's S&P TSX Composite will peg in about half that number.

S&P 500 Total Return (Larbi)			*S&P/TSX COMPOS TR INDEX (Larbi)*		
S&P		10-year	TSX		10-year
Year	Return	Rolling Return	Year	Return	Rolling Return
2000	-9.10%		2000	7.41%	
2001	-11.89%		2001	-12.57%	
2002	-22.10%		2002	-12.44%	
2003	28.68%		2003	26.72%	
2004	10.88%		2004	14.48%	
2005	4.91%		2005	24.13%	
2006	15.79%		2006	17.26%	
2007	5.49%		2007	9.83%	
2008	-37.00%		2008	-33.00%	
2009	26.46%	1.21%	2009	35.05%	7.69%
2010	15.06%	3.63%	2010	17.61%	8.71%
2011	2.11%	5.03%	2011	-8.71%	9.09%
2012	16.00%	8.84%	2012	7.19%	11.06%
2013	32.39%	9.21%	2013	12.99%	9.68%
2014	13.69%	9.49%	2014	10.55%	9.29%
2015	1.38%	9.14%	2015	-8.32%	6.05%
2016	11.96%	8.76%	2016	21.08%	6.43%
2017	21.83%	10.39%	2017	9.10%	6.35%
2018	-4.38%	13.65%	2018	-8.89%	8.77%
2019 (Nov. 30th YTD)	27.63%	13.77%	2019 (Nov. 30th YTD)	22.32%	7.49%

For the record, there were no clients calling in January 2010 wanting to go lock stock in barrel into US equities, but I surely could find some today, and it wouldn't take me long to find some that want out of Canada either, even though its 10 year rolling number is just a little north of 7%. Bottom line, it is in our best interests to be receptive to under owned and prolonged downturned markets/sectors – they are far more likely to yield upside surprise over the next 10 years. Regular listeners will recall that I did a deep dive on this topic on the last recording and you can find the decade by decade study at http://chrisraper.com/the-opportunity-update.aspx.

That brings us to a close for this edition of The Opportunity Update. A reminder, if you are being introduced to us by way of this recording then Tracks #5 and #6 are for you.

Thank you for taking the time to listen. To our clients, a sincere thank you for all your support this past year, and for allowing us to be a part of your lives, financially and otherwise. As we approach this season of hope, peace and prosperity on behalf of Ryan, me and the entire team here at Chris Raper & Associates, Merry Christmas to you and yours, and may God bless you with a healthy and prosperous 2020. This is Chris Raper bidding you good day from Victoria BC on Friday, December 6th, 2019.

Track #5: Postscript I – The Dividend Value Discipline™ Methodology

The first thing I want to share with you is that **The Dividend Value Discipline™** is not the only investment offering that we have. In fact most of our clients have three buckets of money with us – a safe money bucket, an income bucket and a growth bucket. **The Dividend Value Discipline**™ straddles the latter two and depending on your need, we augment it with other strategies. That said, the program continues to be the largest slice of our client assets under management and that includes my business partner, Ryan Cramp, my family and me. The takeaway is that my team and I have huge vested interest in ensuring its success.

The process is discretionary, meaning we make all of the buy and sell decisions and report to you after the fact. Post a new purchase, our normal course is to send an email outlining the background of the company and the rationale for the decision, five business days after it settles to your account. When we close out a position, we also send an email outlining the result and our rationale.

Our objectives for the program are:

1. Income every month – that can be paid out or reinvested;

2. An acquisition process where we buy only those securities which become attractive on a "go forward" basis;

3. Absolute returns of 8%+ over any investment cycle, which we would describe as peak to peak or trough to trough. If you are looking for a time frame in terms of years, think 5+ years, but please understand investment cycles have a wide range of timeframes.

The program operates with three key objectives and I will walk you through them using the illustration of a three legged stool.

The First Leg is Dividends

Every security that we buy must provide some form of income. We do that because income makes portfolios inherently less volatile, i.e. less chance of loss. The analogy I like to use is that of an apartment block versus a piece of raw land – it is a lot easier to hold on to an apartment block in a tough real estate environment when you are getting a rent cheque every month. Income drives stability and absolute returns.

The Second Leg is Value

Our research function is in-house. We were one of the first private client teams in the industry to have a dedicated analyst on staff and we add additional resources every year. We spend an inordinate amount of time studying the corporate culture of potential investee companies. If you are interested in what great corporate culture looks like, read ***Good to Great*** by Jim Collins – that is the yardstick we use to measure potential investments against. Another yardstick is the importance of wide economic moats – the things that make the company tough to compete with. We want to own companies that the end client can't live without – great examples might be Microsoft or Intuit, both long term holdings of ours. We believe that the focus on great corporate culture and wide economic moats gives us an edge, and while I can't prove it you I can certainly give you lots of anecdotal evidence to support that thesis.

The more recent development in our strategy has been tackling the growth problem. History buffs will note that when we started the program in 2002, we had 5-year GICs yielding roughly 5%, much better economic growth, and stocks benefiting from decreasing interest rates, whereas today we have 5-year GICs yielding say ~3.0% and much slower economic growth. In short, the 8% is tougher to come by.

Accordingly, we spent late 2015 and 2016 tackling the "growth problem". We needed to find companies that are growing far faster than the economy. As you would expect, we start within the normal confines of "has to pay a rent cheque, score well on the corporate culture front and have some sort of strategic advantage (the moat) that makes the company difficult to compete with". We then focused on those companies that have demonstrated their ability to grow their earnings/dividends at double-digit rates as a primary indicator of growth and capital gain potential. As we searched, we found that most such companies fell into one of two themes. They tend to be disrupting the existing marketplace – think Wal-Mart 20 years ago or Amazon today - with a better way of doing things and/or they tend to be aggregating their way to growth by buying smaller tuck-in acquisitions, much like Expedia has done with their acquisition of HomeAway, Travelocity and Hotels.com.

The Third Leg is Discipline

Here I refer to the buy/sell decisions.

On the buy side, I would sum it up as do your homework, be ready and be patient. Over the years our absolute best buys have been when we have done our homework on the company, perhaps months before, and then some untoward event happens that gives you opportunity to buy in size. The Euro debt crisis in 2011 is a great example that enabled us to buy Nike at a terrific price because we were ready and we had conviction.

Sell decisions are tougher and they have become increasingly so, because the quality of our companies has just keeps going up and with rent cheques (dividends) growing at double-digit rates, our history tells us more often than not, we are better off holding than chasing new shiny baubles. That said, new competitors with disruptive technologies can wreak havoc on a company's growth prospects – back to the Amazon/Wal-Mart example. Transition periods of the senior management teams can be risky especially when there is no hire from within bias. Then there are times when the price of a stock just gets so far in front of its growth prospects that the only reasonable thing to do is sell. As Buffett likes to say, "you pay a high price for a rosy consensus". When things are universally rosy we try to be sellers, not buyers.

Perhaps the most important part of the buy/sell discipline is the way we operate the program for new entrants – we call it "The Buys Only Mandate". Unlike most of our competition, we only buy those securities which become attractively priced on a go-forward basis, meaning if you start today and your brother starts three months from now, your portfolios are going to be different in the short-term, and more closely aligned the longer you are in the program together. As rational as that might seem, most people do the exact opposite. Every time you buy a mutual fund, you buy a pro-rata share of an existing portfolio – by definition, you got the buys, the holds and the near sells. To us, that is not rational. Who buys 100+ companies in a single day? Were they all great value propositions? You should also be aware that most third party money management programs work exactly the same way – they buy the basket. The buys only mandate was designed to protect your hard earned money.

Other key points to the program: a fully invested account would normally have 20 to 25 positions in it, so we are relatively concentrated. You should also know that when we buy for you, we buy for us, meaning Ryan and I personally. When we sell for you, we sell for us – same time, same price.

Generally speaking, we are looking to establish new relationships with new clients that have north of $1 million in investable assets but please understand, we are a lot more interested in where you are going than where you are. If you have a credible plan to get to that number say within a three to five year period, we are very interested in meeting with you.

To conclude this track, if income and absolute returns are attractive to you, and you think that there may be a fit between your objectives and those of **The Dividend Value Discipline™,** with at least a portion of your investable assets, then I suggest a face to face meeting is in order. You can check out what to expect during that initial meeting by moving to Track #6 – "Is There a Fit", and that is where we are going right now.

Track #6: Postscript II – "Is There a Fit?"

Our objective – and presumably yours – during the first meeting is to figure out whether or not we have a basis for an ongoing relationship. In essence, can we work together? If so, will it be mutually beneficial? Job one is to get your tough questions off the table, so we encourage people to ask whatever is on their mind. Our responsibility is to be forthright with our answers, regardless of what it is that you might want to hear.

Before we enter into any new relationship, one of the biggies we ask ourselves is, "can we add significant value?" To answer that question we need to learn some things about you, your family, your finances and what your ideal future looks like. If you are not really sure on the latter point, we have some thinking exercises that will take us through that process.

Next we will walk you through an a la carte menu of our services that are most applicable to you. We'll outline how we will report to you and who the key relationship people will be. You will also have a very clear picture of the costs involved.

Before you leave we'll outline how we see our program fitting with your situation, or not. We will not ask you for a go/no go decision at the meeting and quite frankly, we don't want to be pressed for a decision that day either. We'll schedule a meeting of the minds call, say a week out, and then mutually agree on the best course of action from there.

At the end of the day, we are in the business of keeping our clients' most challenging financial decisions consistent with their life goals. Our mission is ongoing progress towards those goals, and the result we seek is appreciative clients who are increasingly confident about their future.

So…if that process sounds engaging, I invite you to call and book some time. If you'd like further information, including access to our quarterly communication pieces, you can check us out on the web at www.chrisraper.com and send us an email from there.

This concludes "Is There a Fit".

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