*This dispatch is broadcast in nature and is intended for participants (and interested parties) of **The Dividend Value Discipline™**.*

Chris & Ryan's Special Market Dispatch: October's Opportunity - Hello November!

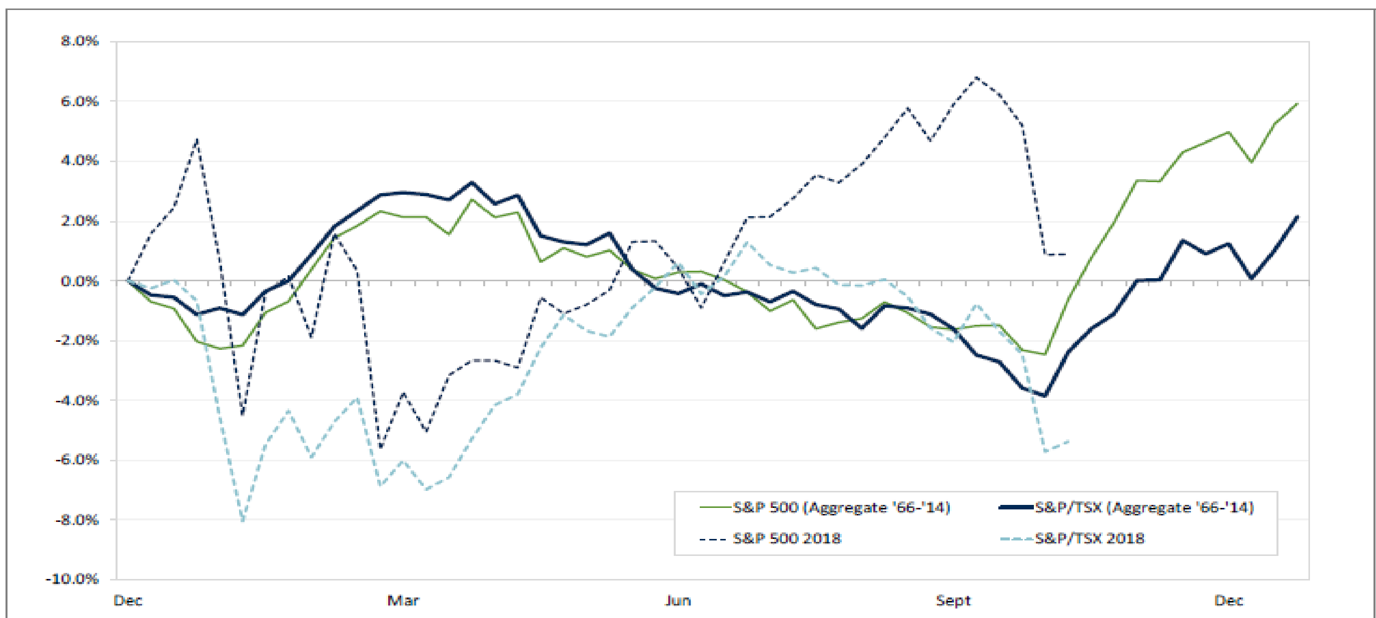
As you are probably aware, October lived up to its reputation as one of the scariest months of the year for the stock markets, with both Canada's S&P/TSX composite index and the U.S.'s S&P 500 index down more than 6.5% for the month.

The Dividend Value Discipline™ held up better but we did not get away unscathed. By the time the month was through, the roughly +6% year-to-date returns that we reported to you at the end of the September had been reduced to around +0.5% on average.

While we were not totally surprised by the downturn (we alluded to the possibility in our Q3 Market Commentary), we know that it can be disheartening for clients to see account values decline that much in such a short period of time. Of course, the other side of that coin is that you can be encouraged that the selloff allowed us to acquire two great companies, U.S. Bancorp and A.O. Smith, at significantly cheaper prices.

Market wise, our take is that we are experiencing a temporary pullback as opposed to more sinister times ahead. It is still early days in November, but thus far, accounts in **The Dividend Value Discipline™** are off to a great start for the month, up 2.5% on average, putting the year-to-date return at roughly +3% (both figures are as of the November 7th market close). It is also important to note that the portfolio has done well this year on a relative basis – over the same year-to-date time frame, Canada's S&P/TSX index is down 5.18%, while the U.S.'s S&P 500 is up 5.25%.

So what triggered this sell-off? We will never know for sure, but it is likely a combination of U.S./China trade concerns, rising U.S. interest rates, and finally, the U.S. mid-term election uncertainty. To the latter point, as per the chart below, it is extremely common for both Canadian and U.S. stock markets to perform poorly heading into U.S. mid-term elections, but historically, they have also risen significantly after the elections. In fact, in mid-term election years from 1966 to 2014, the S&P 500 index (solid green line) rose an average of close to 8% from the election through to the end of the year!



Source: Bloomberg, Raymond James Ltd.

Looking ahead, we are now into the historically strongest half of the year for the markets (November through April). In addition, U.S. share buybacks have started to kick in as blackout periods are lifted after companies report their quarterly earnings – many of which are flush with cash after repatriating their previously "locked-up" foreign cash reserves due to Trump's tax reform. One estimate we have seen points to $900 billion of potential demand between now and mid-December (source: Factset/Deutsche Bank). That's a lot of dry powder!

As many of you will know from our previous dispatches (and from meeting with us), what really matters over time is sustainable earnings and dividend growth of the companies that we own. On that front, we are doing very well indeed – the average Q3 2018 earnings growth of our companies that have reported thus far is 19% over Q3 2017, and the average 1-year rent cheque (dividend) growth of the eight new companies added to the program over the last 12 months is a whopping 28.76%. We close with our usual question – if you owned an apartment block where the rents went up at double digits every year, would you sell it?

In closing, please don't hesitate to reach out to us if you have any concerns or would like to set up a review meeting. We are here to help.

Yours truly,

Chris Raper
Senior Vice-President | Senior Portfolio Manager

Ryan Cramp
Portfolio Manager

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