



**AUGUST
2017**

cardinal UPDATE

DIVIDEND INCREASES

PNC Financial Services Group	36.4%
JM Smucker Co	4.0%
Wells Fargo & Co.	2.6%

(During the period July 1 to July 31, 2017)

NORTH KOREA – WHAT SHOULD AN INVESTOR DO?

We are all worried about the current standoff with North Korea. Kim Jong-Un took over as Leader of North Korea in 2011 and has launched 17 missile tests in 2017 alone; more tests than in 20 years from 1991 to 2011 before he took charge.

The problem is that North Korean missile technology has improved enormously in the past few years versus previous decades when it was common to hear the country announce a missile test only to have it fail to launch. Now most military experts believe that North Korea has the capability to launch a missile at the U.S. This raises the stakes for the U.S. or any country considered a military enemy by North Korea.

The imminent concern is that North Korea has announced that in mid-August, it will launch test missiles within thirty kilometers of Guam, a U.S. territory with significant U.S. military presence. The U.S. has responded with heavy threats.

We still believe that the overwhelming odds are that no nuclear weapons are fired. North Korea would be guaranteed to lose

in an actual nuclear war, and we do not believe they want that. If they did, they could have fired missiles long ago. In fact, all of the threats from North Korea could just as easily be viewed as clear signs that they do not want war, they just want to deter any aggression against them. Also, dictators tend to have internal threats to deal with as well, and showing strength to external threats also projects strength to internal ones.

However, we think that odds are, the situation gets worse before it gets better. Probably the best precedent is the Cuban Missile Crisis in August of 1962. The Soviet Union had been in the process of placing about forty nuclear weapons in Cuba, its ally. The U.S. responded with a military blockade of Cuba (which is considered an act of war) and though the world seemed to be on brink of nuclear war, the Soviets ultimately turned back. Further escalation would not be good for the stock market, so if we believe there is a 50/50 chance of exactly that, why would we not sell and move temporarily to cash?

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**CARDINAL CAPITAL
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Investment Counsellors

Our answer is that while we are worried about what could happen in North Korea, we think that moving to cash is still a greater long-term risk. Consider the stock market during the Cuban Missile Crisis: the stock market began falling in August of 1962, ultimately declining by 10% to reach a bottom on October 23rd, five days before the crisis was actually resolved. Despite global fears of a nuclear war, the market moved sharply higher in the five days before the crisis was resolved and ultimately gained 36% over the next 12 months from the bottom. We have seen similar stock market reactions in other geopolitical crises, including both Iraq wars, The Korean War and even Pearl Harbour in 1941.

The trouble with attempting to move to cash in advance of one of these events is that markets tend to start moving sharply higher well before the crisis in question is actually resolved. And of course, there is also the very real possibility that the situation does not get worse, in which case investors will likely drive the market higher in a relief rally. As an investor, doing nothing can feel like a difficult move, but history suggests it is the best move.

COMPANY FOCUS:

MACDONALD DETTWILER & ASSOCIATES

Macdonald Dettwiler & Associates (MDA) is a global leader in the communication satellite market. Having now secured an approval from shareholders, it is set to expand its portfolio with the upcoming acquisition of Digital Globe. Once complete, the company will also become the world's leading earth imagery provider. This will cause a positive shift that will see its revenues become more recurring and will result in a more stable business platform. Its legacy business, focused on manufacturing satellites, has high barriers to entry but is characterized by lumpy orders and cash flows. That being said, in that market MDA is at the top of its class, providing high throughput satellites which are able to transmit the most sophisticated of data. The new business will enhance its earth imagery capabilities that will be able to combine radar and optical images to serve commercial and government customers around the world. Its capabilities are the most advanced of its peers, and are critical to clients that need precise and reliable data. The company's competitive advantages have built a strong moat around its business, and should be able to propel its earnings into the future.

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