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cardinal QUARTERLY

MARKET OUTLOOK

BY EVAN MANCER, CFA

The fourth quarter ended strongly with markets across the globe seeing sharp gains. What were already high valuations have stretched even further as economic data from across the globe has been excellent. Our view is that we are not yet at the peak of the bull market and 2018 should be another good year for equity markets. None of the traditional recession indicators are flashing red, or even yellow, and though stocks appear to be fully valued, they still look cheap relative to other asset classes like bonds, most areas of the real estate market, and especially bubbles like Bitcoin.

All of the major stock markets posted gains in 2017 with the S&P 500 showing the strongest growth at 21.6%. The French CAC 40 and German DAX 30 both increased by 12.5% while the ASX -100 in Australia advanced by 12.3% The FTSE-100 and the S&P TSX had the smallest gains at 11.7% and 9.1% respectively. The U.S. dollar fell by 8% versus the Canadian dollar and by 10% to 15% versus most other major currencies, and most markets outside of the U.S. enjoyed strong currency adjusted gains.

GDP growth has been excellent across developed markets from North America to Japan. Even Europe has broken out of its long-term doldrums, with GDP growth above 2% and unemployment continuing to fall to more normal levels. Unemployment in both Canada and the U.S. have fallen close to all-time lows. All of this good news has boosted consumer confidence and retail sales over the holiday season likely hit new records. Last, the Trump administration was able to pass tax cuts, which will provide a near-term boost to U.S. GDP and to corporate profits.

There is still plenty that could go wrong in 2018. On NAFTA, we now believe the odds-on scenario is that the U.S. will pull out. Of course, this move would have to be approved by Congress and may turn out to be

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CARDINAL CAPITAL MANAGEMENT, INC.

just a high stakes negotiating ploy, but it would still likely cause a correction in the Canadian stock market. Geopolitical risks also continue to mount with the U.S. poised to challenge the Iran Nuclear deal.

Still, we think the markets will treat these types of events as short-term disappointments. Ultimately, investors are looking for the best returns possible. Just as a home buyer may claim to have found a bargain if the house they purchased was cheaper than a similar one down the street, equities are cheap relative to other asset classes. The Canadian stock market, with an earnings yield of 5.5% and dividend yield of 3%, both of which are growing, still looks better than 10-year government bonds trading at 2.2%.

We are also starting to see bubbles forming in different areas of the investing world. Certainly, FANG stocks have become seriously overvalued, as has real estate in Vancouver and Toronto. However, there are also strong arguments why these assets are unlikely to ever become cheap. Crypto currencies on the other hand, have every attribute of a bubble that will pop. In Canada, marijuana stocks trade at bubble-like levels.

Bitcoin has the appeal of not being controlled (or monitored) by government and has a fixed number of units available. However, there is now close to $300 billion of Bitcoin in circulation and $700 billion in total crypto currencies, almost all of which is being used as a vehicle for speculation rather than as a currency for transactions. Predictably, this has led to an explosion of new crypto currencies as entrepreneurs seek to cash in. There are now 1400 different crypto currencies, eight times the number of actual currencies in circulation. Most of these are skyrocketing in price; FlypMe coin for instance is the 372nd largest Cryptocurrency with $30 million in circulation. It tripled last week. This performance still pales in comparison to Janus coin, which now has $70 million in circulation and gained 44 times its value over the past week. There can be no way of knowing exactly when the bubble will burst, but our call is that the vast majority of these cryptocurrencies will be worth zero in a couple of years.

Valuations of cryptocurrencies are eerily similar to the dotcom era when companies like Pets.com, with almost no business model and heavy losses, traded at over 100 times revenues. Stocks like Coca Cola, WalMart and JNJ were considered old economy stocks. However, many forget that even though these old economy stalwarts were left in the dust by dotcom bubble stocks, they still hit peak valuations of forty to fifty times earnings, more than double the level of similar high quality stocks today. Our point is that the Bitcoin bubble is a good sign that investor appetite for risk is growing and will very likely act as a rising tide for all boats in the market.

We are seeing more definitive signs of inflation: commodity prices have been moving higher and wages have finally been showing sustained increases, stemming from low unemployment rates and minimum wages hikes in many states and provinces. This will cause Central Banks to increase interest rates, probably three or four times in the U.S. and three times in Canada this year. Initially, we think that this will actually provide a boost to the economy as it will create a pull-through of demand as consumers considering large purchases feel pressured to get ahead of increasing financing costs. Eventually, higher rates will hurt consumer demand and cause investors to reprice share values to lower levels. However, we think that interest rates and markets still have a way to go before that point.

Our strategy in U.S. and international markets has been to gradually sell off high quality companies as they approach 25 times earnings. We have already done this with Next Era Energy, John Deere, Unilever and Nestle to name a few. In each case we have been able to replace them with quality companies trading at lower valuations. As markets continue to rise, we will probably make a few more trades using the same rationale.

In Canada, valuations are not quite as high, but we do have more interest sensitive stocks such as utilities and telecoms that investors often treat as bond proxies. These are balanced by a high weighting in financials, which tend to do better in periods of rising rates. Already in 2017, we sold BCE partly for this reason. We are reviewing the interest sensitive names we have left in the portfolio given our outlook for higher interest rates in 2018.

The Canadian dollar will likely bounce around a bit more in 2018 than in 2017. Despite oil prices now in the low $60's, we expect only a modest increase to the Canadian dollar this year. This is because higher oil prices are offset by the fact that the Fed will likely be more aggressive with raising interest rates than the Bank of Canada. If the U.S. does withdraw from NAFTA, the BOC will probably stop increasing interest rates. We also think oil prices are about right at current levels with strong demand supporting prices and the risk of increased shale drilling offset by increased geopolitical tensions with Iran.

CARDINAL RESEARCH

FINDING INVESTMENT GEMS IN A RISING MARKET

BY ROBERT LAM, CPA, CA, CFA

As the U.S. stock markets continue to hit new record highs, there has been a greater focus on the higher valuations seen in the broader markets, which has led to a general perception that value investors would lack options for investment. In spite of this rhetoric that suggests an overheated market, we do continue to find pockets of value in the market as we focus on having our portfolio invested in names that are not only fundamentally sound, but reasonably valued.

Take for example the technology sector. Much of the media focus in technology gravitates towards discussion of the names making up the FANG acronym – Facebook, Amazon, Netflix, and Google (now Alphabet) – and the high valuations seen within these constituents – ranging from price-to-earnings ("P/E") multiples of 28x to a whopping 208x. While we are users and fans of the services that these companies provide, the valuations themselves leave much to be desired from a value investing perspective. Therefore we do not hold these stocks in our portfolios. Comparatively, we are able to find names within the technology sector that still participate in broader technological trends, but trade at much more reasonable valuation levels. A couple of examples include:

- Intel trades at a reasonable 13x P/E multiple and has been embarking on a mostly underappreciated but so far successful shift of its business model away from a PC-heavy reliance into broader addressable markets with better growth such as data centres, connected devices, and (more recently) autonomous automobiles.
- Cisco trades at a 16x P/E multiple and has established a sizeable network security business that has great growth prospects considering the broader digital security concerns that come along with the increased convenience of a connected society.

In addition to finding good value within a broadly overvalued industry like technology, we are also finding gems within generally unloved sectors where all related names are sold off indiscriminately in spite of some having better business models than others.

The first example of an unloved industry in which we have found value is retail. With the continued growth in e-commerce and, more specifically, the ever growing presence of Amazon in retailing, an industry-wide sell-off has occurred in all physical retailers and their landlords due to concerns around the potential for more failing retailers and shrinking physical retail square footage in the U.S. This has presented an opportunity for us to invest in Simon Property Group (an operator of high-quality U.S. retail estate assets and the owner of Premium Outlet branded shopping centres) at an attractive valuation. What the negative industry narrative overlooks most is the fact that there is a dichotomy in the quality of physical real estate supply in the U.S. with higher-quality assets that are better located that have and will continue to attract foot traffic at the expense of lesser-quality assets. In turn, this helps operators like Simon Property Group continue to command pricing power and maintain high levels of occupancy compared to operators of lower-quality assets that have seen significant rent concessions and lower stabilized levels of occupancy. If you have questions around the sustainability of higher quality mall assets, one way to test the thesis is to drive out to a popular local mall on the weekend and try to find a parking spot!

Another relatively unloved industry in which we have found value is the healthcare supply chain – e.g. pharmacy operators, pharmacy benefit managers, and pharmacy distributors. More recently, the rumours of Amazon (sense a trend here?) looking to expand into the U.S. healthcare supply chain caused the entire sector to sell-off. Again, this failed to incorporate that some areas are harder to broach than others, and as a result, we were able to find an opportunity to invest in AmerisourceBergen at an attractive valuation. AmerisourceBergen is a U.S. pharmacy distributor where the industry is mostly made up of a three-party oligopoly that typically commands multi-year locked-in contracts with its customers. Not only that, the pharmacy distribution industry has a two-fold barrier to entry in the amount of regulatory approval required to operate, and the amount of logistical complexity that accompanies satisfying customer needs. Again, Amazon's possible presence resulted in a broad "sell now, ask questions later" reaction that presented a value investment opportunity in the beat-up sector.

In closing, it is important to reiterate that continuing to find value in what appears to be an overvalued market remains a key objective of the investment management team. While the timing of such decisions may not play out over short timeframes, we continue to believe that a value-oriented approach where we are paid with dividends for our patience will ultimately deliver the best combination of total returns and peace of mind to our clients. ■

INVESTMENT FRAUD
6 KEY SIGNS TO SAFEGUARD YOUR FAMILIES WEALTH

BY CLINTON REBEC, FCSI, MBA, CIM

At Cardinal, clients hear us emphatically state that we are "building wealth for this generation and the next". Our common sense approach to investing has helped our clients safely and profitably invest and manage their wealth for the past 25 years.

Over the years we have come across and will continue to come across investors who have been taken advantage of. The main reason investors hand their hard earned wealth over to advisors and other investment professionals is trust. Unfortunately, the investment universe runs rampant with investment and financial schemes that prey on the emotions of investors. It has been a decade since the largest financial fraud in U.S. history was unravelled. Sadly, Bernie Madoff's Ponzi scheme will have a lasting multi-generational effect on the wealth of those investors who were affected.

In Canada, a Google search of Ponzi and fraudulent schemes will uncover hundreds of unnecessary schemes that have created financial hardships for thousands of investors. Even though these schemes are uncovered and perpetrators prosecuted, in most cases the wealth that has been eroded is permanent. It is everyone's responsibility to roll up their sleeves and do some homework when making any financial commitment. However, in an effort to make sure those we care about are protected, here are 6 key signs that will help you stick handle past fraudulent schemes and stay the course of successful investing.

#1 – Who has Access to Your Wealth – Demand Transparency

It's almost too simplistic in nature, but the person managing your money should never have access to it. Your investments should be held with an independent third party custodian. At Cardinal, we want to manage your money but we never have access to your money. Transparency starts with accounts that are set up in your name, with a custodian who is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and protected by the Canadian Investment Protection Fund (CIPF). If any financial steward not only manages the future returns of your wealth, but actually has access to it, there is a major conflict of interest (i.e. Bernie Madoff). Even worse, some investors write cheques to individuals for various private investments, real estate ventures, etc. never knowing where their funds are actually destined to end up.

#2 – High Pressure Sales – Walk Away

Your strategy and financial plan dictates that your investments need to work for you throughout your lifetime. Your portfolio should always be viewed with a long-term time horizon, not a send money now or get rich quick playbook. If you're being pressured to do something immediately, this signals a red flag. Sure, if you have a poor investment strategy currently or are largely in cash then an immediate switch may be in your best interests, but immediacy should never be a deal-breaker. No one should make you feel uncomfortable; so please don't be pressured.

#3 – If You Don't Understand It, Don't Do It

Sadly, many "sophisticated" investors place large sums of their wealth in investments that they can't articulate. No matter what your education and experience level in the investing world is, you are smart enough to know what you're investing in. If someone is using industry jargon or explaining the investment in a way you still don't understand, don't invest. We can't stress enough how important it is to us for our clients to understand what their strategy is, what they own and why, their performance and fees. It's not that complicated, so don't let anyone let you think should be.

#4 – High Returns, Guarantees and No Risk

We're not giving away any secrets by saying the stock market has and always will be moved by human emotion. Greed and fear above all else. Greed and get rich quick schemes are one of the leading factors to investors being scammed. This happens when they are promised abnormally high returns, which are just too good to pass up. Additionally, even quality investments don't come risk free. If someone guarantees high returns and/or zero-to-no risk involved in their investment structure, then default to "it's too good to be true". Remember, every investment should have a track record of performance. There should be official reporting (hence a third party custodian) and supporting documentation.

#5 – Check the Credentials

Are you about to invest with someone who has a verifiable track record? Are they registered and licensed to conduct business in their area of expertise? You need to delve deep into who you are handing your wealth over to. Don't be fooled by surface sophistication or apparent wealth: credentials, scholastics, experience and reputation speak volumes and can be verified.

#6 – Investment Policy Statements vs Unprofessional Contracts

An Investment Policy Statement (IPS) is the cornerstone of the client investment strategy. An IPS is a written agreement established to set out how you will work with your portfolio manager, including ongoing communication, types of investments, reporting, fees, risks and other issues relating to your circumstances. All investment activities are based on the IPS, which is developed for each client individually based on their overall financial position, goals and objectives. Unprofessional or no contracts typically signal fraud or at the very least should be a very concerning red flag.

These 6 signs will help you weed out scams and steer clear of poor advice. The bottom line on avoiding investment fraud and financial malpractice is use the above list and do your own due diligence. Trust your intuition, then follow it up with your own homework. It's your money and therefore your responsibility to investigate and peel back the layers of each investment to make sure you're not taken advantage of. This is a relationship business that should be structured for the long-term (i.e. multi-generations), thus make sure it is the right fit for you and your family members.

At Cardinal, we want our clients to feel absolutely comfortable before they make a decision to hire us, and for the years to come too! ■

INVESTMENT Q&A

Are all bonds safe, or are some bonds more dangerous than others?

When thinking about bonds, the average person might first think of its safety. Bonds are generally less volatile than equity and tend to be less risky, but it is a mistake to assume that all bonds are equal. One of the ways to measure the riskiness of a corporate bond is to look at its credit rating and corresponding spread. The higher the credit rating, the less risky the bond. A bond spread is the difference between a bond's yield and the yield of a government bond of similar maturity. This spread is the amount of compensation an investor receives for taking on the extra credit risk of a corporate bond. Bonds that have a higher credit rating have lower spreads (and thus lower yields) than bonds with a poor credit rating.

High yield bonds, also known as junk bonds, are rated BB+ or lower, reflecting their higher credit risk relative to investment grade bonds rated BBB- or higher. This means that high yield bonds should have higher yields and spreads than investment grade bonds. However, in the prolonged low interest rate environment we are in now, investors start looking for ways to boost the yield on their portfolios. Demand for high yield bonds increases, and prices in fact go up (thus lowering the yield since they are inversely correlated). These overzealous investors forget that high yield bonds are inherently riskier, and they are not being compensated at a proper (ie. higher) spread reflecting that risk. The likelihood is that eventually investors will realize this and spreads will widen to levels more appropriate for the credit rating of the bonds, and prices will drop.

The recent trend of tightening high yield bond spreads means that not only are they less safe relative to investment grade bonds, but they are now overpriced as well, leaving them vulnerable to a correction. At Cardinal, safety and preservation of capital are our priorities when it comes to investing in bonds. As such, our focus is on investing in investment-grade, high quality bonds where we are compensated properly for the amount of credit risk we take on. BRETT PURDY, CFA

How will U.S. tax reform impact our portfolio holdings?

The most obvious holdings that will benefit are companies earning most of their income in the United States. On January 1, the corporate income tax rate declined from 35% to 21% on U.S. earnings. Less tax to pay leaves more cash in company coffers to invest in their business to grow earnings and return cash to shareholders. Companies in our portfolios that generate the majority of earnings in the U.S. include Smuckers and CVS. Canadian companies with U.S. operations like CN Rail will also be positively impacted.

U.S. based companies with global operations will benefit too. Many companies including Microsoft, Amgen and Cisco have amassed significant cash balances outside the U.S. from international earnings. They will be able to take advantage of a tax repatriation holiday to bring cash back to the U.S. at a 15.5% tax rate compared to 35%. That gives them the opportunity to redeploy the cash into the U.S. to increase business investment and shareholder returns.

There will be some short-term negative impacts, notably to some U.S. banks and Canadian banks with major U.S. operations. Banks may have substantial deferred tax assets from tax credits and/or previous operating losses. With a lower tax rate, these assets are worth less and the banks need to reflect that lower value in their earnings through a one-time markdown. It is not an actual outflow of cash, but it will make for headlines, as earnings will look worse than they actually are. However, over the long-term, the tax changes will be net positive as banks will pay lower annual taxes.

Details are still being worked out and companies are crunching the numbers on the tax reform impact. But overall, the tax reform bill looks positive for U.S. companies and Canadian companies with large U.S. operations. If companies invest the savings in their businesses, it would have the bonus effect of boosting the overall economy. SHEILA WILSON-KOWAL, CFA

Why is Maxar a Cardinal stock?

Maxar Technologies, formally known as MDA, fits the Cardinal criteria as it is a high quality company, pays a competitive dividend and has an attractive valuation.

Maxar is the global leader in commercial satellite manufacturing and earth imagery. The company operates in markets with favorable growth outlooks supported by a delayed replacement cycle of commercial satellites and a growing demand for more sophisticated satellite imagery. Its breadth of products and high quality offerings set it apart from its peers. In fact, in the satellite business, the company actually generates additional sales from its direct competitors due to its specialties in building satellite subsystems that are widely known to be the best in the industry. The company's ability to pair its comprehensive imagery library, used in Google and Apple maps, with its legacy manufacturing business is leading to more stable recurring revenues, an increasing margin and a more stable cash profile.

The company's dividend yield was averaging over 2% until the most recent stock run up, but it now sits just under that marker. Once the debt pay down from the merger is completed, Cardinal investors can expect to see the dividend raised at a faster clip than the historical rate as its cash flows will be more predictable and more plentiful.

At the time of Cardinal's purchase, Maxar's shares were significantly undervalued as uncertainty around the merger lingered. Since the completion of the deal, the multiple has expanded almost three points, showing that the market is now willing to value each dollar of earnings at a higher price given its changing structure. Even now at its current valuation of 13.8 x 2018 earnings, the shares still remain a good buy in the Canadian industrial landscape that trades in the high-teens on average. ANDREA HORNBY, CFA ■

REPORT ON FIXED INCOME

BY BRETT PURDY, CFA

The bond market ended the year on a positive note, as the fourth quarter reversed losses from earlier in the year. The FTSE TMX Canadian Universe Bond Index returned 2.5% for the year on the back of a 2.0% gain in the fourth quarter that was helped by a fall in long bond yields and tightening credit spreads. Overall, the yield curve in Canada flattened in the wake of back-to-back 25 bp rate hikes from the Bank of Canada in July and September, which caused short term bond yields to increase more than long term bonds.

Some may point to a flattening yield curve as worrisome; especially given the Bank of Canada is likely to increase rates up to 3 times this year which will allow the short end to rise even further. With Canada's strong economic fundamentals and rising inflation pressures, a case can be made that the long end of the curve will rise as well. In 2017, Canada experienced quarterly GDP growth of 3.7% in Q1, 4.3% in Q2 and 1.7% in Q3 due to strong consumer spending and improving business investment. Canada also enjoyed a stellar year in employment, creating almost 340,000 jobs in the first 11 months of the year, most of which were full-time. The latest unemployment data for November was 5.7%, a 40-year low. As a result of the tight labour market, wage growth pressures are building. Wages were up almost 3% year over year in November. Also, the CPI jumped to 2.1% in November from 1.4%. This is the first time it has reached the Bank of Canada's 2% target since February of last year. Raw materials such as energy and commodities have seen steady price increases as well. All of these signals combine to help form inflation expectations for investors, which is a major driver of long-term interest rates.

There is some evidence that inflation expectations are already beginning to rise. One way to measure this is by using what is called the breakeven, using 30-year Government of Canada real return bonds and regular bonds. The 30-year real return bond yield is adjusted for inflation, whereas a regular 30-year bond has a nominal yield, which includes a premium for inflation risk. This premium, or the difference between the two bond yields, is the breakeven and represents the inflation expectations of investors. Currently, the breakeven is about 1.75%, which is up from 1.27% two years ago when the oil price shock was in full swing.

With strong economic fundamentals and building inflation, we expect long term rates to gradually increase from the excessively low levels we have seen in recent years. So what does that mean in relation to our bond portfolios? For many clients, having a fixed income component to their portfolio is still necessary in order to reduce the overall risk of the portfolio and provide a margin of safety, especially when there are income needs to be met. One strategy to help minimize interest rate risk is to invest in short term bonds as the price of these bonds will not fall as much as longer term bonds during periods of rising interest rates. Accordingly, we continue to invest in high quality, investment grade bonds with maturities less than six years. ■

CARDINAL RULE #8

AVOID MARKET TIMING

BY HENRY HUDEK, MBA, FCSI, CFA

Last year at this time the Dow had set a record at 19,000, closing in on 20,000. Now we see the Dow at new records over 25,000. We wrote about the futility of market timing – and 2017 certainly proved that to be accurate. Anybody who got out of the markets would have missed another good year. The market is on a tear, and for good reasons. Economic growth is solid and expanding. Europe and Japan are showing more strength, as is Canada. Central bankers have been slow at the switch resulting in interest rates that are lower for longer than expected, so there is room to run. Trump's inflationary and stimulative fiscal policy adds frosting to the cake. But markets run ahead of themselves and good things never last forever.

Despite the weakness in Canadian markets in early 2017, we did not see a correction, and markets were as ripe for one then as they are now. Will we get another year before a correction? Certainly possible. A correction at some point is inevitable. The timing is just unknown. The point is to always be ready for it. Do not expose your short-term cash needs to the vagaries of equity markets. If you have cash needs on the horizon, fund them now by trimming holdings. During and after a correction is the time to hunker down, and conserve cash so that you can keep as much as you can in stocks when they become cheap. Do not hold overvalued and fad stocks or bonds. If you are contemplating charitable contributions – do it now with gifts in kind, where you can save the tax on capital gains. Keep finding low priced, high quality companies and own them. Keep looking for safe dividend income to provide cash flow. Even in ripe bull markets such as we see today, there are pockets of weakness where popular wisdom fears to tread. A year ago Trump-threatened health care and NAFTA stocks were laggards that Cardinal found worth buying. Today Amazon-threatened retail sectors and retail real estate show value. Cardinal seeks out those bargains where irrational exuberance has given way to exaggerated prudence, and you will have seen those changes in your portfolio over the past several months.

Market volatility is not something to fear, but simply something to prepare for. It is inevitable and it is the price we must pay to get the higher long term returns that are available from equities. We get to buy good companies more cheaply and reinvest our dividends at better prices when markets are low. But the temptation to avoid "losses" or multiply gains by "timing the market" is extreme, and it is amplified by the media and the industry pandering to greed and seeking to fuel trading. There is no need to time markets, and there is danger in doing so, both in foregone gains and in actual losses. ■

ENHANCED SAFETY FOR YOUR ELECTRONICALLY DELIVERED DOCUMENTS

BY DEWAYNE OSBORN, CPA, CGA, CFP

Cardinal is instituting some enhancements for the electronic delivery of client documents, including any personal documents or other sensitive information that leaves our secure premises and arrives at your home and/or office via email.

If you utilize email on a regular basis, you know that spam and other malicious programs are becoming very commonplace. If inadvertently installed into your email system, they could cause significant harm to you and your loved ones. How? The infiltrators (hackers) get into your email system by you or someone in your home or office inadvertently clicking on a malicious link that executes a program that gives them **full access** to your emails and all documents contained within its folders. This means that the hacker can send and receive emails **without** your knowledge and/or consent.

So what can we do to reduce the risk? According to our computer experts, the best protection against unauthorized access to sensitive emailed documents is a multistep approach. Here is what we are doing to ensure that we have received a properly authorized email instruction from you:

1. We have configured our protective software to more aggressively look for potentially harmful (hacked) emails.
2. Non password protected documents that have to be delivered by email need to be authorized by the client or someone authorized by the client (e.g. accountant, trusted advisor). This second factor authorization cannot be received by email and must be by voice and/or some other non-email means (e.g. text, facsimile).
3. Where possible, documents delivered by email will be protected with a password. The password will be provided to you via non-email means (e.g. face to face, mail, telephone, text). This password can be reused for subsequent documents if you wish.
4. Where possible, information contained within the text of an email will be altered so as to protect the confidential nature of it. An example of this type of measure is how vendors are concealing the appearance of your credit card number on the sales receipt (e.g. Card ending with 2345).
5. Many clients have begun using our Client Portal. This portal is a secure area on our website where you can login and retrieve a document that has been uploaded to it. Obviously this is the most secure means because you are required to enter login credentials to access the documents (e.g. account statements). A potential problem with this system is that email was used to initially set up and/or to change password access to the secure folders. As part of our enhanced protective measures, a security question of your own design, the answer, and a helpful hint, will soon be added to the login process. Once this new feature is fully implemented, and our best estimate is February 1, 2018, the first time you attempt to log in to the system, you will see a prompt to set up your new security question, a hint, and the answer. Once this secure question has been set up, you will not be required to use it again unless you need to reset your password. If you need to reset your password, you will be able to click on "Forgot my Password", the security question will appear, and upon successful answering of that question, you will be able to reset your password. If you are unable to answer the security question in three attempts, you will be required to contact our offices to receive a new temporary password. The same process will be required for new clients during the initial set up of their web access.

So what does all this mean for you? If you do not wish to use the web portal, you or a person authorized by you may be asked to confirm his or her identity before an email with sensitive information and/or attached documents is sent. Also, you may be required to remember a password to unlock documents sent via email going forward. Lastly, during the initial set up, you will be asked to do a few extra steps to better protect your sensitive documents. We trust these extra steps will not be too onerous on our clients, but we feel the safety of your sensitive information is of the highest priority and that these extra measures are necessary to respond to an increasing threat.

If you have any questions, please feel free to contact your Cardinal Advisor.

CARDINAL NEWS

Cardinal is pleased to welcome **Christina Sullivan** as our newest Client Services Administrator. Christina has over seventeen years of experience in various administration and client servicing roles, including Tetrem where she was the Senior Operations Administrator.

Cardinal would like to congratulate **Emily Burt** and her husband **Tyler Makodanski** on the birth of their second child Ryker Kain, born November 8, 2017. Further congratulations to **Robert** and **Judy Lam** on the birth of their fourth child, Reginald Victor Lam, born December 19, 2017.

Congratulations to **Andrea Hornby** who recently received her Chartered Financial Analyst designation!

2017 DIVIDENDS IN REVIEW

BY JEFF RANCE, CFA

Dividends are a core part of what we do. While academics argue in their ivory towers whether dividends matter, we continually see in practice that they do for a number of reasons. Behaviorally, a growing dividend can pull you away from day-to-day market movements and towards underlying business fundamentals. During these manic moments, dividend income can be reinvested at bargain prices. We also see dividend increases as a positive signal from management of their view of future business prospects.

In our Canadian portfolios, 20 out of 21 of the stocks held at year end raised dividends at least once, while 7 companies increased dividends twice. On average, dividends increased 8.5% from last year with the average dividend yielding 3.3%. Notably, both Fortis and Canadian Utilities extended TSX-leading streaks of consecutive annual increases since 1972; CNQ and Suncor were among the 8 oil and gas producers in North America that raised dividends; and, the 6 banks had another strong year combining for 11 dividend increases. The only company that did not raise its dividend was the satellite manufacturer Maxar Technologies, which gets a pass as they focused on closing a large acquisition.

Combining the U.S. and International portfolios at Cardinal, 24 out of 25 of the stocks held at year end raised dividends last year, while 2 companies increased dividends twice. On average, dividends increased 11% from last year with the average dividend yielding 2.5%. Notably, Johnson & Johnson raised its dividend for the 55th year in a row, dating back to the Kennedy administration; while, Oracle, which did not raise its dividend last year, came through nicely this year with a 27% increase. The only company that did not raise its dividend was CVS Health as it recently announced the acquisition of Aetna.

In all, it was a great year for dividends. In 2018, we expect another good year of dividend increases backed by strong company performance. CVS should resume growth once its acquisition closes (timeline TBD). Unforeseen circumstances aside, we are forecasting dividend growth from the rest of our holdings this year and into the near future. ■

Q4 DIVIDEND INCREASES

Canada	% Increase
Allied Properties REIT	2.0%
Bank of Montreal	3.3%
Granite REIT	4.6%
U.S.A.	**% Increase**
Amgen Inc.	14.8%

THE CARDINAL FOUNDATION

2017 YEAR IN REVIEW

BY DEWAYNE OSBORN, CPA, CGA, CFP
EXECUTIVE DIRECTOR, THE CARDINAL FOUNDATION

Founded in 2008, the Cardinal Foundation continues its excellent work for the benefit of Canadians. The Cardinal Foundation was established so that we could take a more organized approach to corporate giving. Through the Foundation, we have been able to assist charitable organizations that are in great need of support and may not otherwise be able to continue providing their services to those who need it most. In 2017, the Foundation's Board and Grants Committee continued its work with the Health Sciences Centre Foundation to fund a state-of-the-art Centre for Surgical Innovation. Some of the other grants that were made in 2017 include:

- Capital improvements to the Sir Hugh John A McDonald Memorial Hostel
- Construction of an outdoor courtyard for Bethania Mennonite Memorial Foundation
- Laundry equipment for Discovery House
- Diagnostic equipment for CNIB

The Cardinal Foundation would not be possible without annual funding provided by Cardinal Capital Management and the ongoing commitment of our board members and grants committee. Thank you to everyone for the time and energy you put into the Foundation in 2017!

The Board of Directors includes Emily Burt, Leah Cochrane, Brian Coughlin, Sean Lawton, David Aime, Sheila Wilson-Kowal, and Ron Malech. The Foundation's Grants Committee also includes Melanie Burt, Mitch de Rocquigny, and Juanita Gielen. ■

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