

DM Monthly Report

MAY 2018

PORTFOLIO ACTIVITY

In April, we deployed accumulated dividends and other cash to select positions in both DM Canadian Equity and DM Foreign Equity.

FEATURE STOCK

Apple Inc. (AAPL)

AAPL's quarterly report is always an earnings season bellwether, as market watchers hang on how the S&P giant has performed over the prior 3 months and what management sees unfolding in the near future. The company's Q1-18 release didn't disappoint, as the company set a new quarterly revenue record of \$61.1bn and churned out a 30% rise in earnings per share vs. the same period last year. Even though iPhone unit sales only climbed 3%, strong uptake of the high-priced iPhone X drove a much greater gain in the business unit's profitability and showed that AAPL's brand still affords considerable pricing power. Importantly, AAPL's services business continued to grow, with revenue for this segment increasing by 31%. This news, coupled with a 16% dividend hike and a new \$100bn share buy-back helped boost the stock by about 6%; price was soon pushed even higher when Berkshire-Hathaway revealed that it had bought another 75m shares in the quarter. Perhaps not surprisingly, Warren Buffett said that he would rather the stock had dropped after earnings so he could buy more.

MANAGING RISK THROUGH INTERIM POSITION MANAGEMENT

In June of 2013, we first purchased shares in IAC/Interactive Corp., a company that owns more than 150 media and internet brands and which had established a long history of creating shareholder value through the management of its assets. Our investment thesis at the time said that the company would provide our portfolios with exposure to two of the fastest growing online business segments:

Search - IAC's "Ask.com" is a niche offering, providing search functionality based on natural language questioning; it's the world's fourth most popular search engine.

On-line personals - IAC was (and is) the global leader in online dating, both through its flagship "Match.com" and other brands at the top of the space.

Following our initial purchase, we trimmed the position on four occasions and, by the middle of 2017, we had taken more capital out of the holding than we had put in (see chart below). Despite IAC's strong performance and its significant contribution to our equity returns in recent quarters, however, we elected to liquidate our remaining shares at the beginning of May when Facebook announced that it would leverage its massive subscriber base to enter the online dating space. Though there is a very good chance that IAC will weather this emergent storm, we felt that this new competitive threat could materially impact the operating environment that Match.com has enjoyed to date. Including dividends, IAC provided a total return to DM portfolios of approximately 176% over our holding period vs. 73% for the S&P 500 through the same interval.

