DM Monthly Report
DECEMBER 2018

PORTFOLIO ACTIVITY

In November, we executed several rebalancing trades across DM man-dates and sold our entire position in Colfax in DM Foreign Equity.

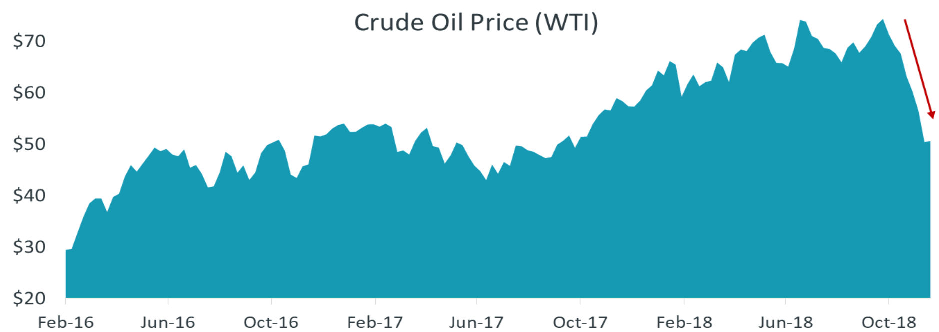
FEATURE STOCK

Badger Daylighting Ltd. (BAD)

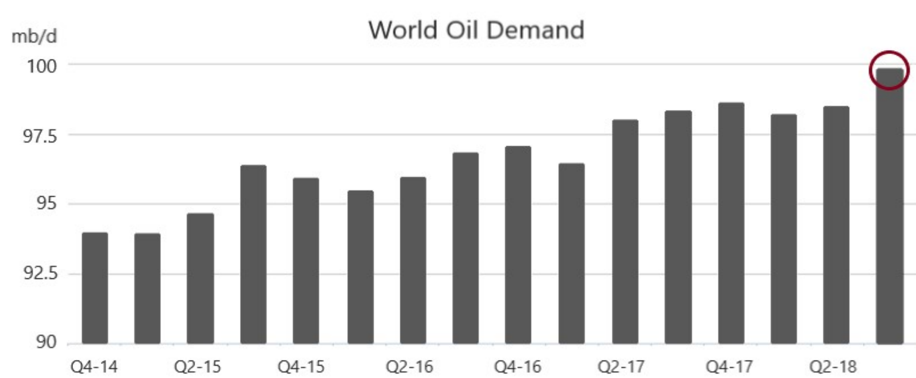
Calgary-headquartered BAD is N. America's largest provider of non-destructive hydro excavation services. "Hydrovac" is a process in which high pressure water is injected to break up soil, with a vacuum apparatus then used to remove the resulting slurry from the work area, a technique which is especially useful for exposing (or "daylighting") sensitive underground infrastructure which could be damaged by traditional excavation equipment. Despite assertions about the company's business practices (which were ultimately discredited) by a vocal short seller in 2017, BAD posted a 21% jump in earnings that year and boosted its dividend by 18%. In the third quarter of 2018 it was much the same for the company, with revenues up 20% and profits jumping by more than 50% vs. the same period last year. BAD also put 17 new hydrovac trucks into service in Q3, bringing its total operating fleet to 1207 units and putting it on track to meet its goal of 160-200 additions in 2018. This strong performance has been recognized by the market, with BAD's share price rising by 20% in November.

SHOULD WE BE WORRIED ABOUT OIL'S RAPID DESCENT?

After having tracked steadily upward from a sub-$30 valley reached in early 2016, crude oil abruptly reversed course in mid-October, plunging by almost a third in just a few weeks (see first chart below). Because oil and gas remain key inputs to global growth, concerted price moves can sometimes provide clues to underlying economic health, even before changes in course show up in GDP and other key figures. If, for example, price is falling due to a dropoff in demand, it's not unreasonable to surmise that general business activity has also cooled.



Current price pressure, however, appears to be a supply side phenomenon, with global oil consumption actually reaching a record in Q3-18 and soon to cross the 100m barrel/day threshold for the first time. As it happened, traders were caught flat footed by an unexpected surge in production, driven largely by the US government's mixed messaging on Iran. When the Trump administration reinstated sanctions earlier this year, it vowed that restrictions would be absolute and promised economic retaliation against any nations that kept buying oil from Iran. This convincing move encouraged Saudi Arabia to ramp up output to fill the gap, so much so that its production reached an all time record in November. In practice, however, the US has granted exemptions to several consumers of Iranian oil, generating a tsunami of supply and swamping price in the process. So where does oil go from here? Though it's impossible to say with any certainty (which is perhaps the greatest challenge in energy sector investment), we are relatively confident that current price action isn't foreshadowing a broad economic slump.



Source: *IEA*