cardinal UPDATE

FEBRUARY 2019

DIVIDEND INCREASES

Canadian National Railway Co.	18.1%
Comcast Corp.	10.5%
Intel Corp.	5.0%
Novartis AG	1.8%
Roche Holding AG	4.8%
Wells Fargo & Co.	4.7%

(During the period January 1 to January 31, 2019)

VOLATILITY

Stock market volatility moves in both directions. As investors, we are elated to see upside volatility as our portfolio increases in value. Unfortunately volatility was far more on the downside last year. If you have been watching stock movements as of late, you would have noticed that sentiment can turn on a dime. Investors trying to understand and predict the short term direction of the market have been whipsawed. Uncertain or bad news has been met with down markets and even sometimes good news has, at times, rattled the markets over the past few months.

The markets are a measure of investor sentiment, and investors more than anything like certainty; whether for growth in the economy, earnings or dividend growth. Unfortunately last year, confusion and disorder seemed to be the central themes in the news and that impacted investor sentiment hugely. The uncertainty of the political and trade environment has overshadowed any investor confidence in the market and this uncertainty increased the volatility. Given that this uncertainty does not seem to be letting up, volatility will likely continue into the first half of 2019.

With an increase in stock market volatility, our investment style may fall out of favour from time to time. During the first half of 2018, this is exactly what happened. Our performance lagged the overall market on most of our equity portfolios. We have learned however over our 25+ year history that it is important not to compromise your investment principles during these times and sure enough, we saw that our style came back into favour during the last half of the year. We ended 2018 1.5% higher than the market for our Canadian equity portfolio, and 3.6% higher than the benchmark for our Foreign equity portfolio. (gross of fees)

Market pullbacks, corrections (drops of 10% or more) and even bear markets (drops of 20% or more) are a normal part of the stock market cycle, and a risk that investors must accept. In the near term, the direction of the markets can be highly unpredictable, but in the long term, we know that markets do move higher. If the volatility of your portfolio becomes overly concerning to clients, then it may be time to discuss adding a greater amount of fixed income to the portfolio. As we get older and our portfolio becomes an income source, seeing the value drop significantly can become harder to bear. This is an excellent signal to clients and advisors that it may be time to review the overall asset allocation and risk of a portfolio and determine if a change may be in order.

While portfolios can swing either higher or lower in the short term, our investment philosophy of owning conservative, high quality, dividend paying, dividend growing companies allows us to feel comfortable given any market environment. We hope that our clients also feel reassured that over the long term, each Cardinal portfolio has been structured to weather the bad times and prosper during the good times.

COMPANY FOCUS:

GILDAN

Gildan (GIL) is a manufacturer of basic apparel and dominates the printwear market. Through significant capital investment GIL has created a best-in-class manufacturing network which allows it to be a low-cost producer. While GIL may not be a household name, the company owns brands such as Comfort Colors, Gold Toe, and American Apparel, and also manufactures for brands such as Under Armour.

GIL had a strong 2018 as the combination of an attractive valuation and the ability to manage through a challenging retail environment led to share price outperformance. GIL is currently increasing its manufacturing capacity by 25% and this will be the main driver of future sales growth as the plants ramp up. There has been a shift by retailers to increase their private label offerings and GIL has secured private label programs with both Wal-Mart and Costco beginning in 2019.

Although GIL's dividend yield of 1.4% is on the low-end, the dividend has been raised by 20% annually since first initiated in 2011. With a dividend payout ratio in the mid-20% range there is ample room for further dividend hikes at a rate that exceeds earnings growth.

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