# DM Monthly Report

***December 2014***

## PORTFOLIO ACTIVITY

Aside from rebalancing transactions, no positions were bought or sold from DM equity mandates in November.

## FEATURE STOCK

***Enbridge Inc. (ENB)***

Not all energy stocks have suffered in recent weeks—ENB jumped more than 10% in a single day when the company announced a 33% dividend increase and a plan to restructure itself. By reshuffling significant legacy assets into a separate corporate entity, ENB said that it will enjoy accelerated dividend growth, enhanced cost competitiveness, and a more effective funding structure for its $44 billion capital spending program. In the news release, management indicated that the big jump in the company's dividend, along with forecasted dividend growth of 14% to 16% through 2018, reflects their confidence in the strength of both existing assets and the capital projects that will be put into service over the next half decade. Over the past five years, ENB shares have generated a compound annual return of more than 20%, helped by a 150% increase in its dividend over this period. With the company expanding its network to service fast growing regions, it sits well positioned to build on this record of growth.

## OIL LOSES ENERGY

No sooner had we published last month's missive on the miseries of gold, than oil suffered its sharpest drop since the financial crisis. Whereas precious metals are a bit of an investment curiosity, though, followed mostly by doomsayers and those looking to capitalize on grand macroeconomic predictions, energy is a key economic constituent, touching many aspects of industrial and consumer activity. Even more important to us, energy companies account for a meaningful component of the TSX and contribute significantly to Canada's output, job growth, and tax intake. Below are some of our thoughts on oil's recent slide and its impact on DM portfolios:

***Our stocks*****:** Though the energy stocks in DM portfolios have sagged with the rest of the sector, our holdings are characterized by strong balance sheets, reasonable production costs, and long-life assets. This strength should allow these companies to weather the drop in crude and may even position them to capitalize on the struggles of weaker peers.

***A silver lining**:* While high oil prices drive profits in one corner of the world economy, they are a significant drag everywhere else. In fact, it is estimated that each $10 decline in crude boosts global growth by about 0.20%; American motorists are now saving about $630 million a day in gasoline purchases vs. what they were paying in June and will reap a $230bn windfall if prices stay this low for a year. This "energy dividend" can only help broad growth, improving the backdrop for aggregate earnings generation and equity performance.

***Diversification matters:*** Despite sharp declines in a few individual names within our Canadian equity portfolios, most client accounts have been largely unblemished by the fall in oil. In fact, the DM Balanced Portfolio composite produced a total return of +2.0% in November, with bonds, foreign stocks, and other Canadian names more than covering up for weakness in the energy group.

***Where to from here:*** While global energy demand has been tepid, the larger culprit has been skyrocketing production, particularly from "shale" deposits in the US. Though growth in this area has been prolific, much of it has been brought on stream with relatively high production costs. Under the new oil price regime, it is likely that some of these projects will be tapered and those not yet launched will be reconsidered. At some point, this rationalization will put a floor under crude and, if capital investment is curtailed too far, it could set the stage for a bounce-back rally. In the meantime, we'll be spending extra time on this equity sector, both to monitor operations in existing holdings and to determine whether new opportunities emerge from current turbulence.