DM Monthly Report

FEBRUARY 2017

PORTFOLIO ACTIVITY

In January, we purchased shares of Stella-Jones in the DM Canadian Equity Portfolio.

FEATURE STOCK

Stella-Jones Inc. (SJ)

SJ is a leading N. American treated wood products company, specializing in railway ties, utility poles, and outdoor residential lumber. The company serves customers through a network of 11 treating facilities in Canada and 23 in the US and enjoys a relatively stable demand profile due to the regular replacement requirements for its key products. This cash flow predictability has allowed management to pursue an aggressive but disciplined acquisition strategy over the past decade, which has made SJ the continent's largest producer of railway ties and utility poles. While the company's footprint has grown through consolidation, so have its financial metrics, with total revenues, sale per employee, and operating and free cash flow climbing sharply in recent years. This effective capital allocation has allowed SJ to raise its dividend at a compound annual rate of 25% over the past five years. Beyond the attractive long term fundamentals of its business, SJ could also benefit from the jump in infrastructure spending expected in the quarters to come.

EQUITY MARKETS DON'T PLAY POLITICS

As everyone knows, 2016 was marked by two significant and entirely unforeseen political events: the decision of Britons to leave the EU (via the "Brexit" vote) and the election of Donald Trump as the 45th President of the United States. Throw in early year worries about a slowdown in China, further deterioration in Middle East conditions, and simmering Russian belligerence and the stage was set for a spike in equity turbulence. Actually, it wasn't. If anything, the market path in 2016 was notable for being almost perfectly unexceptional, with S&P 500 volatility for the year coming in at the 54th percentile of observations since the end of WW II. So far, 2017 has provided much of the same, as stocks have largely ignored the launch of a ballistic missile by N. Korea, the appearance of a Russian spy ship off the coast of Connecticut, and the abrupt firing of the newly appointed US Security Advisor. Though it may seem odd, the frequent disconnect between the nightly news and equity performance is really nothing new. In 1968, a year that was far more politically tumultuous than present, the S&P gained 11%, while it tacked on 37% and 24%, respectively, in 1975 and 1976, the two years following Watergate and the resignation of Richard Nixon.

Even in relatively stable years, however, investors should expect stock prices to vary widely. This is illustrated in the table below, which shows the range of fluctuation for the 10 largest companies in the S&P in 2016, alongside the total returns they generated over the period (*names highlighted in blue are those held in DM Foreign Equity*). These are some of the most broadly held and deeply researched stocks in the world, so presumably their propensity for producing surprises should be amongst the lowest. Regardless, many of these names traded in ranges of 30% or more around their median yearly prices; despite this volatility, most produced excellent results in 2016, with the group returning more than 17% on average for the year. To capture these gains, investors had to look past unsettling world events and disregard significant swings in interim share prices, as they will likely be forced to do once again in the year ahead.

	Price Fluctuation*	2016 Total Return
Apple Inc.	27%	12.4%
Microsoft Corp.	27%	15.0%
Exxon Mobil	26%	19.9%
Amazon.com Inc.	55%	10.9%
Berkshire Hathaway B	29%	23.4%
Johnson & Johnson	27%	15.3%
Facebook Inc.	34%	9.9%
JP Morgan Chase & Co.	49%	34.5%
General Electric**	18%	4.6%
AT&T	26%	29.9%

* Price range around 2016 median price

** Added to DM Foreign Equity in December-2016

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