DM Monthly Report

SEPTEMBER 2017

PORTFOLIO ACTIVITY

In August, we liquidated Fairfax Financial and added the resulting proceeds to our Cineplex position.

FEATURE STOCK

Canadian Banks

Amidst well-reported concerns about the Canadian housing market and how a downturn would impact our financial institutions, Canadian banks reported excellent results for the summer quarter. Of names held in DM mandates, Royal Bank opened the reporting season by posting an earnings jump of 5% and hiking its dividend by 4 cents. Scotiabank recorded a net income gain of 7% year-over-year, with noticeable improvements in profitability and credit quality metrics, and also announced a dividend increase. TD Bank cruised past analyst estimates with a 17% rise in operating earnings, driven by lower insurance claims, growth in wealth management, and a record level of real estate lending originations. Canadian Western Bank looked past difficulties in energy-oriented economies to post a 16% bump in earnings, combined with an unexpected dividend hike, its first in four years. Looking ahead, RBC's comment that, "as interest begin to rise, we expect to see benefits next year" could bode well for additional growth in bank earnings in the quarters to come.

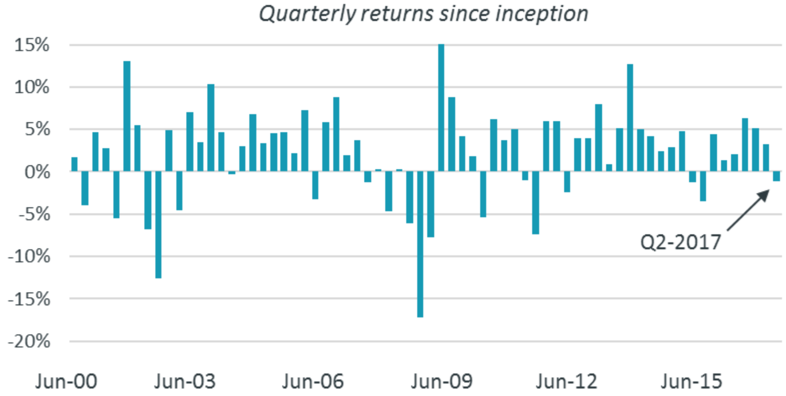
STAYING ON PLAN IN UNINSPIRING MARKETS

Equities have generated a prodigious total return since their financial crisis meltdown and, in retrospect, it's obvious that this was a great time to be invested. Through the period, however, there have been no shortage of unnerving events and market drops to test one's fortitude and will to remain invested. In fact, since mid-2011, the S&P 500 has dipped by 10% or more on four occasions, including a two and half month slide of more than 18%. Of course, anyone having succumbed to these tests and abandoned their equity investments would have necessarily undermined their potential return, as both the S&P and TSX reached record highs at alternate times this year.

With Canadian stocks recently drifting downward and the S&P 500 virtually flat for the year in CAD terms, it's certain that some investors will grow impatient and contemplate stepping out of equities with the goal of timing re-entry at some possibly lower future level. In reality, though, market lethargy such as we're experiencing isn't out of the norm and most often turns out to be just a pause, rather than a reversal of course. Using the DM Total Equity Portfolio, which contains a blend of Canadian and US-listed stocks, as a proxy for investor experience, we can see that it has certainly experienced negative quarters since its inception. At the same time, though, these declining periods have not normally been too onerous or long-lasting: in fact, aside from the generational market decline in 2008/09, the portfolio has posted consecutive negative quarters just three times in its 17 year history, with the most recent coming in mid-2015. Since we began, DM Total Equity has generated an annualized total return of 8.3% vs. just 4.9% for its benchmark – to earn this result, however, one had to stay invested throughout. Perhaps the greatest behavioural trait of the successful investor is the ability to block out short term noise and resist the urge to turn temporary price declines into permanent capital losses, a quality which could be tested in the weeks ahead.

DM Total Equity Portfolio

Quarterly returns since inception



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