DM MONTHLY REPORT
September 2019

DIXON MITCHELL INVESTMENT COUNSEL

PORTFOLIO ACTIVITY

In August, we liquidated Canadian Tire from DM Cdn. Equity and Carmax from DM Foreign Equity, realizing substantial gains in the process. Proceeds were used to rebalance both mandates in the face of recent market volatility.

FEATURE STOCK

Kinaxis Inc. (KXS)

KXS provides cloud-based subscription software for supply chain management to industries ranging from aerospace, to life sciences, to electronics and industrial products. Its applications focus on areas such as production scheduling, order fulfillment, sales planning, and inventory management. The company has built a formidable customer list, including names like Lockheed-Martin, Qualcomm, Sikorsky, and Volvo and, in early September, management announced that Honda would begin using KXS products at its auto plants in Japan. The stock jumped by as much as 6% on the Honda news, helping to lift its year-to-date return above the 25% mark. KXS has followed a familiar path to the DM Canadian Equity Portfolio, having first been acquired in the DM Small Cap Fund when it was a smaller, less mature company, and later being graduated to our senior mandate when its scale and strength had grown. We continue to like KSX due to its highly profitable business model and its leadership position in a fast growing industry.

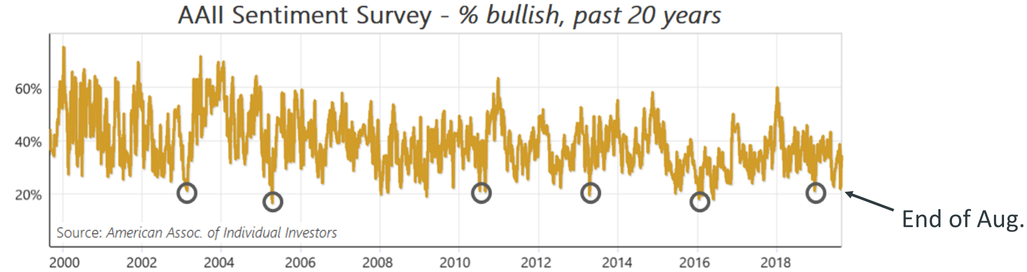
ARE THE STOCKS IN YOUR PORTFOLIO A CONTRARIAN POSITION?

It's a curious thing. Even though publicly traded shares are a direct connection to the wildly successful free market system and the easiest way to grab a share of the wealth that has been and will be created by the capitalist economy, individuals are surprisingly ambivalent about owning them. In fact, the calls we get about stocks are often tinged with a trace of dread. If markets are up, people are skeptical about how long it'll last and if they're down, they worry that the dip is the beginning of something worse.

Currently, a common lament we hear is the vague assertion that "the market is high", which begs the question *"relative to what?"* The trailing earnings yield on the S&P 500 is presently about 6%, while 10-year US and Canadian government bonds were both offering less than 1.5% at the beginning of September. The cap rate on a residential rental property in Vancouver or Toronto is (maybe) 2.5%, and that's before deducting property taxes, regular and unexpected maintenance, and possible strata fees. Importantly, S&P companies have grown earnings at an average annual rate of about 7% over the past half decade—we know for certain that the yield on the 10-year bond won't rise once an investor locks it in and we're pretty sure that no jurisdiction in the country allows landlords to hike rent by 7% per year.

If you're nervous about stocks, there are two things to know: first, you're not alone and second, the more people that feel that way, the better. The graph below shows the proportion of US investors who characterized themselves as 'bullish' over the past 20 years. On average, just under 40% of survey participants are positive on stocks at any given time, with extreme sentiment landing above 60% on the high side and around 20% at the bottom.

AAII Sentiment Survey - *% bullish, past 20 years*



When 75% of investors loved stocks in early 2000, things didn't go well, but when the public is disinterested, subsequent performance is impressive. The following table shows 12-month returns following the low points circled on the chart (we've ignored the 2008/09 period due to its extraordinary nature). Given where investor attitudes sat at the end of August and the performance that such indifference has presaged in the past, it seems just as likely that quality stocks now represent a great contrarian opportunity as they do a genuine cause for worry.

Date	Bullish Level	S&P 500 1yr Return	Date	Bullish Level	S&P 500 1yr Return
Feb-2003	21%	**41%**	Apr-2013	19%	**21%**
Apr-2005	16%	**11%**	Jan-2016	18%	**21%**
Jul-2010	21%	**33%**	Dec-2018	21%	**16%** (to now)