DM MONTHLY REPORT
May 2023

PORTFOLIO ACTIVITY

During April, we made select rebalancing trades in the DM Canadian and DM US Equity Portfolios.

FEATURE STOCK
Alphabet (GOOGL)

The past two calendar years were almost mirrored for shares of GOOGL, with the stock gaining more than 67% in 2021 and then falling by nearly 40% in 2022. Though losses last year were likely exacerbated by tax loss selling in the second half, investors also began to worry about the outlook for the company's ad business in the face of a pending recession. The start to 2023 wasn't much better for the stock, as Microsoft showed off its progress in artificial intelligence and how this overlay could finally make Bing a credible competitor to GOOGL's dominant search engine. All of this reversed following GOOGL's recent developer event, however, where any fears that it was falling behind in AI were laid to rest. Said one analyst, "Alphabet showcased its strong long-term AI competitive position across search, the developer community, and productivity apps. AI is reshaping all of Google's products faster than expected and many of its newly announced AI features are rolling out over the coming weeks and months. Successful integration of these features into Google's products that serve billions of users should build confidence in the AI-driven upside to come." This change in sentiment generated a sharp rally in GOOGL stock and pushed its year-to-date gain above 38%.

PRICE TAKERS & PRICE SETTERS

If energy investors blanched when the price of crude dropped by nearly 15% to $70 a barrel in recent weeks, they shouldn't have been surprised by the move: *oil has been at that same level on no fewer than nine separate occasions over the past decade and a half (see chart below).* The capriciousness and unpredictability of commodity prices is one of the reasons we generally shy away from resource companies, as a successful investment in this area requires a correct call on both the company *and* the output that it sells. As well, these firms almost always need to redeploy significant capital back into their businesses just to maintain production, leaving less available to fund growth and distributions.

Whereas energy and materials companies are almost always "price takers", beholden to the path of their given commodity market, other businesses are able to influence how much they charge for their products. The largest company in the S&P 500, Apple Inc., is probably one of the world's best examples of a "price setter", producing unique and nearly indispensable items under a powerful brand. Since Apple first introduced the iPhone back in 2007, the company has been relentless in its pursuit of improvement, adding features and services so that the current offering barely resembles that which first rolled off the production line; conversely the oil and copper being sold today are no different than they were 15 or 50 years ago. Not only have improvements helped drive sales volume over time, they've allowed Apple to steadily raise the price of the iPhone, allowing the cost of a base model unit to rise threefold over the past decade, even after adjusting for inflation. Selling more units of a product at a progressively higher price provides an excellent foundation for growth of a company's intrinsic value, and owning companies with pricing power frees up analytical time which our team can devote to other aspects of the business. For all of the reasons mentioned above, we'll almost always favour price setters over price takers in the construction of DM equity portfolios.

WTI crude oil price

Source: *Bloomberg*