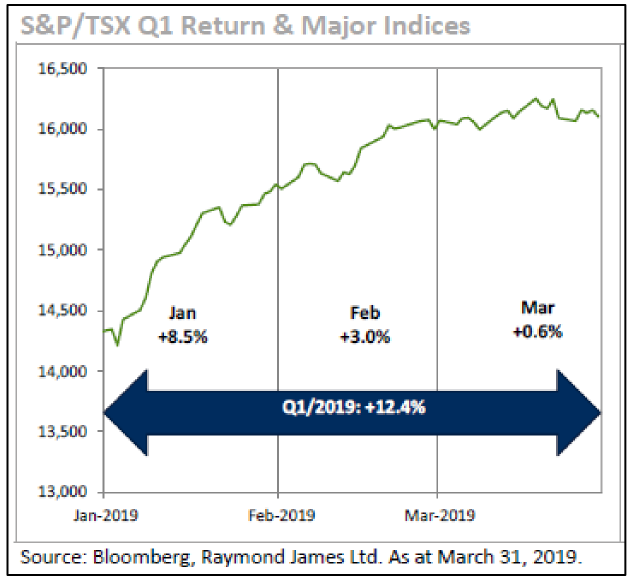
The Dividend Value Discipline™
1st Quarter 2019 Review

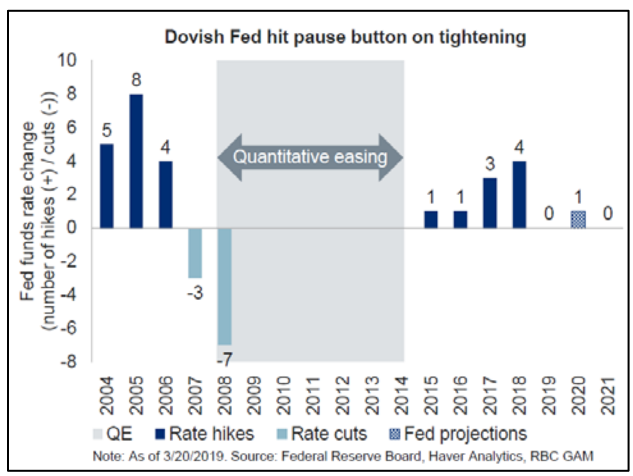
Quarterly Commentary



What a difference a quarter makes. The contrast between the end of 2018 and the beginning of 2019 couldn't be more different. The last quarter of 2018 saw the S&P/TSX market fall in spectacular fashion losing 10.9%. Now to start 2019 the S&P/TSX is up +12.4%. This year has been the strongest start since 2000 and ranks as the 6th best quarter since 1920. It turns out 2018 was a good year for most economies, but a terrible one for most investments. Now as we kick off 2019 most economies are showing signs of slowing but investments are doing well.

To make sense of this, one must understand that the markets are a forward-looking indicator, always trying to forecast economic events six months ahead of time. So the market downturn in late 2018 was anticipating the economic slowdown we are now seeing around the world. Today, market forces are looking towards the second half of 2019 when they believe growth around the world will start to increase again.

Don't Fight the Fed

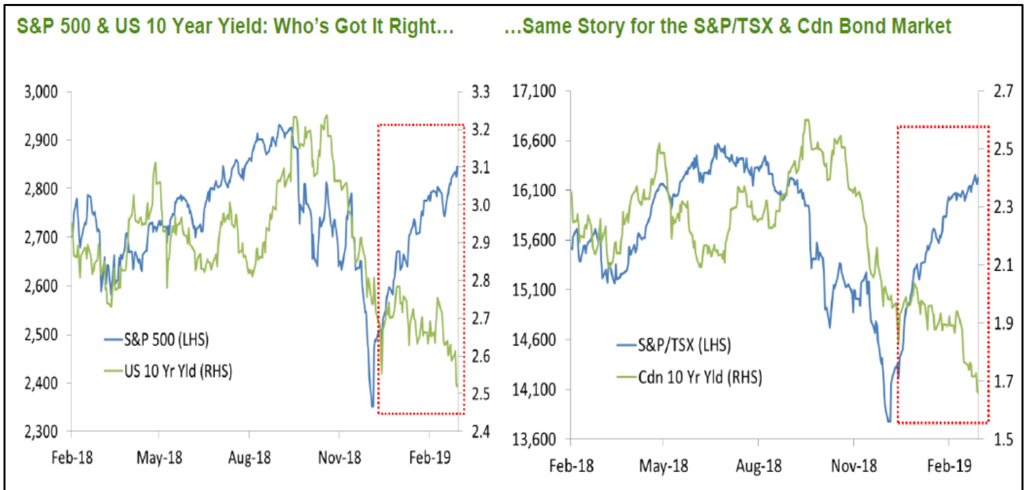


The term "don't fight the Fed" is an old saying in the markets that suggests investors can do well by aligning their interests with the current monetary policy of the Federal Reserve Board. One of the biggest changes that occurred over this past quarter which helped markets move higher was the pivotal shift seen in central banks towards interest rates.

As we have written in the past the fear of higher interest rates created a lot of volatility. It was the over-riding concern that derailed the markets last year even though the economy was in good shape. As global growth now shows signs of slowing, the outlook for further interest rate hikes is also shifting. The pivot point came in January, shortly after the market lows in December. The US Federal Reserve Board suddenly put further interest rate increases on hold. They had planned an additional three interest rate hikes through 2019, then moved to two, and recently reduced to zero. Central banks in Canada, China, and Europe also moved away from their tightening bias. The shift from a tightening bias to more accommodative policy provided a significant tailwind for equity and bond markets. This shift, combined with the deeply oversold market position led to the spectacular rally we have seen thus far.

Bonds or Stocks – who's got it right?

There's a strange dynamic going on since we started the year. Bond yields in both Canada and the US have hit new lows – the opposite of what we might expect. The new accommodative stance by both Canada and the US Fed should be signalling that economic growth will reaccelerate later in the year, which is why the equity markets have rallied. However, the bond market is telegraphing further economic weakness with bond yields continuing to fall. This has flattened, and in some cases inverted the yield curve (not a great signal).



Source: Bloomberg, Raymond James Ltd.

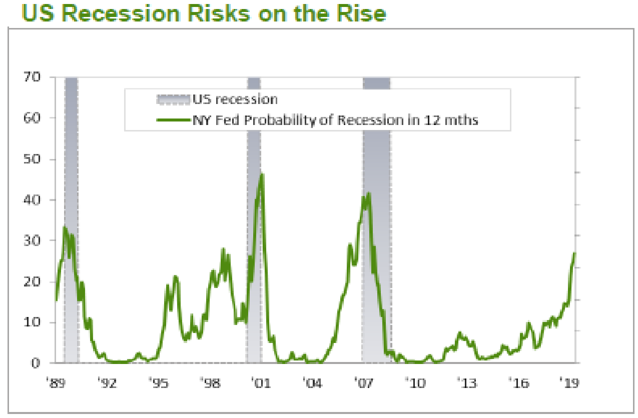
Roughly 25% of our Dividend Value model portfolio is invested within bonds. We are thankful the bond markets have rallied, but concerned about the signals the bond markets is giving.

We continue to be cautious to put cash to work until we know which part of the market is right. They can't both be right for very long.

The Recession Checklist

The shine has come off the economy and we are seeing more cautionary signals. The multi-factor recession checklist that we monitor has moved from showing no signs of recessionary pressures to five of the seven factors now in neutral territory and only two factors in a positive trend. With the fall in ISM Manufacturing levels globally we could also argue that Manufacturing is about to turn neutral, leaving only Employment in expansionary territory. The current checklist standings have yet to flash any full recessionary indicators but the trends are weakening. This may not result in a full economic recession, but it does go to show risks are rising and this confirms the slow down we are experiencing around the world.

US Recession Risks on the Rise



Source: Bloomberg, Raymond James Ltd.

US Recession Checklist — Indicators

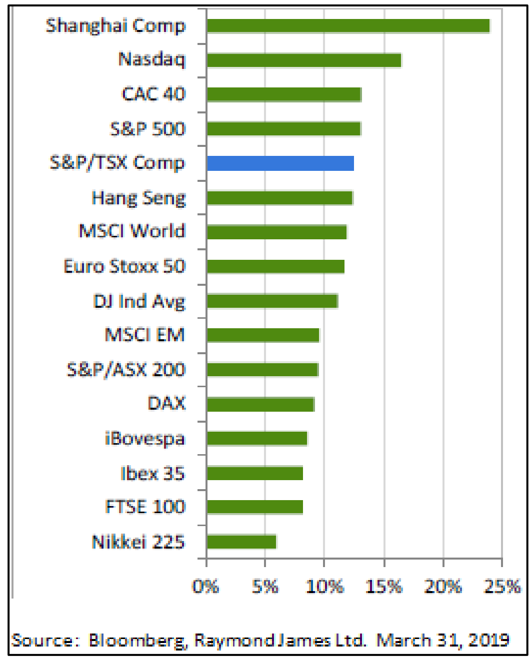
Start of Recession	Manufacturing	Employment	HY Spread	Yield Curve	Housing Starts	Cons. Confidence	Inflation
January 1980	☒	☒	☒	☒	☒	☒	☒
July 1981	☒	☒	☒	☒	☒	☒	☒
July 1990	☒	☒	☒	☒	☒	▤	☒
March 2001	☒	☒	☒	☒	▤	☒	☒
December 2007	☒	☒	☒	☒	☒	☒	☒
Current	☑	☑	▤	▤	▤	▤	▤

☒Recessionary territory; ☑ Expansionary territory; ▤Neutral

Source: Raymond James Ltd.

With this in mind, we have high graded some bond positions and are keeping our economically sensitive stocks on a short leash. Cash levels may also start to creep higher. Seasonally, the period of time between May and October is weaker for the equity markets. Bonds and defensive equities with higher dividends tend to defend the best.

The Dividend Value Portfolio



The Dividend Value model portfolio returned +7.57% for the first quarter, and +5.74% for the rolling 12-month period (net of all fees). This compares to our benchmark return of +8.48% for the quarter, and +3.95% for 12 month rolling period. We will typically lag a strong market move up, but outperform over the longer term.

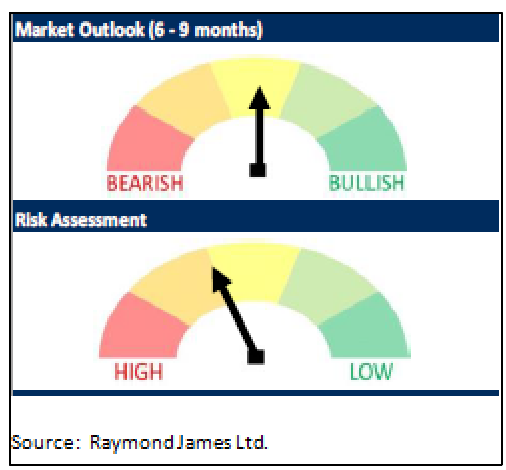
A look to the chart on the right shows just how strong markets around the world bounced back over the first quarter. The Canadian S&P TSX market was up +13.3% with all sectors participating in the rally.

All of our Canadian equities posted positive returns over the quarter. The best performance was in TransCanada Corp at +24.8%, while the worst was Cameco at +1.7%, but to be fair Cameco held in very well through the Oct-Dec period last year. We added to our Fortis position in early January and it recently hit new highs. We sold our position in WestJet as it continued to struggle.

The US equity market, measured by the S&P500, was only slightly better than Canada with a return of 13.6% for the quarter. We added Nokia, a maker of 5G network infrastructure equipment as we see both secular growth in this area and an opportunity due to the recent troubles for a key competitor (Huawei). We trimmed our position in Visa and we sold our position in Tyson Foods. The strength of the Canadian Dollar over the US dollar was a headwind through this quarter. The currency exchange trimmed 2.4% from the US portfolio performance when converted back into Canadian dollars.

The bond portfolio was a pleasant surprise this quarter. The multiple managers we hold returned +3.2% over the quarter. This compares to the FTSE Canadian Universe Bond Index of +3.9% and the US Aggregate Bond ETF which was +2.8%. We sold our position in the RBC High Yield Bond fund and added the more conservative and tactical RBC Core Income Plus fund. Our inclining that the worst was over bonds last quarter proved to be correct. The pivot away from higher interest rates towards a more accommodative monetary policy helped the bond market start on a positive note despite the strong rally in the equity markets.

Defending your capital in down markets and growing it when markets rise has long been our investment mantra. The portfolio has regained all the losses incurred through last year and is now adding value in 2019.



We expect the second quarter may not be as kind to investors as the Q1 recovery. Global growth is fading, corporate earnings growth is slowing, and risks are rising.

Our hope is that economies will stabilize rather than continuing to fall into recessionary territory. If central bankers can mitigate the slow down through the pivot in monetary policy and governments can restore trade there is a good chance we can avoid a recession in the next year or so.

The Dividend Tracker

Fundamentally, we believe that owning strong, stable companies with a track record of consistently growing their dividends is the best way to grow your money. For this reason, we track the number of dividend increases received in our portfolio every quarter and for the year-to-date. In the first quarter, eight of our Dividend Value stocks increased their dividends. The total number of dividend increases last year was twenty-eight.

Q1 Dividend Changes (Quarterly)			
Canadian Apartment Properties REIT	Increased to 0.34 from 0.35	**TransCanada Corp**	Increased to 0.75 from 0.69
Canadian Natural Resources	Increased to 0.375 from 0.335	**Intel Corp**	Increased to 0.315 from 0.30
Alimentation Couche-Tard	Increased to 0.125 from 0.10	**Prudential Financial**	Increased to 1.00 from 0.90
Toronto-Dominion Bank	Increased to 0.74 from 0.67	**Suncor Energy**	Increased to 0.42 from 0.36

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	7.6%	5.7%	7.4%	5.9%	7.6%
Dividend Value Benchmark	8.5%	4.0%	5.9%	4.3%	7.6%
S&P/TSX Composite Total Return	13.3%	8.1%	9.3%	5.4%	9.5%
S&P/TSX Preferred Share Total Return	1.1%	-6.8%	6.2%	0.0%	4.0%
MSCI EAFE (Cdn$) Total Return	4.0%	-3.0%	5.4%	3.5%	6.5%
FTSE-TMX Universe Bond Total Return	3.9%	5.3%	2.7%	3.8%	4.4%

The above performance data is current as of March 31, 2019. Not all portfolios will be alike, given different starting dates, slightly different securities owned, or the timing of funds added or removed. Please see the individual client statements that are being included separately for specific account performance. The Dividend Value Benchmark is the Morningstar "Canadian Equity Balanced" index, a composite of all funds that meet that criterion in Morningstar.

DVD Quarterly Transactions

The following securities were bought this quarter:
Nokia Corp. (NOK)
RBC Core Income Plus Bond fund

The following securities were sold this quarter:
Westjet (WJA)
Tyson Foods (TSN)
RBC High Yield Bond fund

The following securities were topped-up this quarter:
Fortis Inc. (FTS)

The following securities were trimmed this quarter:

Sincerely,

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