

The Market in Review

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This week's articles and insights

1. *“May you live in interesting times”*
2. *Jam, Jif, and Milk Bones*
3. *The Miracle Oil*

“1. Deny that anything is happening.

2. Admit something is happening, but say it doesn't matter.

3. Admit something is happening and does matter, but claim nothing can be done.

4. Say something was happening and did matter, and something could have been done, but now it is too late.”

- ‘Yes Prime Minister’ four-step approach to a crisis.

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	22,872	+0.43%	+15.73%
S&P 500	2,553	+0.15%	+14.04% (+5.80% in \$CDN)
TSX	15,807	+0.50%	+ 3.34%

“May you live in interesting times”

I am thinking about jam and olive oil this week. More on that below. But first, the Chinese curse.

Originally first written in English in 1936, the famous curse “May you live in interesting times” has never actually been found in Chinese literature. Its closest parallel is a saying from a 1627 Chinese short story:

“Better to be a dog in a peaceful time, than to be a human in a chaotic period.”

It is a great curse, nevertheless. And our world today is definitely “interesting”.

On the surface, the world today appears quite turbulent. The Catalans want to separate from Spain. The Kurds want out of Iraq. And North Korea wants...well, no one is really sure what North Korea wants.

Many of these points of angst – not all, but many – are economic in nature. Catalonia represents 25% of all of Spain’s exports. Iraqi Kurdistan produces 15% of that country’s oil and is capable of increasing this to almost 25% within just a few years. Both are tired of sending money to a distant central government.

In Canada, the same refrain is heard in the west about the east, and in the US, the heartland complains about the coasts, and vice-versa. Politicians in every country spend most of their time denying anything is happening (see quote at the beginning), which means little gets done. It is no surprise that the #1 fear of Americans is Corrupt Government Officials at 74%, up from 60% last year (Chapman University Survey of American Fears).

However, beneath the surface, the economic world is actually healthier than it looks.

- Global trade is at multi-year highs, up 5.1% from a year earlier and at its best in nearly six years (Ned Davis Research).
- Global sentiment is also improving. An index of global economic expectations - The Sentix Index - is at the highest in seven months. This is associated with above-average performance in global stocks up to a year later (Ned Davis Research).
- After 8 years of a bull market, the market should be weakening, with more stocks falling than rising. Instead, we have the exact opposite.
- US corporate profits bottomed at the end of 2015 and have been increasing since. Stock markets rarely decline when profits are rising.

It isn't all roses. Stocks are still historically on the expensive side, and investors are becoming somewhat complacent. For these reasons, we have been holding cash aside to invest if and when the market pulls back. The data continues to indicate this rally has many months to go, even if returns going forward are not likely to be as high in the next ten years as they were in the last ten years.

It has been a frustrating wait, to be honest. September is often the worst month of the year. This year, it was one of the best.

Jam, Jif, and Milk Bones

A certain breed of money manager likes to buy "value" stocks – those they consider unloved and undervalued – and try to zig when the markets zag. This means they are looking for stocks near their lows rather than at their highs.

The challenge with this approach is that it is often called "catching a falling knife" investing. You may end up buying a stock at \$30 like Macy's (**NYSE M**) only to see it fall to \$20.

On average, good value managers end up buying stocks close enough to their lows that they don't get too hurt. Companies like Wal-Mart (**NYSE WMT**) and Caterpillar (**NYSE CAT**) were tossed aside like yesterday's trash in 2016, with just a few brave value investors accumulating shares. Both have since gone on to 50%+ returns since, with CAT more than doubling.

Value investing can pay off big, with patience.

One area we have recently entered in our own Dividend Value portfolio is the branded food segment, also called Consumer Staples. Companies such as Kellogg's (**NYSE K**) and General Mills (**NYSE GIS**) have been hurt in recent years because of several factors:

- In-house generic brands have taken market share.
- The industry has consolidated, leaving fewer giants like Wal-Mart and Costco (**NASDAQ COST**) with increased clout to squeeze out profits.
- Fears of on-line sales of dry goods through Amazon (**NASDAQ AMZN**).

The company we chose is JM Smucker (**NYSE SJM**), which has fallen in price from \$140 to \$106 over the last year. Earnings have grown, even as the share price has dropped, and the forward p/e ratio is just 13.3x – a bargain compared to the US market at over 18x earnings. The company is cutting costs to offset slowing sales growth.

JM Smucker owns strong brands that most people recognize, and market reports indicate that 93% of all US households have at least one of their products in the house.

The executive chairman (Richard Smucker) purchased \$1MM worth of shares in late August for \$105.40/share, which is right near the current price. The dividend has grown an average of 7% per year over the past 6 years, and has increased to \$0.78 from \$0.30 quarterly back in 2007. It also continued to raise its dividend during the 2008-2009 recession. The current yield at 3% is the highest it has yielded since early 2009, and this excludes the odd special dividend.

JM Smucker has built up a sizeable portfolio of brands, many of which are seeing renewed growth. Here's a few you may recognize:

- Smucker's Jams
- Knott's Berry Farm
- Jif peanut butter
- Adams peanut butter
- Crisco
- Bick's Pickles
- Pillsbury
- Carnation
- Five Rose's flour
- Robin Hood flour
- Folgers coffee
- Dunkin Donuts coffee

- Milk Bone dog biscuits, Meow Mix, Kibbles, 9 Lives

The Folgers and Dunkin Donuts brands have both embraced the “coffee pods” now used in many homes. These brands were purchased when Proctor and Gamble (**NYSE PG**) sold its non-core assets about 10 years ago. Coffee is now their highest-profit line of business.

And pet food is a growing segment as pets now outnumber children in many countries.

Branded food is suffering from the “Amazon Threat” and white labels, such as Kirkland and Great Value. We don’t believe this cloud will hang above SJM forever as the company is cutting costs and buying shares back. At a modest multiple and carrying a generous dividend, we felt it was time to put this dog (food) company into our portfolio.

We want to say thanks to our clients for introducing their friends and family members to us throughout the year. It’s a tremendous compliment and a huge responsibility, and something we never take lightly.

The Miracle Oil

What makes one civilization surpass another? Why did the Greeks and Romans, for example, supersede the Egyptians?

I am just back from a trip to Croatia, a land well-trodden by the Greeks, Romans, Byzantines, Slavs, Turks, Venetians, Hungarians, Austrians, and Italians before finally wresting back their independence in 1991. The country has its own unique blend of Slavic language, Mediterranean food, Greco-Roman history, layered with communist echoes of its Yugoslavian past. It is a delightful place.

The Mediterranean Sea is a body of water that is effectively sealed off at the Atlantic end, making it an ideal “incubator” for early civilization. However, the narrow Adriatic Sea along the coast of Italy, Croatia, and Greece, is an even smaller protected region, and this is where Greek civilization first flourished. Some say this happened because of the Greek political system and the way they organized their armies. These were all factors. But since I look at things through

an economic lens, I think one of the key reasons civilization advanced fastest in the Adriatic was because of the olive.



The olive tree is a very hardy plant. It is kind of like the donkey of the animal world: unappreciated and overlooked, but tough and sturdy. Unlike grape vines, olive trees need little water and will grow just about anywhere, and for a very long time. They actually produce better with some stress, such as excess heat and drought.

This one in Croatia is over 2,000 years old (the tree, not Sue and I) and has been producing olives since just after Christ.



The olive tree was discovered in the Mediterranean basin with olive oil first produced around 4,000-5,000 BC. Olive oil became known as “liquid gold” to the Romans and was even accepted as a tax payment. It had a high enough price such that one container of it was valuable and therefore almost as good as gold. It could be stored and shipped like gold, but also consumed.

When the Greeks first colonized Croatia, they brought olive trees with them. The Romans later extended olive oil production to Spain, Syria, and North Africa.

What is it, exactly, that makes olive oil so great?

Calories. It is pure vegetable fat loaded with vitamin E for strong hearts and K for strong bones, omega 3 and omega 6, and antioxidants. It is simply the healthiest of all fats for humans to consume.

Of course, the early Greeks and Croatians didn't know this. They just enjoyed its pleasant flavour and high food value. The fact that it helped lower stroke risk and heart disease (not an issue when most men died in battle) and worked as an anti-inflammatory were bonuses.

Virgin olive oil has a high smoke point at 450 °F (210 °C), which made it one of the best oils in the ancient world for high-temperature cooking.

It can be stored for up to two years – twice as long as other fats, such as tallow. It shipped well in amphora containers and was relatively easy to produce by a few peasants or slaves.

But the biggest benefit to the ancient world was those calories. Look at what you have to eat to get the same fuel:

17 calories = 1 tablespoon of chicken meat

94 calories = 1 tablespoon peanut butter

115 calories = 1 tablespoon of beef fat (tallow) - worse for you, harder to obtain, and more expensive than olive oil. And tallow goes bad unless specially stored in water.

120 calories = 1 tablespoon of olive oil

Free bread and olive oil became a key benefit of the late Roman and early Byzantine empires, allowing them to control the population and feed their permanent armies.

Production of olive oil declined in the 1800's as petroleum and whale oil began to replace it for lighting. Today, production is flourishing again as people have discovered the health benefits of this ancient oil. Spain, Italy, and Greece still make up 77% of world production, with new plantations starting in places as far afield as Australia.

Unfortunately, "liquid gold" has been discovered by crime. Today, many varieties of "extra virgin quality" are actually cheaper blends cut with canola and hazelnut oil. New standards are now being imposed.

Five thousand years of Croatian history can't be wrong. Olive oil is both an ancient and modern miracle, and well worth adding to your diet.

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