
Quarterly Market Update

Q2 2019



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Overview

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Introduction

While equity markets pulled back in May, they rallied in June and continue to rise. At the same time, bond prices also increased. These two indicators are communicating conflicting messages: equity markets are optimistic while bond markets are worried about the future.

So who should we believe?

The only thing we can say with any certainty is that markets are uncertain.

We're being conservative by building a margin of safety into your discretionary portfolios. We've increased the cash position—a defensive move to provide some protection.

You may have noticed from the mailed confirmations last month that we swapped out Home Depot for Algonquin Power & Utilities in our equity holdings.

The latter transaction represents a move away from an economically sensitive business based on housing starts, interest rates, and consumer sentiment to a utility with long-term contracts and less variability in its operations.

Sure, utilities are slow and boring. But in the face of uncertainty, they help safeguard capital.

Ultimately we are willing to forfeit some of the upside in the markets to better protect the portfolio in a potentially downward market.

Key Takeaways

Stocks

Stocks had a volatile Q2 2019. April continued the strong performance from the Q1 2019, but then May recorded the first negative month of 2019.

Canadian stocks continue to outpace US stocks in Q2 2019, after underperforming in 2018.

However, with the prospect of weakening global growth and ongoing political noise, we expect the breadth and diversity of the US marketplace to outpace Canada's market.

Market Returns:

	3 months %	Since Inception %*
Canadian Stocks	2.58	9.94
US Stocks	2.15	6.10

Bonds & Preferred Shares

Bonds had a strong second quarter, as benchmark interest rates fell about 30 basis points in Canada.

Preferred shares continued to decline as declining interest rates impacted valuations.

Canadian monetary authorities have paused for now as they wait for further economic data to be released.

We expect bonds and preferred shares to tread water from here with central bank policy on hold.

Market Returns:

	3 months %	Since Inception %*
Bonds	0.91	8.17
Preferred Shares	-2.86	-3.10

Our Models

Our portfolios performed as expected, protecting capital in the selloff in May 2019, while participating in the subsequent recovery in June but not as aggressively as the broader market.

Our advice to clients is to maintain conservative positioning through emphasis on higher quality securities and defensive sectors.

We made two changes in the second quarter. We switched Home Depot for Algonquin Power & Utility in our equity positions, while one of our Canada Mortgage Housing positions matured in our bond portfolio. As a result, we reinvested half of the proceeds into a Canada Mortgage Housing bond (maturity 2029), while the balance was allocated to our existing cash position.

Langill & McHenry Model Returns:

	3 months %	Since Inception %*
Capital Preservation	1.27	4.99
Income	1.51	4.94
Balanced Income	1.64	5.20
Balanced Growth	2.05	5.93
Growth	2.28	6.26
All Equity	2.80	7.19

*Note: Gross Returns in CAD\$, Since inception is from Dec 1, 2018.

Model Portfolio Management Philosophy

Model Portfolio Objectives:

- We designed the model portfolios with a conservative investment approach. The portfolios may not participate as much in gains when markets are rising. However, they are expected to be more resilient in falling markets to protect capital. As a result, the portfolios will tend to be less volatile and capital will be given more opportunity to compound over a long-period of time.

Portfolio Parameters:

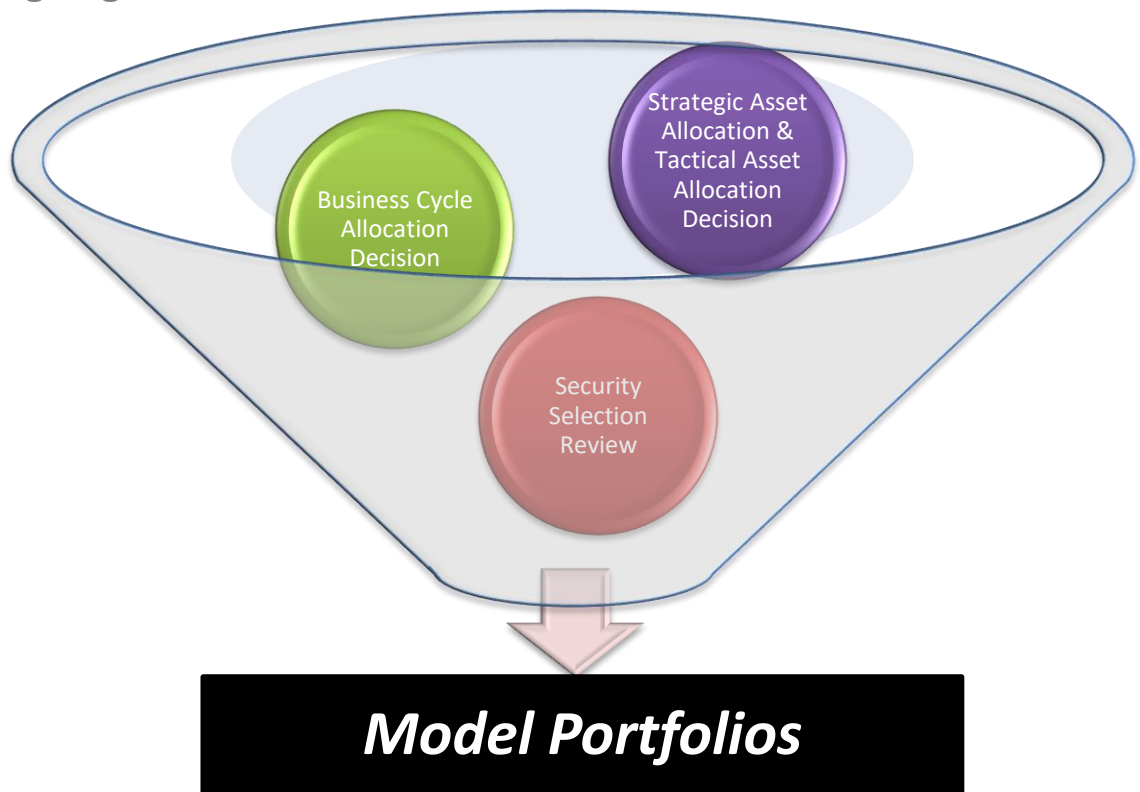
- Six models with different asset allocation ranges based on risk and return objectives. Models include: Capital Preservation, Income, Balanced Income, Balanced Growth, Growth and All Equity.
- Zero embedded cost
- Fixed Income allocation = ~4-9 bonds, ~2-3 preferred shares, investment grade credit, short and laddered duration (<7 years)
- Equity allocation = ~15-20 stocks (~10 Canada, ~10 US), dividend growth target +6%/yr
- Diversify by geography, sector and style
- Large capitalization (“Blue Chip”)

Model Portfolio Process

When we select investment securities for our model portfolios, we follow a disciplined three step process:

- #1 Examine our asset mix vs. our expectations for long-term returns. This review helps guide our model portfolios allocation to Cash, Bonds & Preferred Shares, and Stocks.
- #2 Review our business cycle allocation vs. our expectations for broad market. We then allocate to sectors of the market and security factors that are expected to perform well.
- #3 Assess securities for inclusion in the portfolio based on: (i) Dividend growth, (ii) Leverage, (iii) Valuation and (iv) Market structure. Securities reflecting these features are typically of higher quality than average.

After the third step is complete, we include a portfolio of investment securities in our model portfolios reflecting our expectations for the market going forward.



Our Investments Include:



***Note: Equity Security logos only.*

Model Holdings: The Stocks We Own

All Equity Portfolio (2018-12-01 to 2019-06-30)

Issue Name	Portfolio Weight	Total Return	Dividend Yield	Dividend Growth Hist 5 YR	P/E - Forecast 12-Month	Financial Leverage (Net Debt/EBITDA)
Energy						
Enbridge Ord Shs	6.21	11.68	6.24	16.33	17.8	6.2
Transcanada Ord Shs	6.17	23.85	4.62	8.17	16.0	5.9
Materials						
CCL Industries Ord Shs Class B		0.91	1.06	24.77	21.1	2.2
Industrials						
Fedex Ord Shs	6.32	- 6.55	1.58	33.40	10.7	1.7
Ingersoll Rand Ord Shs	6.32	22.26	1.67	25.48	18.9	1.5
Union Pacific Ord Shs	6.10	9.42	2.08	15.39	17.6	2.2
CAE Ord Shs	6.21	31.85	1.14	12.13	24.5	3.0
Consumer Discretionary						
Carnival Ord Shs	5.47	- 15.42	4.30	13.70	10.1	1.9
Home Depot Ord Shs		11.65	2.62	21.44	19.8	1.5
Consumer Staples						
Coca-Cola Ord Shs	-	12.18	3.14	7.06	23.4	2.9
Health Care						
Medtronic Ord Shs	6.34	- 0.58	2.05	12.30	17.6	1.5
UnitedHealth Group Ord Shs	6.23	- 13.90	1.77	26.80	15.6	1.3
Financials						
Bank of New York Mellon Ord Shs	6.12	- 14.33	2.54	12.39	10.6	na
Toronto Dominion Ord Shs	6.43	6.10	3.87	10.01	10.7	na
Intact Financial Ord Shs	6.55	10.99	2.51	9.73	16.4	2.0
Information Technology						
Broadcom Ord Shs	6.66	22.94	3.72	54.31	12.6	3.2
Communication Services						
Walt Disney Ord Shs	6.36	20.00	1.26	17.50	21.5	2.8
Quebecor Ord Shs Class B	6.23	9.36	1.44	30.95	14.4	3.7
Utilities						
Algonquin Power & Utilities	6.29	0.16	4.65	9.17	18.3	5.4
Langjill & McHenry All Equity Portfolio	100.00	7.19	2.58	18.46	14.83	3.54
All Equity Benchmark		7.66	2.40	11.02	15.56	3.88

*Note: Total Return is since model inception of December 1, 2018, Returns captured are Gross of Fees.

*Note: Benchmark is CAD\$ returns and is comprised of 40% iShares S&P/TSX Capped Composite Index ETF (XIC) & 60% iShares S&P500 Index ETF (IVV)

*Note: This is a hypothetical All Equity model portfolio. Cash weight is excluded, which is currently 4.80% of portfolio. So actual securities weights would be adjusted lower to reflect cash position.

*Note: All models (excluding Capital Preservation) hold the same stocks, but at different weightings.

*Note: Where the portfolio weight is 0%, that reflects the fact the position is no longer held in the portfolio, but the position is still reflected because of its impact on cumulative returns of the portfolio.

Model Holdings: Bonds & Preferred Shares We Own

Capital Preservation Portfolio (2018-12-01 to 2019-06-30)

Issue Name	Portfolio Weight	Total Return	Price - Close	Maturity/Reset Date	Yield
Bonds					
CMHT 1.95 06/15/19 ReOpened		1.02			
CWB 2.751 06/29/20 ReOpened	9.66	2.60	100.53	2020-06-29	2.23
MAITB 1.550 09/05/21 ReOpened	9.78	3.25	100.27	2021-09-05	1.67
CMHT 1.750 06/15/22 ReOpened	9.77	3.72	100.34	2022-06-15	1.66
MFC 3.317 05/09/28 '23 FRN Sub Deb	9.78	3.77	102.97	2023-05-09	2.64
PPLX 2.990 01/22/24 '23 MTN ReOpened	9.80	7.88	103.32	2024-01-22	2.51
NEWLF 2.300 06/02/25 ReOpened	9.77	6.57	101.57	2025-06-02	2.05
ALBTA 2.200 06/01/26 Bond ReOpened	9.77	7.79	101.33	2026-06-01	2.02
CMHT 2.350 06/15/27 ReOpened	9.77	7.97	103.90	2027-06-15	1.84
CMHT 2.10 09/15/29 ReOpened	6.53	- 0.19	102.22	2029-09-15	1.89
Preferred Shares					
BROOKFIELD RENEWABLE PREF 5.50% 2021JAN31	5.17	4.56	24.66	2021-06-01	5.58
EMPIRE LIFE RATE RESET PREF 5.75% 2021APR17	5.11	5.35	25.75	2021-04-18	5.58
CAPITAL POWER CORP PREF 5.75% 2024JUN30	5.09	1.11	25.00	2024-07-01	5.75
Langill & McHenry Capital Preservation Portfolio	100.00	4.99	na	4.48 yrs	2.78
Capital Preservation Benchmark		8.08	112.42	8.04 yrs	2.14

*Note: Total Return is since model inception of December 1, 2018, Returns captured are Gross of Fees.

*Note: Benchmark is CAD\$ returns and is comprised of 100% of iShares Core Canadian Universe Bond Index ETF (XBB).

*Note: This is a hypothetical Capital Preservation model portfolio. Cash weight is excluded, which is currently 9.47% of portfolio. So actual securities weights would be adjusted lower to reflect cash position.

*Note: All models (excluding All Equity) hold the same bonds and preferred shares, but with different weightings.

*Note: Where the portfolio weight is 0%, that reflects the fact the position is no longer held in the portfolio, but the position is still reflected because of its impact on cumulative returns of the portfolio.

Satellite Holdings (“Non-Model”)

Within the Discretionary Fee-Based account platform, you may hold an account that is invested in a satellite portfolio. The satellite portfolios compliment and customize your aggregate portfolio (all accounts) for each household’s unique risk tolerance, tax circumstances and liquidity needs. For a sense of the securities we own in the satellite portfolio, we have listed our top securities below.

AMP non Model (2019-07-13 - 2019-07-16) as of 2019-07-14, GICS Economic Sector, CAD

Issue Name	1 Week Total Return	1 Month Total Return	3 Month Total Return	YTD Total Return	2 YTD Total Return
Manulife Financial Ord Shs	-0.70%	3.22%	0.12%	27.00%	-2.53%
Vanguard Canadian Short-Term Corporate Bd Idx ETF	0.33%	0.05%	1.14%	3.87%	5.11%
PIMCO Monthly Income (CAN) ETF Series	0.10%	0.75%	1.89%	5.58%	6.21%
Cymbria Corporation Class A	0.27%	5.81%	0.68%	-2.45%	6.82%
CI Financial Ord Shs	-0.55%	3.59%	16.30%	27.44%	-22.16%
Fortis Ord Shs	-0.67%	-0.50%	4.15%	16.15%	19.37%
BCE Ord Shs	0.88%	0.97%	0.96%	15.14%	8.64%
National Bank of Canada Ord Shs	0.16%	3.70%	1.91%	15.42%	7.45%
BMO Equal Weight US Banks Hedged to CAD Index	-0.26%	1.46%	1.20%	17.41%	-5.89%
RioCan Real Estate Investment Trust Units	-0.98%	-1.90%	1.35%	13.24%	17.43%
Horizons CDN Select Universe Bond ETF Class A	-0.04%	-0.27%	2.28%	5.15%	6.40%
Fairfax Financial Holdings Sub Voting Ord Shs	-0.64%	-0.51%	1.80%	7.10%	-2.03%
Telus Ord Shs	0.16%	0.43%	-1.89%	10.33%	9.62%
Berkshire Hathaway Ord Shs Class B	-0.74%	4.08%	1.81%	4.58%	7.73%
Onex Ord Shs	0.47%	8.16%	4.17%	9.84%	-11.10%
Power Corporation of Canada Ord Shs	0.64%	1.58%	-9.80%	18.53%	-5.28%
Suncor Energy Ord Shs	2.24%	0.99%	-3.80%	12.31%	-4.31%
Loblaw Companies Ord Shs	0.58%	-3.27%	1.68%	10.88%	25.84%
TC Energy Cumulative redeemable min rate first Pref Shs Series 13	-1.23%	-0.66%	-0.61%	3.69%	4.14%
Brookfield Asset Management Ord Shs Class A	1.54%	1.41%	0.25%	23.47%	19.76%

The Team



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