

DM Monthly Report

FEBRUARY 2019

PORTFOLIO ACTIVITY

In January, we sold AT&T Inc. in DM Foreign Equity and used the resulting cash to add to our position in Microsoft.

FEATURE STOCK

Suncor Energy Inc. (SU)

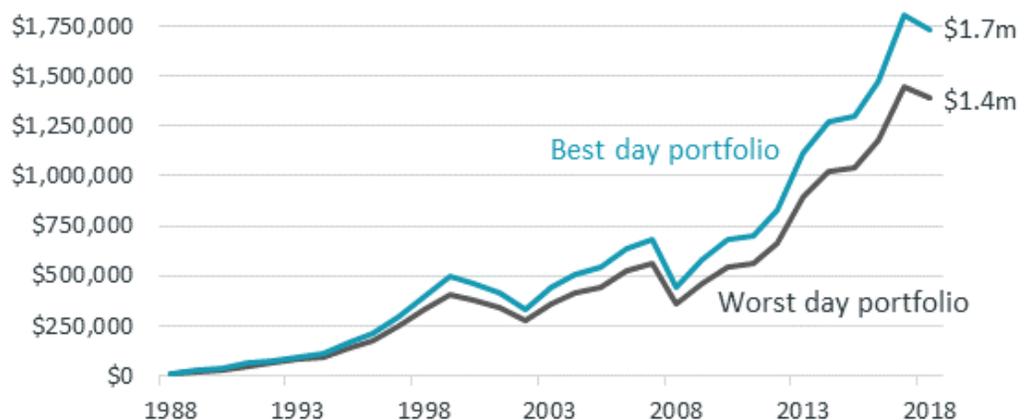
Canadian energy firms have faced a particularly difficult set of conditions in recent years: not only did crude oil suffer a precipitous decline from mid-decade levels, but a shortage of distribution capacity has meant that the price fetched by producers operating north of the border has missed much of the subsequent rebound. Through this adversity, SU has performed particularly well, raising production, controlling costs, buying back shares, and boosting its dividend (most recently by 17% with its Q4-2018 earnings release). This favourable profile was endorsed by Berkshire-Hathaway in mid-February, when Warren Buffett's firm acquired shares in the energy company for the second time, having exited its previous position in late 2016. Since Berkshire last owned the stock, it has vastly outperformed the TSX energy sub-index and has generated almost double the total return of the broad Canadian market. Looking ahead, we continue to like SU within the energy space due to the very low decline rate of its producing assets and the visible nature of its capital expenditure schedule.

DID THE MARKET JUST SHAKE OUT A FEW 'WEAK HANDS'?

It's said that market declines cause capital to shift from weak to strong hands—in other words, those least confident in their long term investment plans are most likely to abandon them when things get difficult, while those with resolve tend to view disruptions as opportunities to rebalance portfolios and deploy idle cash. When stocks punctuated their Q4 slide with a sharp plunge on Christmas Eve, one can assume that more than a few turkey dinners were served with a side of portfolio angst. *Did the nosedive foreshadow even more pain to come? Should I just lick my wounds and retreat to GICs?* The recently released Merrill Lynch Mutual Fund Managers Survey revealed that holiday skittishness wasn't reserved for the retail crowd, as professional investors built cash positions at the start of the year to their highest level since January 2009 (a date that closely coincides with the start of the prodigious bull market that we've enjoyed since). Of course, both nervous individuals who sold stocks at the Christmas nadir and those who should supposedly know better would have been underinvested during the market's sharp rebound in the first six weeks of 2019, once again underscoring the high probability that market timing efforts will be unsuccessful.

Recently, The Globe & Mail published a study that illustrated how little difference even perfect timing makes to long term portfolio performance. We've expanded the analysis below by assuming that an investor started contributing \$10,000/year 30 years ago, but did so on either the annual high point for the S&P 500 (the worst day of the year to invest) or on its 52-week low (the best day). As you can see from the graphic below, the end result isn't dramatically different, considering that one investor would have enjoyed almost immeasurable luck, while the other would have been equally unfortunate. By the way, the odds of achieving either portfolio are about 1 in 124 (plus 70 zeros), so anyone believing that they could achieve such a timing feat would have to possess a Trumpian sense of confidence!

Investing in S&P 500 on Best & Worst Days: past 30 yrs.



Source: Bloomberg