Huggan White Wealth Management

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Portfolio Management Report

First Quarter 2019

The Grind Higher Continues…

What makes the market's endlessly interesting and frustrating is its ability to make seemingly irrational and largely unexplainable short term swings. As Warren Buffett said, "*in the short term the market is a voting machine and in the long term it's a weighing machine*." In the last two quarters we experienced a full cycle of market performance yet much of the economic underpinnings are unchanged. The market is arguably more art than science and these last six months did a great job of demonstrating that. For those of us who are glued to the market's every move it has been a wild ride. For those off on a sailboat since August, it would appear not much has happened.

The fall brought us one of the most severe corrections we have seen in the last decade as concerns over rising interest rates and an inverted yield curve caused a shift in sentiment. A full 20% "bear market" seems to have come to an end on December 24th. What followed was one of the strongest performing three month periods in history. Taking stock of the major economies, it appears that much of the same environment exists; Canada is still struggling with low growth, a softening housing market, weak commodity prices and modest employment gains. The US economic growth engine remains intact and the commander in chief is still poking whatever bear he can. China is slowing but still growing, Britain remains in Brexit purgatory, Europe's decade long recession continues, and emerging markets are hot or cold depending on the daily US dollar reading.

While the last six months have likely been either extremely frustrating or exceptionally profitable for anyone looking to make money on short term trading strategies, our belief that money is best made sitting still has certainly been reinforced. Many great companies within our portfolios sold off with the market in spite of no change in their overall outlook. Buying into these positions in December looks like a smart move now but rest assured that action was more courage than wisdom. The psychological edge that is gained from believing in the long term cannot be underestimated. A belief that things will continue to get better is a prerequisite to enduring short term corrections, like we saw in the fall. As Hans Rosling laments in his book "Factfullness", "T*hese days everyone is predisposed to a worldview where things are getting worse but the facts prove the opposite is true."* Generally speaking, the world's economy continues to grow and the global markets have mirrored this improvement.

On a more granular level, we saw some strong gains out of many portfolio holdings. Alimentation Couche Tarde, the owner of Mac's and Circle K convenience stores and gas stations, saw its stock rise ~25% year to date. Profitability rose considerably this quarter as oil prices fell while gas prices didn't fall so much. As economists say, prices are sticky on the way down. We Canadians know this truism all too well as gas prices at the pump remain significantly higher than where they were in 2015 when oil prices were twice as high. Apple staged a nice recovery after revenue concerns pushed the stock considerably lower in the fall. Microsoft rode the continuing strength in technology stocks as their growing cloud business kept the interest of investors.

A new addition to most client portfolios this quarter was Cameco. This Canadian uranium miner has been struggling through a low uranium price environment that has persisted since the Fukushima disaster of 2011. Nuclear energy is a clean and dependable electricity source and will play a roll in the global energy markets in the decades to come. With uranium prices firming and China's nuclear ambitions progressing, we think this will be a strong performer over the coming years. A few other recent additions were Encana and Canadian Natural Resources as we believe the charts have turned up and their valuations are attractive.

While it can be frustrating to see portfolio values bounce around as they have over the last six months, we can only reiterate what we said in our last quarterly commentary**:** volatility is normal and we should build portfolios to endure the ups and downs, not aimed at avoiding them altogether. Our work continues to lead us to conclude that global economies continue to expand, although at varying rates depending on the country. We have many problems that could improve which build that *wall of worry* that markets have a tendency to climb. The world continues to get better on many metrics and as investors we want to participate in that improvement while at the same time managing the risks of short term dislocations. After such a strong start to the year, it wouldn't surprise us to see the markets take a break for a few months or more. We continue to spend our time and energy examining the merits of individual companies and listening to what management has planned for the years ahead. We will leave the short term trading strategies to those who are smarter than us while ride the wave of long term economic improvement.

In summary, one of our key takeaways from our conversations with investors is the ongoing distrust and disdain associated with equity markets. The lack of fund flows into equities over the past quarter is clearly representative of this (very little buying of stocks). As the grind higher continues, our curiosity has only increased as the majority of equity markets are now within 1% of their previous all-time highs and the pressure to "keep up" can only be mounting. The Millennials would refer to this as FOMO. Now while many continue to focus on the negative verbiage that culminated during the climactic lows of December 2018, as mentioned, we instead find it far more important to listen to the message of the market to draw more informative conclusions. That message is clearly evident as breadth has continued to widen (more stocks participating), underpinning the strength of this rally. Our core thesis that valuations are attractive given the inflationary backdrop remains in place. In fairness though, some of our key technical watch points have flashed a cautionary signal as some have become overheated lately. That said, we believe any pause or consolidation should be used as an opportunity to redeploy any cash on hand. As the brilliant Tony Dwyer recently stated, *"Any pause in the upside should prove limited and temporary. In our view, the historic Q4/18 SPX drop of 20% has created a skeptical environment where investors don't want to chase the recent strength and instead find excuses to wait for a significant pullback that doesn't come. Of course, there can be temporary periods of weakness, but the driver of sustainable market activity throughout the current economic cycle is perception of forward monetary policy, and its impact on our core fundamental thesis driven by credit. We would remain focused on what has driven the upside recovery: (1) the impact of the Fed's dovish pivot; (2) the positive effect of the significant drop in market-based rates; and (3) the stabilization of the very weak global economic data."*

Thank you for your trust and confidence in allowing us to manage your financial affairs.

With regards,

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Remember Tax Deadline for Filing is April 30th, 2019