



Points in Time: Q4 2019



2019 was a fantastic year for investors as markets were buoyed by rate cuts and an initial agreement on the U.S. – China trade deal.

WATCHING

The last quarter of 2019 posted strong gains across Canadian stocks, while Canadian bond prices retreated on higher bond yields. The Canadian stock market rally was particularly pronounced in the Technology, Energy and Materials sectors as investors grew more confident about the economy after the U.S. Federal Reserve made another cut during the quarter. During the quarter, cyclical and energy stocks in Canada received an additional

boost after the announcement of a “phase one” trade deal between the U.S and China. Overall, the S&P/TSX Index gained 3.2% during the quarter and ended the year with a healthy gain of 22.9%.

The favourable market environment this quarter was in stark contrast to Q4 of last year, when most asset prices plunged on the fear of a global growth slowdown. While the current Canadian and global

economies are still weak, inflation in Canada remains on target at about 2%, which affords the Bank of Canada some flexibility to deliver interest rate cuts if Canadian economic growth stalls. Bond yields in Canada reversed higher during the quarter and the Canadian 10-year bond yield ended Q4 at 1.70%, up 34 basis points.

THINKING

As we look ahead to a new year and a new decade, 2020 begins with North American and global stock markets at all-time highs. Bonds remain expensive relative to history, even with the recent sell-off in Q4 as bond yields in Canada are low and remain negative in some parts of Europe. Valuation multiples for Canadian stocks have climbed higher with their strong rally in 2019, although they are more inexpensive relative to U.S. stocks. In an environment such as what we’ve seen in the past 10 years where bond yields remain low, inflation is contained and the economy grows slowly, 2020 may deliver

another year of positive performance for Canadian stocks, although the magnitude of the performance is unlikely to match that of 2019.

There are many potential risks that lie ahead in 2020, including a U.S. presidential election and a continuation of the more difficult “phase two” trade talks between the U.S. and China. Economic growth will also be important to monitor as investors are betting on a resumption of global growth after the many rate cuts from global central banks in the last six months. If this scenario unfolds, we should finally see weakness in the U.S. dollar, which

will also boost commodity prices and see stock market leadership switch from the U.S. to emerging markets. This would also be a very positive scenario for the Canadian dollar and the Canadian stock market, which is well represented by energy and resource stocks.

In this very late part of the cycle, we should expect that there will be more speed bumps and volatility ahead in 2020, but as 2019 and the past decade have proven, investors have been rewarded for staying disciplined and managing investment risks appropriately.

Over **77%** of the companies increased their dividends by a weighted average of **7.8%**, which means your income also increased by that amount.

DOING

We continue to make small but important adjustments to our Canadian equity portfolios. Canadian Utilities, an Alberta based electricity and natural gas utility, has been added to the portfolio at a 1.5% weighting. Their 3 and 5-year dividend growths are in excess of 9.0% annually. We have also sold both the Vermillion Energy and Freehold Royalties positions. The portfolio was overexposed to exploration and production companies in the energy space, with these two being more highly leveraged to the price of oil.

Risk management as measured by individual security weights is a key component to the portfolio strategy. With the recent addition of Methanex to the portfolio, we have reduced our weighting in Nutrien, from 3.75% to 3.25%, in order to reduce the overall materials sector exposure in the portfolio.

We are going into 2020 with a higher cash level than is customary. Ideally, as particular stocks become attractively priced, we will deploy this cash. Ultimately, our philosophy of “time in the markets,

not market timing” will be respected.

Within our fixed income Leon Frazer Bond Fund, we continue to emphasize government issues as well as high quality corporate bonds. The targeted duration (interest rate sensitivity) remains shorter than the benchmark. The Leon Frazer Preferred Fund continues to have a balance of rate resets and fixed rate perpetual preferreds, in order to mitigate interest rate volatility.

2019 Dividend Performance Summary

Canadian Dividend Portfolio

Number of companies in the equity portfolio	27
Number of companies that declared an increased dividend	21
% of companies that declared an increased dividend	77.8%
Weighted average of dividend increases	7.8%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield**	3.8%
S&P/TSX dividend yield	3.0%

Income Stability Portfolio

Number of companies in the equity portfolio	26
Number of companies that declared an increased dividend	20
% of companies that declared an increased dividend	76.9%
Weighted average of dividend increases	6.8%
Consumer Price Index Increase (YoY*)	2.2%
Equity portfolio dividend yield***	3.8%
S&P/TSX dividend yield	3.0%

Top 10 Dividend Growers, 2019

Agnico Eagle Mines	40.0%
Canadian National Railway	18.1%
Suncor Energy	16.7%
Canadian Natural Resources	11.9%
Toronto Dominion Bank	10.4%
Bank of Montreal	10.4%
Enbridge	10.1%
Sun Life Financial	10.0%
Canadian Tire Corp.	9.6%
TC Energy	8.7%

* Estimate from Bank of Canada, Nov. 30, 2019

** The dividend yield is based on the Leon Frazer Canadian Dividend Fund using the target weight for cash

*** The dividend yield is based on the Leon Frazer Income Stability Fund using the target weight for cash

source: Leon Frazer & Associates, December 31, 2019

A Closer Look: Methanex Corp.



Methanex Corp. Fact Sheet:

Trading Symbol:	MX
Market Cap (Mil):	\$3,727
Dividend Yield:	3.9%
Dividend Growth 3 Year:	9.0%
Dividend Growth 5 Year:	12.0%
Sector:	Materials

Introduction

- Methanex Corp. is the world's largest producer of methanol.
- Methanol is a fundamental chemical used in the making of a variety of compounds including glues, paints, silicone sealants, synthetic fibres, windshield washer fluid, octane enhancers, etc.
- Methanol can be made from biomass (fermentation and distillation), or can be generated by heat treatment of coal or natural gas. Methanex's plants convert natural gas to methanol.
- Plant location is critical. An ample supply of natural gas must be contractually available. Also, the location must be reasonably close to end markets.
- The company operates manufacturing plants in 6 countries, and has 17 storage and distribution facilities internationally.
- Methanex Corp. produced over 7 million tonnes of methanol in 2019 and is among the lowest cost producers.
- Its markets include China, South Korea, South America, United States, Europe and Canada.

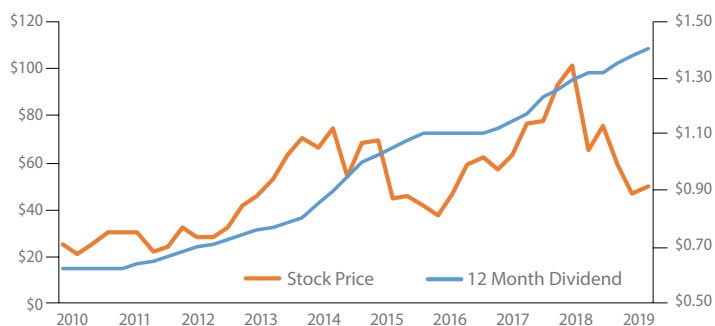
Strengths

- Methanex produces methanol by converting natural gas. This is a lower-cost means of production, as compared to either production from coal or biomass. This gives them a distinct competitive advantage.
- The company is constructing another plant in Geismar, Louisiana, which will allow Methanex to produce an additional 1.8 million tonnes of methanol annually.
- Operating in 6 countries around the world, means the company's product is close to its end markets, allowing timely, low-cost delivery.
- Methanex also operates its own fleet of ocean tankers through its wholly-owned subsidiary, Waterfront Shipping. This gives them complete control over shipping to customers, ensuring cost-effective and timely deliveries.
- Methanex adheres to the Responsible Care Ethic and Principles for Sustainability initiative, as defined by the United Nations, for the global chemical industry.
- The company has a stellar dividend track record, consistently growing it year after year, with a 5-year annualized growth of 12.0%.

source: Bloomberg, Methanex Corp.



Methanex Historical Price and Dividend



source: Bloomberg

Fostering financial well-being

As wealth experts, we get a lot of questions from people about personal financial issues that keep them up at night. Questions like: Do I have the right amount of insurance so that my family will be taken care of if something happens to me? Is my will set up in a way that my family will be able to put everything together easily? Am I making the most of tax-saving benefits that are available to me?

We hear your concerns and to help give you some peace of mind, we're introducing *Strategies*, a financial planning newsletter that gives you insights on the financial issues that matter to you most. While nothing can replace a solid financial plan put in place

with an expert, *Strategies* can provide food for thought to help you figure out what you need to pay attention to, so that you can better manage your financial well-being.

Please enjoy your complimentary issue of *Strategies* enclosed in this quarterly report package. Keep an eye out for subsequent issues in your client portal inbox, or by mail if that is your preference.

Plus, you may have noticed that we've given *Points in Time* a refresh! It's the same quality content you've come to depend on, with a new look. We invite you to share your thoughts on either of these publications by emailing us at info@leonfrazer.com.



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