

PALOS

The Palos - Mitchell Report

FEBRUARY 6, 2019

By William Mitchell, B Comm., CIM
Portfolio Manager and Equities Strategist

CONTENTS

The Markets in January	1
What's on our radar?	1
The Palos-Mitchell Fund Update	2
RRSP contribution reminder	2
PAL300 Holdings	3
Palos Contact Info	4

The Markets - January

December proved one of the weakest months in recent memory as investors fretted over a plethora of issues, ranging from a Fed committed to raising interest rates, trade wars, tariffs, Brexit, plummeting oil prices and global political turmoil. Contributing to the velocity of the sell-off were seasonal factors affecting liquidity. With many fund managers and traders away from their desks for the Christmas holiday, markets were vulnerable. Additional pressure emanating from tax-loss selling and momentum-based trading algorithms, provided the recipe for a correction and that's precisely what we got.

Fast forward to January. The rebound began on December 26th with U.S. markets staging a powerful rally from the December 24th low. Both the Dow Jones Industrials Average and the S&P 500 Index have rebounded to early December levels, essentially erasing the December decline. The TSX Composite (Canada) has rebounded to levels last seen in early October. Outperformance by Canadian stocks is something we have not seen in quite some time. A good sign indeed. In hindsight, the December correction may have been nothing more than a normal occurrence. Although it's never easy to remain level headed during market corrections, I learned many years ago that these events should be viewed as opportunities, not threats.

What's on our radar?

In 2018, Fed Chairman Powell was clearly preparing the markets for systematic rate hikes in 2019. Many market observers pushed back on Powell's agenda, suggesting the Fed should remain prudent by becoming more data dependent - thus, more reactive than proactive. The worry was, if the Fed is overly aggressive with their interest rate policy, the global economy could weaken - another reason for investors to worry. Fortunately, recent commentary from Powell suggests the Fed has altered course and will base future decisions on economic data. This is a positive.

At the December G20 meetings, Trump declared a truce in the trade war with China - albeit a temporary one. Trump's threat to increase tariffs to 25% from the 10% currently imposed was kicked down the road, to March 1st. This deadline date for a new deal is rapidly approaching and I expect that speculation on 'Deal-No Deal' will soon catch the attention of markets. We will certainly be following this closely and be prepared to take appropriate tactical action as headlines emerge.

By William Mitchell, B Comm., CIM
Portfolio Manager and Equities Strategist

With regards to Brexit, this is an ongoing process and whether a new agreement can be reached remains unclear. A Brexit impasse would impact the global economy to some degree. However, this remains a matter that carries greater importance for Europe than North America. On the energy front, crude prices have recovered the losses sustained in December. Of great importance to Canada, the price differential between U.S. Light Sweet Crude (WTI) and Canadian Western Select (CWS) has narrowed significantly. This is great news for Canadian producers who have suffered immensely from having to sell barrels at severely discounted prices. Finally, political 'noise' and the reality of a Democratic house majority has set in. How this plays out over the coming months remains to be seen. One thing seems clear. Markets have grown accustomed to Trump's unpredictability and have learned to cope with the associated uncertainty.

The Palos-Mitchell Alpha Fund - UPDATE

The Palos- Mitchell Alpha Fund is up and running! The initial migration of existing positions, held in individual accounts, was processed on January 29th. The transition was effectuated seamlessly and efficiently. Moving forward, you will notice a change in your portfolio statements. Rather than listing your equity holdings individually, you will see units of PAL300 (PAL300 is the code for the fund).

Active management naturally implies that we make tactical changes in the fund. The securities you hold and/or their weightings will change over time. While additions, deletions and rebalancing of individual stocks will not be visible on your statement, you can rest assured that our investment approach will remain intact. Holding high quality securities, protecting capital, diversifying the fund's holdings and continuously seeking new opportunities - these will remain our core beliefs. In order to be as transparent as possible, we will use this newsletter to update you on a continuing basis with regards to securities held and our rationale for making changes. Keep in mind that PAL300 is an equity fund and as such it will reflect your equity allocation only (i.e. not fixed income). The fixed-income allocation in your investment portfolio will continue to be managed as in the past and will be visible on your statements.

On the following page you will see the holdings for PAL300, as of February 6th. This should give you an idea of the high quality of the stocks held in the portfolio, sector and geographic diversification, and our preference for dividend paying companies. You should also note the fund currently carries a high weighting in cash. This is simply a result of cash injections into the fund; this cash will put to work in the near term, as attractive opportunities arise.

RRSP reminder

The contribution deadline in order to receive a tax deduction for RRSP contributions is March 1, 2019. The limit for 2018 is 18% of your earned income or \$26,500. You may also take advantage of unused contribution room from previous years. Should you wish to make a contribution to your RRSP, please give us a call or send an email and we can take care of this quickly.

By William Mitchell, B Comm., CIM
Portfolio Manager and Equities Strategist

DESCRIPTION	CURRENCY	SECTOR	WEIGHT %	YIELD %
CASH BALANCE			27.43 %	
APPLE INC	USD	Information Technology	3.92 %	1.68 %
INTERNATIONAL BUSINESS MACHINES CORP	USD	Information Technology	3.65 %	4.66 %
JOHNSON & JOHNSON	USD	Healthcare	3.07 %	2.71 %
SUNCOR ENERGY INC	CAD	Energy	2.98 %	3.48 %
CANADIAN NATURAL RESOURCES	CAD	Energy	2.93 %	3.80 %
ROYAL BANK OF CANADA	CAD	Financials	2.79 %	3.87 %
BANK OF NOVA SCOTIA	CAD	Financials	2.71 %	4.56 %
BANK OF MONTREAL	CAD	Financials	2.46 %	4.12 %
GENERAL ELECTRIC CO	USD	Industrials	2.42 %	0.38 %
FEDEX CORP	USD	Industrials	2.34 %	1.41 %
TORONTO-DOMINION BANK	CAD	Financials	2.33 %	3.58 %
KRAFT HEINZ CO/THE	USD	Consumer Staples	2.26 %	5.24 %
BCE INC	CAD	Communications	2.14 %	5.25 %
NVIDIA CORP	USD	Information Technology	2.10 %	0.42 %
TRANSCANADA CORP	CAD	Energy	2.08 %	4.92 %
FIRST QUANTUM MINERALS LTD	CAD	Materials	2.03 %	0.07 %
ABBVIE INC	USD	Healthcare	2.03 %	5.41 %
EMERA INC	CAD	Utilities	2.00 %	5.04 %
INTERFOR CORP	CAD	Materials	1.99 %	0.00 %
LOWES COS INC	USD	Consumer Discretionary	1.92 %	1.98 %
FORTIS INC	CAD	Utilities	1.92 %	3.78 %
CANADIAN UTILITIES LTD	CAD	Utilities	1.89 %	4.99 %
BRISTOL-MYERS SQUIBB CO	USD	Healthcare	1.86 %	3.21 %
TOURMALINE OIL CORP	CAD	Energy	1.52 %	2.16 %
PARKLAND FUEL CORP	CAD	Energy	1.50 %	3.13 %
WHITECAP RESOURCES INC	CAD	Energy	1.49 %	7.04 %
ARC RESOURCES LTD	CAD	Energy	1.49 %	6.51 %
ENERPLUS CORP	CAD	Energy	1.48 %	1.08 %
SEVEN GENERATIONS ENERGY - A	CAD	Energy	1.47 %	0.00 %
TECK RESOURCES LTD-CLS B	CAD	Materials	1.42 %	0.64 %
CENOVUS ENERGY INC	CAD	Energy	1.04 %	1.93 %
ENBRIDGE INC	CAD	Energy	1.01 %	5.97 %
CAMECO CORP	CAD	Materials	0.99 %	0.48 %
INTEL CORP	USD	Information Technology	0.89 %	2.53 %
BOMBARDIER INC-B	CAD	Industrials	0.59 %	0.00 %
TRANSAITA RENEWABLES	CAD	Utilities	0.45 %	7.77 %
AGNICO EAGLE MINES LTD	CAD	Materials (Gold miners)	0.43 %	1.04 %
BARRICK GOLD CORP	CAD	Materials (Gold miners)	0.35 %	2.13 %
SCHLUMBERGER NV	USD	Energy	0.33 %	4.44 %
BROOKFIELD RENEWABLE ENERGY	CAD	Utilities	0.31 %	7.09 %

"The Art of investment"

Palos is a boutique investment management firm based in Montreal and Toronto.

Our mission is to continuously earn our clients' trust by growing, sustaining, and protecting their wealth over many generations.

We invest our clients' money as we do our own.

Our interests are aligned with yours.

William Mitchell, B Comm., CIM

I am a portfolio manager at Palos Wealth Management based in Montreal, Quebec, Canada. My experience in the investment industry is extensive, having spent more than twenty-nine years analyzing, trading and investing in global financial markets.

At Palos, we are driven by our values. We believe in the principles of honesty, integrity and transparency. We subscribe to a strong work ethic and we have a passion for investing. The pursuit of excellence is our motivating force. We take our fiduciary duty to heart and we always act in the best interests of our clients.

If you have any questions about investing, our services, or becoming a client of Palos Wealth Management, please contact me at:

William Mitchell | Portfolio Manager & Equities Strategist
Palos Wealth Management Inc. 1 Place Ville-Marie, Suite 1670, Montreal, QC Canada H3B 2B6
(514) 307-0575
wmitchell@palos.ca

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of Standard and Poor's Financial Services LLC. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM.