



Commentary: NCM Dividend Champions

On April 15, 2024, Portfolio Manager Michael Simpson, CFA provided an update on the economy and highlighted some portfolio holdings that illustrate his successful Dividend Champions style.

TRANSCRIPT:

It is Monday, April 15th, and I am Michael Simpson, portfolio manager of the NCM Dividend Champions Fund. I'll get right into it. Geopolitical events are front and centre this morning, as Iran on the weekend launched a massive drone and missile attack against Israel. We learned early in our investment career not to panic during major geopolitical events.

We believe that we are in the later stages of the economic cycle. Canada is showing slower growth than the US, although the Canadian economy still has positive growth. Unemployment rose in Canada to the latest reading of 6.1% in the March time period, while manufacturing sales rose 0.7%. There is always conflicting data to sort through.

In America, the consumer is alive and spending. The US retail sales came in stronger than expected as the early data from March indicate that retail sales increased by 0.7%.

We've had a good year so far in 2024. As of April 12th, the S&P 500 was up 7.6%. The TSE has increased by 4.4% and the Nasdaq was up 7.6%. A positive start to the year after healthy returns in 2023. Later in this discussion, I'll go through what we expect for the remainder of 2024.

When investors are feeling overwhelmed by the torrent of negative news that emanates from all over the world, they often ask me, Mike, what is the process that you use at NCM and how do you manage money? Firstly, we are disciplined. We build and manage a portfolio that can withstand shocks.

Our focus is on return on capital, not return of capital. So we want to see our investments grow. We start by examining a company's balance sheet to determine if that company is fundamentally sound, to withstand a downturn in the economy, or other external events.

We like to be paid for our investments. We get periodic payments through dividends. Some companies that we screened and analyze have been paying dividends for a long, long time. The very best, what we at NCM call the Dividend Champions, raised their dividends every year.

Notwithstanding, tensions in the Middle East, Republic Services still picks up the garbage in Missouri. Republic Services, despite all the turmoil of a global pandemic and an economic contraction, have raised their dividend by 7.3% over the last five years.

But wait a minute. People say that the market is expensive, Mike, I do not want to buy the S&P 500 at 21 times forward earnings and the TSX at a much lower valuation of 15 times forward earnings. When you are a stock picker, you can always find exceptions to the market averages.

Public Storage is trading at 15 times funds from operations, and have grown their dividend by 8.4% over the last five years. Freehold Royalty, a company that can take advantage of rising oil prices, trades at eight times cash flow and has grown their dividend by 11% over the last five years.

You should be seeing a common theme by now. We like growing dividends and valuation matters. Valuation always matters. It is at the heart and it is the core, and it is the DNA of NCM Investments.

We are not in the business of forecasting recessions or predicting the future. From our lens, we see slower growth, but no recession in the US or Canada. If we are pinned for an interest rate cut forecast, we believe the Bank of Canada will cut rates first before the US central bank. As part of our job, we will weigh the incoming data and the older data that gets revised. As we say at NCM, when the facts change, we change our investment thesis.

Spring has arrived in Canada and most of the rain has left central Canada. Stay invested. Cheer for your favorite hockey team and keep on the dividend train with the NCM Dividend Champions. We can manage a Dividend Champions fund through any scenario.

I'd like to thank our existing unit holders and welcome any new unit holders into a very quality organization and a quality fund, the NCM Dividend Champions.



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