

# US Dividend Growth and Income Portfolio

## December 31, 2018

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### Basket Investment Strategy

The Chan Lee (CL) US Dividend Growth and Income Basket (USDGI) is an investment portfolio that is managed by the Chan Lee Wealth Management Group on a discretionary basis in your brokerage account. You directly own the underlying securities and receive the dividends.

As the name implies, this basket invests in US companies that in our opinion, 1) have sustainable dividends, and 2) will be able to grow their dividend in the future. Sustainable dividends and the ability to grow the dividends are the two main pillars of our investment process. We believe that a superior total return can be obtained through a combination of the dividend yield and capital gains as a result of finding businesses with the two pillars.

We believe that if we invest in companies with sustainable growing dividends, the capital gains will come over the long-term (5 to 10 year time horizon). Thus, we are not focused on short-term price movements of our holdings.

### Performance

Portfolio Performance					
	3 months	1 yr	3 yrs	5 yrs	Inception*
Basket Performance	-11.91%	-3.83%	9.04%	8.98%	12.44%
Benchmark	-13.52%	-4.38%	9.26%	8.49%	12.15%

Value of Basket  
December 31, 2018 \$45,794.32

*\*Inception date: January 1<sup>st</sup>, 2013*

*Fees: Returns presented are gross of fees.*

*Source: Croesus*

*Indices are shown for comparison purpose only.*

*Composition of the benchmark: S&P 500 Total Return Index*

*Total returns are expressed in US Dollars.*

### Performance Data

How do we know how we are doing? It is industry standard to compare a portfolio of stocks to a benchmark. Our benchmark is the S&P 500 Total Return Index.

We prefer to measure ourselves against our two pillars; 1) have our dividends been sustained and 2) have we increased the dividends (cash received) at a rate greater than inflation.

Year-to-date we had 14 of our 17 companies increase their dividends. We experienced no dividend cuts. Of the 14 companies that raised their dividends, the average increase was 13.47% which is well above the inflation rate.

## Holdings

Issuer	Sector (GIS)	Market Value	Weighting
Disney Walt Company	Consumer Discretionary	1,754.40	3.83%
AT & T Inc	Telecommunication Service	2,054.88	4.49%
JP Morgan Chase & Co	Financials	1,757.16	3.84%
Spdr Blm Barc 1-3M T-bill	Cash	5,121.76	11.18%
Coresite Realty Corp	Real Estate	2,616.90	5.71%
Lockheed Martin Corp	Industrials	1,571.04	3.43%
Amgen Inc	Health Care	3,114.72	6.80%
Microsoft Corp	Technology	3,250.24	7.10%
Paychex Inc	Technology	2,866.60	6.26%
Pfizer Inc	Health Care	2,531.70	5.53%
Apple Inc	Technology	1,577.40	3.44%
Prudential Financial Inc	Financials	2,609.60	5.70%
Intel Corporation	Technology	2,628.08	5.74%
Boeing Company	Industrials	2,580.00	5.63%
Cisco Systems Inc	Technology	3,813.04	8.33%
Qualcomm Inc	Technology	2,048.76	4.47%
Kohls Corp	Consumer Discretionary	1,990.20	4.35%
Blackstone Group (The) LPU	Financials	1,907.84	4.17%

## Transactions Performed During the Year 2018

Purchase /Sold	Description	Quantity	Price
Sold	Tupperware Brands Corp	28	58.402
Bought	Blackstone Group (The) LPU	44	36.58
Sold	Macquarie Infrastrure Corp	18	39.613
Bought	Blackstone Group (The) LPU	20	34.248
Sold	Procter & Gamble Co.	26	79.105
Sold	Paychex	16	64.803
Sold	Microsoft Corp	4	93.65
Sold	Mcdonalds Corp	20	151.406
Sold	Lockheed Martin Corp	2	340.33
Bought	Kohls Corp	30	65.508
Bought	Coresite Realty Corp	6	96.766

Bought	Apple Inc	10	175.336
Bought	Amgen Inc	10	186.885
Bought	Spdr Blm Barc 1-3M T-bill	10	91.447
Sold	Boeing Company	4	330.081
Bought	Spdr Blm Barc 1-3M T-bill	14	91.54
Sold	Microsoft Corp	18	102.101
Sold	Lockheed Martin Corp	4	308.414
Bought	JP Morgan Chase & Co	18	106.788
Bought	Amgen Inc	6	196.143
Sold	Chevron Corp	24	120.312
Bought	Disney Walt Company	16	110.499
Bought	Prudential Financial Inc	10	104.211
Sold	Johnson & Johnson	22	130.759
Bought	Spdr Blm Barc 1-3M T-bill	32	91.535

## Dividend Growth

Description	Dividend Increases YTD (%)	Dividend Increases Since Purchase
Coresite Realty Corp	12.24%	22.22%
AT & T Inc	2.04%	8.70%
Disney Walt Company	4.76%	4.76%
Paychex Inc	12.00%	69.70%
Boeing Company	20.42%	20.42%
Microsoft Corp	9.52%	100%
Lockheed Martin Corp	10%	65.41%
Intel Corp	10.09%	25.00%
Cisco Systems Inc	13.79%	26.92%
Pfizer Inc	6.25%	6.25%
Prudential Financial Inc	20.00%	28.57%
Qualcomm Inc	8.77%	16.98%
Apple Inc	15.87%	15.87%
JP Morgan Chase & Co	42.86%	42.86%

## Portfolio Managers' Comments

The US equity market as measured by our benchmark, the S&P 500 Total Return Index, had a year of extremes, up 10% at its peak and finishing off with a negative (-4.39%). This was the worst December performance on record since 1946. Our portfolio finished off the year with a negative (-3.83%).

We do not like negative numbers; however, short term volatility of this nature is normal and expected. While they are expected, we do not believe they are timeable. We know they will occur but they are not timeable

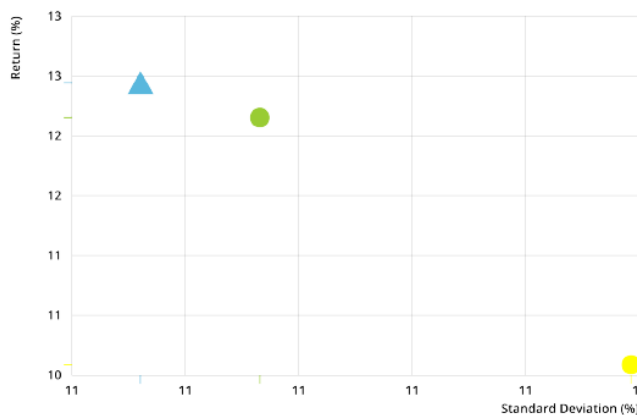
because we do not know when they will occur. It is counter intuitive and against our emotional instincts, but we should buy more when the companies we hold are undervalued (lower). We should buy less and even trim when the markets are rising and overvalued.

Since inception now 6 years ago, our compounded annual growth rate (CAGR) is 12.44% which is significantly higher than the 12.15% CAGR of our benchmark index.

We are confident that our dividend growth investing methodology will continue to outperform in the long run and generate healthy positive return for our investors. In the short run rising tides will raise all ships and lowering tides will drop them as well. The beauty of dividend growth investing is that we do not have to depend on the rising tides to give us cash flow. The dividends generated by our portfolio will provide us with cash flow. We are buying companies with dividends that are growing, our income should be increasing every year regardless of the price movements of the underlying holdings.

Did our income increase over the course of last year? In 2017 we ended the year having received \$1,422.91USD in dividends. In January 2018 we expected \$1,504.04 in dividends. The actual dividends received in 2018 was \$1,527.04 slightly above the projected amount at the start of the year. Our cash flow from the portfolio provided an inflation beating 7.32% increase over the amount received in 2017. The projected dividends that we expect in 2019 is \$1,563.37 which is a modest 2.3% increase.

We have attached the 6 year (since inception) Risk/Reward chart below which compares the volatility of our portfolio, as measured by standard deviation with the return comparing it to our index, the S&P 500 Total Return Index. As seen, in the chart below, our portfolio (the blue triangle) is now slightly higher than the S&P 500.



Annualized	Std Dev. (%)	Return (%)
Gross of Fees	10.56	12.44
DJII	10.99	10.09
S&P 500 RT/TR	10.67	12.15

Over the 6 years, we have slightly outperformed our benchmark. This is a secondary objective for us. We do believe that our methodology will provide continuous growing income for our investors that will outpace the rate of inflation. This is our true objective.

To this end, there are two methods that will increase dividends and your income from this portfolio; 1) an increase in dividends from the companies itself, and 2) trading a lower dividend paying company for a higher one.

We are currently holding 17 companies. We can hold between 10 and 20 companies. Each holding in our view is a different income stream. This will offer better risk/reward metrics for you, the investor.

We wrote in our 2017 year end commentary that “many dividend investments have increased in market price at a percentage greater than their dividend growth” and because of that they were overvalued. The correction that we experienced in the 4<sup>th</sup> quarter of 2018 has brought many dividend investments closer to fair value. However, we still see many that are currently overvalued by our measurements standards. At the end of December we were holding an 11.18% position in cash in the Spider Bloomberg Barclays 1-3 Month T-Bill ETF.

We will invest this cash as we see the opportunities arise. It is of note that holding this cash has not reduced our expected dividend growth for 2019. As we invest the cash we expect our dividends received to be more than expected.

We will continue to invest this portfolio with care, looking for companies which in our opinion offer stable, sustainable dividends and have the potential to increase their dividends over time. Our goal is to develop an income stream for you, the investor, that continues to increase over time.

Benjamin Graham, the father of securities analysis

said, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” The short term voting on the prices of equities has continued to create volatile markets.

The voting machine will move the prices of our dividend companies both down and up. We, however; as dividend investors, look forward to the longterm true weight (valuation) of a company’s dividends and dividend growth in our portfolios revealing themselves.

I have prepared this commentary to give you my thoughts on various financial aspects and considerations. This commentary reflects my opinion alone, and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgement and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial. •National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF Inc.), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF Inc. NBF Inc. is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. Unit values and returns will fluctuate and past performance is not necessarily indicative of future performance.



## **2016 Awards of Excellence**

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**Private Portfolio of the Year  
Finalist Canada**

## **2017 Awards of Excellence**

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**Best Private Portfolio  
National Winner**